

BANKING 101 FOR TEENS

The Right Accounts Make Your Financial Life Easier



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Getting your own bank accounts is a key step on the road to financial independence. A checking account puts you in control of managing your money day-to-day. A savings account is an essential tool for achieving your financial goals.

This guide will help you understand how these two accounts work. You'll learn how deposits, transactions, and account fees work. Learning about these things now can help you avoid issues with your accounts later.

Two accounts you need to have

There are two types of accounts that are essential for most people:

- Checking
- Savings

Checking accounts

This is the primary account for most people. The name comes from a feature of the account that allows you to write checks for free. While writing checks isn't common anymore, the name stuck around. This is also the account people are talking about when they say, "bank account."

A checking account is usually the best place to keep the money you need day-to-day.



You can withdraw money from this account using a debit card or check. We'll cover how these types of transactions work later in this guide.

Savings accounts

A savings account offers a secure place to store your money, too. But these accounts have an Annual Percentage Yield (APY). That is an interest rate that works in your favor. APY makes the money you keep in the account grow over time.

It's important to note that savings accounts don't offer the best growth on your money. Most accounts have APY of less than 1%. So, the growth will be small and slow.

As you get older, other products can help your money grow faster. But for now, this account will give you a good start on saving.

Why you want two accounts

As you get older, it's important to have both these accounts. Your parents may have already helped you open a savings account when you were younger. That was fine when you were a kid because your parents probably paid for everything.

But as you get older, you need to get a checking account, too. This account lets you make purchases, so you can start being in control of your money each day. It also gives you a debit card, which is a good tool to get some training with before you get a credit card.

How to deposit money into an account

When you put money into an account, it is known as a **deposit**.

You can deposit cash or checks. There are several ways to make deposits.

Physical deposit

If you have cash or a paper check that you want to put into an account, you can go to a branch location or ATM and deposit it. An ATM (automatic teller machine) allows you to deposit money and do other basic banking functions without speaking to someone.

When you make a physical deposit, you will fill out a deposit slip. This slip details how much money you want to deposit in the account. There is space on the slip for checks as well as space for cash and change.

When someone writes you a check that you want to deposit, you must endorse it. This means that you sign the back of the check.

When you physically deposit a check, it will take a few days for it to process. You will not have access to the money until it processes and posts to your account.

Direct deposit

Direct deposit is a faster way of depositing checks. The check posts immediately when it's received. So, you don't need to wait several days to get access to your money.

This is the most common way that people deposit paychecks from a job. When you get a job, you can set up a direct deposit.



You will give the company your banking routing number and account number. Then the company will send your paychecks directly to your account.

Mobile deposit

This is a type of deposit you can make with a banking app. Using your smartphone, you take a picture of the front and back of a check. You must endorse the check, just like you do with a physical deposit. You may also need to write “For Mobile Deposit Only” under your signature.

The app will provide instructions that you can follow to do this type of deposit. Mobile deposits also take a few days to process.



How to use the money in your account

A **transaction** refers to any activity where you use money from your account. When you take money out of the account, it's also called a **withdrawal**. There are several ways transactions work:

Debit cards

The most common way to use money from your account to make purchases is to use a debit card. You will receive your debit card when you first open your checking account.

You can use the card at checkout in a store or to make purchases online. For online purchases, you enter the 16-digit

code on the card, expiration date, and 3-digit CVV code on the back of the card.

Tip: Always make sure a website is secure before you enter your debit card info!

ATM withdrawals

You can also use your debit card to withdraw physical cash from an ATM. You can generally withdraw money in \$20 increments. For example, you can't withdraw \$25. Instead, you would withdraw \$20 or \$40.

Bill pay

This type of transaction allows you to pay bills directly from your account.

To do this, you search for the name of the service provider through your account's online banking portal or smartphone app. You set up the provider and then you can pay the bill each month.

You can also set up recurring payments. This means you pay the same amount on the same day each month. This can be good for things like loans, where you pay the same amount every month. For example, you can do this for your first car loan.

AutoPay

This is like bill pay because the bill gets paid directly from your account. However, you set this up through the service provider.

To set it up, you give them your bank routing number and account number. Then the payments are withdrawn from your account each month.

This can be useful for things like a mobile bill for your

smartphone, since the amount of the bill may change from one month to the next. Some providers will even give you a discount for setting up AutoPay.

Checks

This used to be the most common way to withdraw money from an account. However, written checks are rare these days. Still, when you open your account, you should get a checkbook.

On each check, you write the name of the person or company you are paying, the date, and the amount (in numbers and written out in words). Then you sign the check on the signature line. You can also write a note or memo that reminds you of what you were paying.

Fees you need to know and how to avoid them

The biggest issue that people have with banking is usually the fees. They can drain money from your account, if you're not careful!

However, most fees can be avoided by choosing the right accounts and using them in the right way.

Monthly maintenance/service fees

Some bank accounts have fees simply for having the account open. You incur this fee every month with this type of account, regardless of what you do. In other words, there's no way to avoid this fee if your account has it.

The best way to avoid this fee is to make sure you get an account that doesn't have it.

Minimum balance fees

Some accounts (both savings and checking) can have minimum balance fees. If the balance in the account drops below a certain level, you get hit with this fee. Basic checking and savings accounts for students typically won't have this fee. But as you get other accounts, this may come up. For example, this fee is common with savings accounts that offer higher rates of growth.

Out-of-network ATM fees

If you use your debit card to withdraw cash at an ATM that's not in your network, then you may get hit with this fee.

In some cases, you can get hit with double the fees at "out-of-network" ATMs. The ATM owner may charge a fee and then your bank or credit union would also charge a fee.

Always try to withdraw funds at ATMs that are in your network to avoid these fees.

Overdraft fees

This is one of the most common and annoying fees you can encounter.

It happens when you spend more money than you have available in your account. If your balance drops below zero, then you will get popped with an overdraft fee.

A good way to avoid this fee is to set up overdraft protection (more on this later).

Insufficient fund fee

This is another frustrating fee you can get hit with when you don't manage your money carefully. It is also known as a "non-

sufficient fund” (NSF) fee.

It is like an overdraft because it happens when you don't have enough money in your account to cover a transaction. However, in this case, it happens when a bill is supposed to get paid. As a result, you can end up paying fees to that company as well.

NSF fees can happen when you have AutoPay set up. You may not have enough money in your account to pay a bill when the AutoPay triggers.

You can avoid these fees by monitoring your balance carefully. Always make sure you have money in the account to cover upcoming payments.

Overdraft protection

As we mentioned, overdraft and NSF fees are usually the most frustrating and common fees that people have trouble dealing with. They can be a serious drain on your account balance if you don't manage an account carefully.

One useful way to avoid these fees is to set up overdraft protection. There are three types of overdraft protection. However, with a student account, you're most likely to see the first two.

Courtesy pay

This type of overdraft protection can still result in fees, but you avoid the higher costs of overdrafts and NSF. Your bank or credit union will cover any overdraft transaction up to a certain amount.

There's usually a limit of \$100 to \$1,000, depending on the

account. You must repay the amount paid for you plus the fee or your account can be closed.

Overdraft transfers

One of the most affordable ways to protect against overdrafts is to link your checking and savings accounts together.

If you overdraft your checking account, the money to cover the transaction is pulled out of the funds from your savings account.

There are usually no fees associated with this type of overdraft protection, but there may be a limit to the number of times you can use it in a month.

Overdraft line of credit

This type of overdraft protection probably won't be available to you now, but it's still good to know about it. Your bank or credit union provides an open credit line that has a set interest rate, so it kind of works like a credit card.

Any overdrafts are paid by the credit line, then you must repay the amount charged plus interest charges. This means makes it more expensive than doing an overdraft transfer.



Where should you bank?

A bank is not the only place that you can do your banking. There are three different types of “**financial institutions**,” which is a fancy way of referring to the place where you bank. Each type of financial institution has pros and cons. Let’s look at those now...

Bank

A bank is a private company that provides financial services. National banks have branches throughout the U.S. Local banks only have branches in a selected area.

Advantages:

- There are usually many branches and more ATM locations, so it’s more convenient.
- With a national bank, you can move without changing your accounts. For example, if you move away for college, you can keep your existing accounts.
- Anyone can usually open an account.
- They may offer the latest tech, like the best mobile banking apps.

Credit union

A credit union is a non-profit organization that’s owned by its members, who are also the credit union’s customers.

You usually need to be part of a specific group to join a credit union or be referred by a member. So, if your parents are part of a credit union, they can help you open accounts there, too.

Advantages:

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- Services and technology are tailored to members' needs.
 - Members may have an easier time qualifying for loans and credit and may enjoy lower interest rates. For example, you might have an easier time getting approved for your first credit card.
 - Saving products may also have better rates for members, so your money can grow faster.

Online & virtual banks

This is a relatively new type of financial institution that exists only in the virtual world.

There is no branch location that you can visit. Instead, you do all your banking online or through an app.



Advantages:

- There are often fewer fees you need to worry about.
- They may be more flexible if you overdraft your account, which can be an issue when you first start banking.

Choosing the right financial institution for your needs

The advantages listed above for each type of institution are not exclusive. For example, you can get many of the benefits advertised by virtual banks at a bank or credit union.

For now, you will probably bank at the same place that your parents bank. But as you get older, you may want to look at other financial institutions. That way, you can choose the best institution to fit your needs and lifestyle.