

# Unit 5:

## Banking Options

Read Chapter 5 in the text.

Read this unit including websites. Suggestions: you may want to write down some key points.

This information will be very basic for some of you. For others, it will be new. It is important that you understand the information to discuss other topics such as investing. Many services are offered at banking institutions. We will cover a few of those.

### **BANKING OPTIONS**

#### **Checking Accounts**

**Interest Rate: 0-2%**

**FDIC: yes**

Are checking accounts necessary? No, but they are highly recommended. It is wise to pay bills with a check. Also, it is also good to have a paycheck automatically deposited into a savings or checking account. This eliminates the possibility of a lost check on payday.

**Reconciling** - If you do have a checking account it is important to balance or reconcile your checkbook every month as soon as possible after your bank statement arrives. This will help you correct errors you have made and watch for errors the bank may have made. Balancing the checkbook is not the same as carrying a current balance in your checkbook register. You need to compare your information with the bank's information.

I am amazed at how many adults I hear about that don't reconcile their checkbooks. It is important to reconcile every month. This class will not go into this process. However, if you need help try this website:

- [How to Balance Your Checkbook](http://ianrwww.unl.edu/pubs/homemgt/nf4.HTM)  
(<http://ianrwww.unl.edu/pubs/homemgt/nf4.HTM>)

Also, there are usually instructions on the back of your statement.

**Keep a Running Total** - Besides reconciling your checkbook, why is it important to keep your own running balance in your checkbook? Some people frequently check their balance from an ATM machine, on-line, or call an automated teller. Is there a problem with this? YES! If you have written several checks but they haven't gone through your bank yet, your balance will show you have a lot more money in your account than you can spend. If you just look at the balance at an

ATM or online and spend that much money, your account will overdraw when all the checks go through. It is important to keep a running total yourself.

Unfortunately my own son learned this lesson the hard way. He got a letter from the bank one day saying they were closing his account because of insufficient funds. He hadn't kept a running total in his register and overdrew his account.

They took the amount he was short out of his savings account and closed his checking account. Yes, this happened to my own son!

**Endorsing Checks** - Be careful when you endorse a check to be deposited into your checking account. If you just sign the back, anyone might be able to cash it. It is good to wait until you get to the bank to sign it (in case it gets lost). Also, you may want to write "for deposit only in account #12345-6" on the back where you sign the check if you are planning to deposit the check. It is especially good to write that on the back of a check if you are mailing it to be deposited into your account.

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## Checking Account Options

**What to look for in a checking account** - Find out if there is a minimum balance. Some checking accounts require that you have a set amount of money in the account at all times or a fee is charged. This minimum balance is often around \$100. Many banks have special accounts for students that wave that minimum amount.

Look at the fees involved. There may be a monthly service fee just for having the account, even if you don't use it. As mentioned above, some checking accounts have a fee if you are below the minimum balance. There may be other fees such as ATM transactions, to talk to a teller, or for checks written. ATM transactions may only have a fee if they are done through another bank. Some checking accounts pay interest. This would be good if the fees don't cost more than the interest earned.

**Debit Cards** - They are like a combination of using a credit card and writing a check. You have a card that is like a credit card, but the purchase amount comes out of your checking account. It is NOT credit. You need to have the money in your checking account to cover the purchase. It also comes out of your account as soon as you make the purchase. It does not take a day or two to process like checks (this doesn't include electronic checks that are also posted immediately). Don't play the "race it to the bank" game with debit cards.

Debit cards can be good because they are convenient (like "pay and go" at a gas pump) and can be less expensive than writing checks. However, a problem can arise if you don't write down the purchase in your checkbook register. Just as with writing a check, you need to subtract out each purchase and keep a running total.

Also, keep in mind that debit cards don't have the same protection against fraud that credit cards do. If you are making an online purchase, it is better to use a credit card than a debit card. If you do find there has been fraud dealing with your debit card, contact your bank immediately. They will work with you to get it cleared up.

**ATM Withdrawals** - these are a lot like debit cards. It can be very convenient to withdraw cash from an ATM. Banks prefer you go through the ATM because it does not involve a teller. But if you don't write down the withdrawal you can easily overdraw your account. They also have a quicker processing time than written checks. Also, you may have to pay a fee if you use an ATM machine that is not one of your bank's machines.

**Overdraft Protection** - Is overdraft protection a good thing to get? I highly recommend it if you use it wisely. If you accidentally write a bad check, the bank will pay the check to the person or company you wrote the check out to. This will save you needing to pay a bounced check fee from a business. The bank will then set up a credit balance that you will need to pay.

Overdraft protection can be a great help. However, some people use overdraft protection like a credit card. They know they don't have the funds in their account, but they know that they can still write the check and it will be covered by their overdraft protection. First of all, this is a bad habit to get into. Second, there is usually a high interest charge on an overdraft account. It might be better to put the purchase on a credit card.

Mistakes happen. If you forgot to write down an ATM withdrawal, and the next check you write does not have sufficient funds to cover it, it would bounce. But if you had overdraft protection, it would cover the check until you found out about the mistake. Unfortunately, I have had clients that max out their overdraft account and then make payments on it like a credit card. They have lost their protection against making an occasional mistake.

**Safety** - With all banking services, be careful with anything that has an account number on it. A thief can find ways to get money out of your account with only your number. Don't just throw old statements in the garbage, and be careful what you do with ATM and Debit receipts.

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## Savings & Other Accounts

There are many options for depositing your money. Each option has advantages and disadvantages that make it good for some things but not good for others. A basic checking account is good to have for funds needed for daily maintenance. But what do you do with savings, emergency funds, and other saved money? Go to the Planning for Financial Independence website listed below. Click on "Negotiable Order of Withdrawal (NOW) Checking Accounts" in the left-hand box. After reading about the NOW account, click "continue" and go through "Super NOW accounts," "Savings accounts," "Money market deposit accounts," "Certificates of deposit," "Treasury bills and EE savings bonds", and "Money market mutual funds."

[Planning for Financial Independence](http://www.urbanext.uiuc.edu/ww1/06-09.html) (<http://www.urbanext.uiuc.edu/ww1/06-09.html>)

Make sure you understand the difference between a Money Market Deposit Account (MMDA) and a Money Market Mutual Fund (MMMF). MMDAs are through a banking type of institution. They are federally insured if the bank you go through is federally insured. Even though you can write checks out of the account, it is more like a savings account. It is a good place to keep an emergency fund.

A MMMF is not an investment through a bank. It is through a mutual fund company. Your bank may have an investment broker working at the bank that will help you open a MMMF, but it will still go through a mutual fund company. They are not federally insured, however, as the article stated, they are very safe and no one has ever lost money with one. It usually requires a lower initial investment than the MMDA and often pays a little higher return. It is another great place to keep an emergency fund.

The article on Certificate of Deposits (CDs) talks about a basic type of CD. However, some banks and credit unions are starting to offer new CDs with different options. You may be able to add to or withdraw from a certain type of CD. If you are looking at those, make sure you read all the fine print and understand such things as how often you can add to and withdraw from the CD. Some people say you should not keep an emergency fund in a CD because it has a maturity date. I disagree. If you have an emergency and need to use the money you can take it out at any time. You will likely be penalized (usually a few months worth of interest), but you are also likely to earn a little higher return - a trade off. If you are thinking of keeping an emergency fund in a CD, make sure you find out what the penalty is for early withdrawal.

# Unit 5:

## Other Services

### Other Services

Most banks and credit unions also offer many other services. Some of them are loans, money transfers, credit cards, bill paying, wiring funds, traveler's checks, money orders, certified checks, cashier's checks, notary service, insurance, and investment opportunities. There is a charge for many of these, depending on what types of accounts you have with the bank or credit union. Again, read carefully and understand all of the regulations involving each service or account.

### Online Banking

Many financial institutions are now offering online services. Many people like this service and are starting to use it. The institutions generally prefer you use this service because it is less costly to them than tellers. As with everything else, you need to understand the issues involved with online banking. Read the information at the following site:

[Safe Internet Banking](http://www.fdic.gov/bank/individual/online/safe.html) (<http://www.fdic.gov/bank/individual/online/safe.html>)