



Managing Money

Checking Accounts

Managing Money: Checking Accounts

A checking account is an account that lets you write checks to pay bills and buy goods. The financial institution takes the money from your account and pays it to the person or company named on the check. You can also deposit and withdraw money from your checking account. The financial institution sends you a monthly statement of your deposits, checks written and all of your other withdrawals.

Benefits of Checking Accounts

Checking accounts can provide you with convenience, cost savings, safekeeping of your money and a way to help budget your money.

First, checking accounts are convenient because they provide you with quick and easy access to your money. Using checks or debit cards can take the place of carrying cash. When you have a checking account, you can access money by:

- Withdrawing cash at a teller window
- Withdrawing cash at a drive-up window
- Withdrawing cash from an Automated Teller Machine or ATM (a computerized terminal that can dispense cash from your account) and
- Cashing personal checks at the bank, grocery store or other places where checks are accepted.

Checking accounts provide convenience because checks can be used to pay bills. Some stores and banks also allow you to use your checking account to pay bills over the phone or by using a computer.

Second, keeping your money in a bank and using bank services is usually less expensive than using other businesses to cash a check or to buy money orders. Check-cashing for account holders is usually free.

For instance, if you used a check-cashing store to cash your checks and you **cashed four checks a month and were charged \$5 each time**, you would have paid \$20 a month (4 x \$5) or \$240 a year (\$20 x 12 months) just to cash your checks. You also would have to buy money orders to pay your bills.

Compare that with an account at a bank that charged a **monthly fee of \$5**, which included eight free checks per month and free use of the ATM. You also would need to order a box of 100 checks through the bank at a cost of **\$18**.

In this case, using a checking account for one year would cost you \$78 ($5 \times 12 \text{ months} = \$60 + \$18 = \78). In one year, you would've saved \$162 ($\$240 - \78) by using a checking account instead of a check-cashing store.

Third, checking accounts not only provide convenience and cost savings, but can also help you manage your money. When you pay bills by writing checks and keep a record of the checks you write, checking accounts help you keep better track of your money.

Keeping a checking account can help you establish credit. It helps build your relationship with banks. If you use your checking account

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responsibly, your bank will be more likely to approve a loan when you need one. Having a checking account also helps prove you pay your bills on time.

The fourth benefit of checking accounts is safety. Using a checking account can help you keep your cash safe.

- Keeping your money in a bank and using checks is safer than carrying large amounts of cash. You don't have to worry about your cash being lost or stolen.
- If your checks are lost or stolen, report it as soon as possible to your bank. The bank cannot protect you unless they know the checks are missing.
- Keeping your money in an insured financial institution means your money is safe. The basic insured amount of a depositor is \$100,000.

This means if for some reason the bank closes and cannot give its customers the money they had in the bank, the Federal Deposit Insurance Corporation or FDIC, will return the money to the customer. Similarly, the National Credit Union Association or NCUA insures credit union accounts.

There are situations when a checking account might not be right for you.

- You would not write many checks.
- You have problems managing your money, which can lead to bounced checks.
- You cannot find a checking account where you can maintain the minimum balance.

If you don't think you can maintain a checking account, you should consider opening a savings account with your financial institution. Some institutions offer free or low-cost money orders or cashiers checks and may allow you to cash checks, such as your payroll checks, for free if you have a

savings account. A savings account also will earn interest.

Finding the right account for you

To start looking for the right checking account, ask your family, friends, neighbors and co-workers about the financial institutions they use and whether they are happy with them.

When deciding on a checking account, remember financial institutions offer different types of checking accounts. To determine what you need, think about how you plan to use your checking account. You also can ask the customer service representative at a financial institution to tell you about the accounts they offer and which account(s) might meet your needs.

The following questions will help you determine what you need in a checking account.

Convenience:

1. How many checks do you think you will write every month?
2. Do you want a bank that is close to your home or work?
3. What are the bank's hours of operation?
4. Will you use the ATM often?
5. Does the bank have ATMs close to where you live or work?
6. How often do you plan to visit the bank to use teller services?
7. What other bank services are important to you?

Cost:

1. How much money will you keep in the account?
2. Will you be charged for writing extra checks?
3. Are you willing to pay a monthly fee?
4. If so, how much?

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5. Will you be charged to use your bank's ATM?
6. Will you be charged for using other banks' ATMs?
7. Will you be charged for using teller services?
8. Are there ways to avoid paying fees?

In addition to these questions, you should know about other checking account fees. Ask for a fee schedule that lists all fees related to the account. Use the fee schedule to compare the costs of each account.

Fee Schedule

A fee schedule lists the fees you might be charged for certain activities. Some of the most common fees include:

- Monthly service fee
- ATM-use fee
- Overdraft fee and
- Stop payment fee

Ask for the fee schedule for checking accounts. Compare the costs of the various accounts you are considering. Ask the bank whether fees can be waived and how to avoid fees. Some additional fees may include:

Monthly Service Fee

This also may be called a maintenance fee. You might be charged a fee each month just for having the account. You might also be charged a fee if your balance drops below the required minimum.

Per Check Fee

Some accounts charge a fee for each check you write. Depending on the account, you might pay the fee for each check or only when you write more than a certain number of checks (perhaps five) a month.

Check Printing Fee

You can buy checks from the financial institution

or through the mail from other companies. If you buy checks from the financial institution, the charge for printing the checks is usually automatically deducted from your checking account. Fancy checks cost more than basic checks. You can buy more than one box at a time. Carbon copy checks are an option.

ATM-Use Fee

You might be charged each time you use the ATM or each time you use an ATM at a bank other than your own.

Overdraft Fee

This also is called non-sufficient funds (NSF) fee. Expensive fees apply when you bounce a check. The bank will notify you if a check is returned to the person or company to whom it was issued because there were insufficient funds in the account. Your bank will charge a processing fee to your account because of the cost to return the check. Merchants might also charge a fee if a bounced check issued is used to purchase goods or services. The fee charged is usually posted near the cashier.

Return Deposit Item

Banks might charge a fee if a check you deposit in your account bounces.

Stop-Payment Fee

If you lose a check or need to make sure a check is not paid by the bank for some other reason, you can request a "stop payment". There is a fee for this service and the bank might not be able to catch the check before it is paid.

Phone Inquiry Fee

Some banks charge a fee if you call to check your balance or to see if a check or deposit has cleared.

Fee for helping you balance your checkbook

Some banks will help you balance your checkbook. Some might charge you for this service.

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Types of Checking Accounts

After you determine what you need in a checking account and understand the different fees involved, you might be ready to pick the type of account you should open. Keep in mind that banks sometimes refer to these accounts by different names. Before making a decision, read the materials (disclosures), ask questions and understand which checking account best fits your needs. The main types of checking accounts include:

Low-cost checking

Many banks offer low-cost checking for people who don't write a lot of checks. The charge is often less than \$5 per month. There might be a limit to the number of checks you can write without an additional charge.

ATM-checking

Some banks offer an ATM-checking account for you at reduced-cost or a free checking account if you do all of your banking by phone and ATM. This type of account usually requires you to use direct deposit. The bank might charge you a fee if you use the services of a teller. This type of account usually offers unlimited check-writing privileges, in other words, there are no additional charges based on the number of checks you write.

Regular checking

With a regular checking account, there is often a minimum balance required to waive the monthly service fee. This type of account usually offers unlimited check-writing privileges.

Interest checking

There are different interest-bearing accounts, such as the Negotiable Order of Withdraw (NOW) account and the Money Market Deposit Account (MMDA). With these accounts, you usually need to maintain a high minimum balance in order to earn interest and avoid fees. The minimum balance is often at least \$1,000.

Use the Choosing a Checking Account Work Sheet to help you choose the checking account that is right for you. Compare your needs with what each account has to offer.

How to open a checking account

Once you find a good checking account, you might want to open an account at that bank. To open an account, you will generally be asked for:

1. Picture Identification or ID - usually a valid drivers license, state ID, passport or Permanent Residence Card. You might need more than one picture ID to open your account.
2. Social Security Number - generally used to identify you and to look up your account history.
3. Deposit - amount could range from \$0 to more than \$500, depending on the checking product you choose. When you open your account, you might also be charged for the first box of checks.

The bank will then:

- A. Perform an account verification and
- B. Complete a signature card

Using your name, address and other identifying information to access a system such as ChexSystems or TeleCheck, banks will perform an account verification. These types of systems identify your history of using checking accounts. The system keeps track of bounced checks and other negative information reported about you if you have held an account in the past.

Banks might also review your credit report to determine whether you are a financially responsible customer.

If you have a history of writing bad checks or a history of mismanaging your credit, financial institutions might not be willing to open an account.

Once the verification has cleared, you will be asked to sign a signature card, a form you complete and sign when opening an account. This is the contract that identifies the owner of the account.

For example, if you want to have a joint account with your spouse or another person, both of you would have to sign the signature card. Joint accounts can be set up to require only one signature or both signatures to write a check or to make withdrawals.

If you open a joint account requiring only one signature, each account owner will be able to withdraw money from that account. Remember, both account owners need to keep accurate records of transactions.

Anyone you designate can be a joint owner on your checking account. If you want an individual account, only you would sign the signature card.

The signature you provide might be used to verify your signature on checks and withdrawals. Signing the signature card means you accept the fees, terms and conditions of the account.

When opening an account, you will usually receive a checkbook, a check register and a deposit receipt for the money you gave the bank to open the account.

The checkbook given to you will be temporary until the checks that have your name, address and account number preprinted come in the mail. Some businesses will not accept temporary checks or checks with low numbers. You can request to order higher numbered checks. Talk to your bank customer service representative.

Anytime you put money into your account or take money from your account, it is called a transaction. Each transaction needs to be recorded in your check register.

- 1. Check Number:** If you are writing a check, the check number goes here, otherwise, leave it blank.
- 2. Date:** Record the date you write the check, make a deposit or withdrawal or record a service fee.
- 3. Description of Transaction:** Record information to whom you made the check payable, the deposit or withdrawal source (such as ATM, debit card, direct deposit)
- 4. Payment/Debit (-):** Record the amount of checks written, ATM withdrawals or debit card transactions. Money coming out of your account is recorded here.
- 5. Fee:** Record any fees charged, such as a monthly maintenance fee or an ATM fee.
- 6. Deposit/Credit (+):** Record here any deposits or automatic deposits made to your account.
- 7. Balance:** In this column you add any deposits or credits and subtract any fees and payments or debits to your account.

How to write checks

Remember, a check is a written contract between you and your bank. When you write a check, you are asking the bank to take money from your account and give it to someone else.

The first step before writing a check is to make sure you have enough money in your account. It is important to record every deposit and withdrawal in your check register, so you can rely on the amount shown.

When writing a check:

- Write in ink.
- Write clearly.
- Record each check in your check register.

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To complete your checks, you will need to fill in:

1. The date.

2. The Pay to the Order of line. This is where you write the name of the person or company to whom you will give the check. After writing the name, you can draw a line to the end. This prevents anyone from adding an additional name on your check.

3. The dollar amount of the check in numbers.
For example: \$19.75.

4. The dollar amount of the check in words.
For example: Nineteen and 75/100. After writing out the amount of the check, draw a line to the end. This prevents anyone from adding an additional amount after what you have written.

5. The memo section. This area is optional. You can use this area to remind yourself why you wrote the check or to record the account number of the bill you are paying.

6. The signature line.

Checks contain other pre-printed information:

- Your name and address. Your phone number is sometimes included also.
- The check number. The number is used to identify each check that is written.
- Codes for the state where the bank is located and the regional Federal Reserve Bank that will handle this check.
- Your bank's name and branch.
- Routing numbers. The bank and state computer routing numbers and your account number.

The back of the check has an area to endorse a check. Endorsing a check means to sign the back of the check to make it cashable. For example, if you write a check to your friend, your friend

would endorse the check to get the cash or to deposit it into his or her account.

If you make a small mistake, such as starting to write the dollar amount in the "pay to the order" area, cross-out the incorrect information and write your initials above what you crossed out. Then write the correct information.

Some stores will not accept checks with cross-outs.

If you make a large mistake, write "VOID" across the check and/or tear-up the check. A check with VOID across it is no longer usable.

You can also use a check to get cash from your account. You would write "cash" or your name, instead of writing the name of a store or a business on your check.

Be careful with a check you write out to cash because anyone can endorse the back of this check and receive the money.

Electronic Funds Transfer or EFT

EFT is also known as electronic banking. EFT uses computers to move money to and from your account instead of using checks and other paper transactions.

EFTs include:

- Debit card transactions
- Electronic bill payments
- ATM transactions

A debit card is similar to an ATM card but has more functions. In addition to accessing cash from ATMs, debit cards allow you to make purchases at retail locations that accept MasterCard or Visa credit cards such as department stores or gas stations.

Unlike credit cards, which allow you to make purchases now and pay for them later, debit cards

deduct the amount from your account as soon as you make the purchase.

Electronic Bill Pay is a service that automatically takes money from your account to pay your bills. For example, if you have a monthly car insurance bill, you can sign up to have it deducted each month.

One benefit is that you do not have to pay for postage. You also do not have to worry about late payments. However, you should make sure you have enough money in your account to cover the bills and make sure you record this in your check register.

An Automated Teller Machine or ATM is a computerized terminal that can dispense cash from your account. With the use of your ATM card and Personal Identification Number, or PIN, most ATMs give you access to your account 24 hours a day.

Most people use ATMs to get cash. Other popular uses of ATMs are to check account balances for your accounts and to transfer money between savings and checking accounts.

If you make any mistakes when entering the information prompted by the ATM machine, you can press “Cancel” and start over. If there is any problem with the machine, call your bank.

It is important to get receipts for your records and also to record all transactions in your check register.

You can get printed receipts of any deposit or withdrawal from an ATM machine. Printed receipts generally include:

- The amount of the transaction
- Any surcharges or extra fees
- The date the transaction was made

- The type of transaction, for example, deposit or withdrawal
- An identification number or code for your account or ATM card
- The ATM location or an identification number or code for the terminal, and
- The name of the merchant or store

Adding money to your checking account

To add money to your account, you need to make a deposit. This may be a direct deposit from your employer or a government agency to your account or a deposit that you make to your account. When you are making a deposit, you will fill out a deposit slip to let the teller know how much you are depositing.

Deposit slips are included with your checkbook and have your account number printed on them. If you run out of deposit slips, you can get blank deposit slips at your bank. Make sure to write your account number on the deposit slip, so your money goes into your account and not another account.

To deposit checks into your checking account, you must endorse each check you wish to deposit. If you want to deposit the entire check into your account, write “For Deposit Only,” your account number and signature.

By writing “For Deposit Only” you prevent others from cashing your check. It also prevents you from receiving cash back when you make a deposit.

Keep in mind that when you deposit a check, it might take a few days before you can access your money, since it can take a few days to process. When you make a deposit, ask the teller when your funds will be available. Be careful not to take out cash or write checks until the money you deposited is available.

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You can also deposit checks through your bank's ATM. Always get your receipt so you have proof of the deposit made.

ATM machines have special envelopes to make deposits. The envelopes are found in a slot by the ATM machine.

Deposit slips are not always required when making ATM deposits, but you need to fill in the information listed on the envelopes. This information can include:

- Name
- Phone number
- Account number
- Amount to be deposited and
- The type of account

Making an ATM deposit is similar to making an ATM withdrawal. The ATM machine will prompt you through the questions needed to make the deposit into your checking account.

You can also make deposits by mail. You can deposit your checks by mailing your checks and a deposit slip to your bank. However, you should never send cash through the mail.

Sometimes companies offer direct deposit for paychecks. Direct deposit is the electronic transfer of your paycheck or your benefit check into your account. You will not receive the check in the mail; it will automatically be added to your account. Your pay or benefit statement will be mailed to your home address.

Using direct deposit saves you time, so you don't have to make a special trip to the bank to deposit your check. You won't have to worry about lost or stolen checks. Money that is direct-deposited is available to you on the day of the payment date. You can sign up for direct deposit by asking your employer or the agency that provides your benefits.

Always remember to record the amount deposited in your check register.

Keeping records for your checking account

Record fees, as applicable. These fees may include monthly maintenance fees, per check fees and overdraft fees. Monthly maintenance fees are taken out the same time each month.

If your checking account gives you interest, it is recorded in the Deposit/Credit (+) column of your check register. You will know how much interest to add from your monthly checking account statements.

Each month you will be receiving your checking account statement. The statement will include a listing of all transactions that occurred within that month. These transactions include:

- Checks you wrote that have been cashed
- All withdrawals or deposits made
- Any fees

Checking account statements vary from bank to bank. If you have any questions, ask your bank representative.

Most checking account statements show:

1. Your bank's name and address.
2. The time period covered by the statement.
3. Your account number.
4. Your name and address.
5. A list of all transactions by date, including:
 - All cashed checks
 - All deposits credited to your account for the time period of the statement
 - Any fees charged, withdrawals or interest earned
6. A list of all cashed checks, in numerical order

by check number. Some banks do not provide this.

7. A summary of account activity for the month.

When you get your monthly bank statement, there will usually be a difference between the statement balance and your check register balance. Reconciling your account just means finding those differences which are usually checks that have not been cashed or deposits that have not cleared your account as of the statement cutoff date.

Balancing your checkbook refers to keeping your check register updated. Reconciling your checkbook is just another way of making sure you know how much is in your account. Use the Reconciling Your Account Work Sheet for further help.

Most banks include a chart and instructions on the back of your statement to help you reconcile your statement.

If you find errors on your bank statement, call, write or go to your bank to have the error corrected. After reporting the error, it is a good idea to follow up by writing a letter. Keep a copy of the letter for your records. Your letter should include:

- Your name
- Your account number
- An explanation of the error
- The dollar amount of the error and
- The date the error occurred.

The bank must receive notice of the error no later than 60 days after the date of the statement.

If your address changes, you can complete and return the form on the back of your checking account statement or you can call your bank.

If you decide to close your checking account, make sure that all the checks you have written have been cashed before closing the account.

It is important to keep a correct balance in your checkbook. If you write a check without enough money in your account to pay that check, it is known as writing a bad check or bouncing a check.

If you write a bad check:

- Each bad check might cost you a fee of \$10 to \$30.
- Additional checks you have written might not be paid.
- Your negative activity can be reported to account verification companies like ChexSystems and TeleCheck. This can make it difficult to cash checks and to open accounts in the future.
- Your bank also can close your account and send a negative report to credit bureaus. The amount of the overdraft and fees might be reported as a collection item.
- Some states have additional consequences. Writing a bad check is a crime in every state. Each state has different civil and criminal penalties. For example, some states have monetary penalties, such as a \$1,500 fine. Others may actually call for jail time and a fine. In some states, writing a bad check is a felony with imprisonment up to five years.

Most banks offer overdraft protection. This protects you from writing bad checks. When you sign up for overdraft protection, the bank will use the money from another one of your accounts to cover the transactions if you don't have enough money in your checking account. Not having the money in your checking account to pay the check you wrote is called an overdraft.

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Although overdraft protection is not free, it usually costs much less than paying an overdraft fee. Ask your bank for specifics about the overdraft protection they have to offer.

Remember, using your checking account wisely can provide you with greater convenience and safety, cost savings and a means for budgeting your money.

Choosing a Checking Account Work Sheet

	A	B
Name of financial institution		
Low-cost checking - Monthly fee? - Number of free checks per month?		
ATM-checking - Paycheck direct deposit? - Monthly fee? - Fee for teller services? - Unlimited check writing?		
Regular checking - Minimum balance or monthly fee? - Unlimited check writing?		
Interest checking accounts - Minimum balance or monthly fee? - Amount of interest? - Transaction restrictions?		
What, if any, fees will be charged? (refer to checking account fees)		
Is it close to your home or work?		
Does this financial institution offer other services that are important to you?		

Reconciling an Account Work Sheet

Withdrawals Outstanding - Not Charged to Account		Balance shown on statement	\$75.25
Check Number	Check Amount		
		Subtract withdrawals outstanding	\$00.00
		Total	\$75.25
		Add deposits outstanding	\$30.00
			\$25.00
		Balance	*\$130.25
		*This balance should agree with balance in the check register.	
Total	\$0.00		

Check Register:

Check Number	Date	Description of Transaction	Payment/ Debit (-)	Fee	Deposit/ Credit (+)	Balance
	2/20	Opening Deposit			\$200.00	\$200.00
105	2/26	Coffee Mart	\$19.75			19.75
						180.25
	3/12	ATM	100.00			100.00
						80.25
	3/22	Deposit			30.00	30.00
						110.25
	3/23	Deposit and Cash Back	50.00		25.00	25.00
						135.25
	3/18	Monthly Fee		5.00		5.00
						130.25

Reconciling an Account Work Sheet (Cont.)

Step 1: Write the balance on the back of the statement on the line by “Balance shown on this statement”, which is \$75.25 for this example.

Step 2: Compare the checks, fees and other withdrawals entered in the check register with the withdrawals listed on the statement (not shown). When a check has not been cashed, it will not appear on the statement. Write any checks not cashed in the “Withdrawals outstanding - not charged to account” columns on the back of your statement and total them.

All the checks, fees and other withdrawals from the check register are listed on the checking account statement, so nothing goes in the “Withdrawals outstanding—not charged to account” columns and the total is \$0.

Take the total from the “Withdrawals outstanding—not charged to account” columns and write it on the line next to the “Subtract withdrawals outstanding” column.

Step 3: Take the “Bank balance shown on this statement” and “Subtract withdrawals outstanding,” to get the “Total.” For this example, \$75.25 minus \$0 equals \$75.25.

Step 4: Add any deposits made after March 20 that are not listed on the bank statement. The check register shows a deposit made on March 22 for \$30 and a deposit made on March 23 for \$25. These are not included on the bank statement.

These deposits are added to the “Total” and the amount is recorded on the line next to “Balance”. For this example, \$75.25 plus \$30 plus \$25 equals \$130.25.

The check register now shows the same amount of money as the checking account statement through March 20—the account is now reconciled.

*This resource is one in a series on **Managing Money** which include:*

Making your Money Work:

Determining What Is Important to You
Where Are You Now? (Net Worth Statement)
Stop Spending Leaks
Developing a Spending Plan

Using Credit:

What Is Credit and How Much Credit Can I Afford?
Types of Credit: What Are Your Choices?
Credit Cards
Credit Reports

Building Savings:

Ways to Save
How Your Money Can Grow
Where to Save
Investment Options

Selecting Financial Institutions:

Selecting a Financial Institution
Checking Accounts
Savings Accounts

Creating a Record System:

Keeping Records in Order
Where to Keep Records

Determining Readiness:

Financial Readiness
Benefits and Challenges

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