BANKING BASICS

Making Your Financial Accounts Work for You

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Having the right accounts at the right financial institution makes it easier to live your best financial life. It helps you save money on fees, makes it easier to pay bills, and ensures your money is always secure.

But many people in the U.S. avoid getting these essential accounts—particularly younger Americans. Whether they had a bad experience with too many overdraft fees or simply lack trust in financial institutions, they avoid getting even basic checking and savings accounts.

Instead, these "unbanked" Americans rely on things like check cashing stores to get paychecks cashed and money orders to pay bills. Roughly 7% of Americans don't have any traditional bank accounts. However, while this may seem like a cheaper way to manage your money, it actually ends up costing you both time and money.

Instead of avoiding banking, the answer is to bank smarter. This guide will teach you how.

Choosing the right financial institution

A financial institution is a fancy way of referring to the place where you do your banking. There are three basic types of institutions that you can use. Each has its advantages and disadvantages.

Bank

A bank is a for-profit company that provides financial services. There are national banks that have branches throughout the country and local banks that only have branches in a selected area.

Banks (particularly national chains) offer some advantages:

- More branches and more ATM locations, meaning you can move without needing to change banks
- Anyone can open an account, as long as they're not flagged in ChexSystems (more on this later)
- They may also be quicker to offer new technology and services, such as the latest updates to mobile banking apps

Credit union

A credit union is a non-profit organization that's owned by its members. The members usually belong to a certain group; for example, the members may be employed by a specific company. You can only join a credit union if you are part of that group or, in some cases, are referred by a member.

Credit unions offer their own benefits:

- Services and technology are often tailored to their members' needs
- Members may have an easier time qualifying for loans and credit, and may enjoy lower interest rates
- Saving products may also have better rates for members

Online & virtual banks

This is a relatively new type of financial institution that exists solely in the virtual world. There is no branch or location that you can visit. Instead, all your banking is done online or through a mobile app.

Virtual banks focus on the following benefits:

- Getting paychecks deposited faster (although you can get this with a bank or credit union if you use direct deposit)
- Low or no fees
- More flexibility when it comes to overdrafts if you don't have funds in your account

It’s important to note that these advantages and benefits are not universal. For instance, many of the benefits advertised by virtual banks can also be enjoyed with the right bank or credit union or by simply choosing the right financial products.

Basic Financial Accounts

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

- 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 very common anymore, the name has stuck. It may also be referred to as a “bank account.”

Most (not all) checking accounts do not offer any growth on the money you keep in the account. It's simply a secure place to keep the money you need for everyday transactions.

You can withdraw money from the 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 as well. However, these accounts have an Annual Percentage Yield (APY), which is like an interest rate that works in your favor. The money you keep in the account grows over time based on this rate.

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%. Even the best accounts typically only go up to 2% APY. If you want your money to grow quickly, other banking products that we'll discuss later in this publication offer better growth.

Why having two accounts can be beneficial

While it's not necessary to have both types of accounts, it can make managing your money easier. Your checking account is for spending and your savings account is for (of course) saving.

If you only have a checking account, you may find it harder to save because you can easily spend all the money in the account. Moving money to savings can make it easier to build the funds you need to achieve your financial goals.

How to deposit money into an account

When you put money into a financial account, it is known as a deposit. You can deposit cash or checks. There are several ways that you can 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 the basic banking functions without speaking directly to a live teller.

You will need to fill out a deposit slip that will detail how much money you will deposit into the account. There is space for checks as well as space for cash and change being deposited.

When you deposit checks, you must “endorse” them. This means that you sign the back of the check in the area that indicates where to endorse it. In many cases, your financial institution will also ask that you put your account number under the signature.

Direct deposit

With direct deposit, a check posts directly to your account. This avoids adding several days you typically have to wait for a check to clear your account with other types of deposits. This is common with paychecks from an employer.

To use direct deposit, you simply provide your bank routing number and account number to the company that will deposit the checks. The money will post directly to your account each pay period, and you will get your money sooner than you would with any other type of deposit.

Mobile deposit

This is a type of deposit you can make with the smartphone app of your financial institution. Using your smartphone, you take a picture of the front and back of the check. You must endorse the check, just as you would with a physical deposit. You may also need to write "For Mobile Deposit Only" under your signature. All these instructions will be clearly stated in the app, so simply follow them carefully to ensure the check is posted correctly.

e-Deposit

This is similar to a mobile deposit, but you do it through the online banking portal of your financial institution. You will still need to endorse the check and take a picture of the front and back of the check. Make sure to follow the instructions in your banking portal to ensure you deposit the check correctly.

How to withdraw and use the money in your account

A "transaction" refers to any activity where you withdraw or use money from your account. There are several ways you can do this.

Debit cards

The most common way to use money from your account to make purchases is to use the debit card you receive when you open the account. You can use the card at checkout in a store or to make purchases online. For online purchases, you simply enter the 16-digit code on the card, expiration date, and 3-digit CVV code on the back of the card.

ATM withdrawals

You can also use your debit card to withdraw physical cash from an ATM. You can generally withdraw money in $20 denominations. If you use an ATM that is in your financial institution's network, you can withdraw the money for free. However, if you use an "out-of-network" ATM, then you may pay fees to get the money.

Bill pay

For recurring payments like bills, you can pay bills directly from your account. Through your online banking portal, you find the service provider you want to pay and connect it to your account. Then you can pay the bill online or through the smartphone app.

You can choose what day the bill gets paid and set up recurring payments to pay the same amount on the same day of each month.

AutoPay (also known as "automatic debit")

This is like bill pay because the bill gets paid directly from your account. However, you set this up through the service provider. You give them your bank routing number and account number, then the payments are withdrawn from your account each month.

Checks

This used to be the most common way to withdraw money from your account. However, written checks are rare these days. When you open your account, the financial institution will issue you 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.

Electronic Fund Transfer (EFT)

This is another way to pay bills and other recurring payments online. It is essentially like an electronic check. You may be asked to set up EFT payments by some utility companies or lenders.

This functions in much the same way as bill pay or AutoPay, but may take several days to process. When setting up EFT, you may want to pay a bill a few days in advance to ensure the funds post before the bill due date.

Fees you need to know and how to minimize them

A big frustration that some people have with banking is the fees. However, most fees can be avoided by choosing the right accounts or using accounts 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. However, if you want accounts with the best features and services, like the highest rates of growth, then you may see this fee come up.

Minimum balance fees

Some accounts (both savings and checking) can have minimum balance fees. This fee gets applied if the balance in the account drops below a certain limit.

Minimum balance fees are often seen with savings accounts that offer better growth. There are checking accounts that also offer APY, but they usually have high minimum balance requirements, and high fees if you fall below that balance requirement.

This fee can be avoided by maintaining the balance required OR by getting accounts that have no minimum balance requirement.

Out-of-network ATM fees

If you use your debit card to withdraw cash at an ATM that's not in your financial institution's network, then you may get hit with this fee. In fact, you may get hit with double the fees—the ATM owner may charge you a fee and then your bank or credit union may also charge a fee.

For this reason, always try to withdraw funds at ATMs that are in your network.

No bill pay fee

If you have an account that encourages you to conduct all your banking business online, then this fee can come up. It happens when you don't use the account's bill pay service to pay at least one bill.

Be careful with this one—having accounts set up to AutoPay through the provider will not help you avoid this fee. You must use the bill pay feature on your account.

Foreign transaction fee

This fee happens with any foreign transaction that you make—in other words, any transaction that occurs outside the United States. If you are traveling internationally, you may pay this fee if you use your debit card in another country. You can also incur this fee if you shop at a store outside the U.S. online.

Some checking accounts have no foreign transaction fees. If you travel internationally often, you may want to get an account tailored to that travel.

If you are paid by a business outside the U.S., then you may also incur a foreign check-cashing fee. These fees can be high—usually around $45 per check—and it's hard to avoid them.

Overdraft fees

This is one of the most common and frustrating fees that you can incur. It happens when you spend more money than you have available in the account. If your balance drops below zero when you make a charge, then you will incur an overdraft fee unless you have some type of overdraft protection set up (more on this later).

Insufficient fund fee

Also known as a “non-sufficient fund” (NSF) fee, this fund happens when you don’t have enough money in your account to cover a transaction. This is like an overdraft, except in this case the bill or transaction does not get paid. As a result, you may end up paying fees to that company as well.

NSF fees are most common when you have AutoPay set up. You can avoid these fees by monitoring your balance carefully. Always make sure you have money in the account to cover upcoming payments.

Wire transfer fee

A wire transfer is a fast way to send money to someone without needing to physically mail cash. Most banks will charge a fee for a wire transfer, and you pay more if the transfer is international.

These days, there are plenty of ways to send someone money without needing to do a wire transfer. Many services such as Venmo, Zelle, or ApplePay can be set up to send money without any fees.

Excessive transaction fee

This fee is only seen with savings accounts. Savings accounts typically have a limit to the number of transactions that you can make in a single month. If you make more transactions than that, then each one will incur this fee.

This is the reason why it's a good idea to have a checking account in addition to a savings account. Checking accounts typically offer an unlimited number of transactions per month. Thus, you can do all your daily purchases and pay bills out of that account, then keep your savings to help your money grow.

Overdraft protection

By far, the most common fees occur because the account holder doesn't have funds in the account. Overdraft and NSF fees can be a serious drain on your account balance if you don't manage your account carefully.

One useful way to avoid these fees is to set up overdraft protection on your account. There are several types of overdraft protection that you can use. The right overdraft protection can make all the difference to avoid fees and minimize costs.

Courtesy pay

This type of overdraft protection can still result in fees, but you avoid the higher costs of overdrafts and NSF. Your financial institution will cover any overdraft transaction up to a certain amount (usually $100-$1,000 depending on the account).

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

Overdraft transfers

One of the most affordable ways to protect against overdrafts is to link your account to another account, such as a savings account. When an overdraft happens, the money to cover the transaction is pulled out of the funds from your other 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.

You may also be able to use a credit card for overdraft transfers, but that means you may end up paying interest charges on the overdraft, resulting in added costs.

Overdraft line of credit

With this overdraft protection, the financial institution provides you with an open credit line that has a set interest rate. Any overdrafts are paid by the credit line, then you must repay the amount charged plus interest charges.

The interest rate on this credit line may be lower than the interest rate if you use a credit card for an overdraft transfer. However, there may be a fee charged to access the credit line and you may be limited to the number of times you can use it.

What you need to know about ChexSystems reports

ChexSystems is like a credit report for your banking history. It tracks things like overdrafts, insufficient funds, and account closures on checking and savings accounts. If you've had trouble with your accounts in the past few years, your ChexSystems report may make it difficult for you to open new accounts.

ChexSystems tracks banking history back five years, so mistakes won't follow you forever. What's more, a bad ChexSystems report won't prevent you from opening accounts. However, you may need to open a "second-chance checking account" and take steps to prove you can manage your accounts without issues.

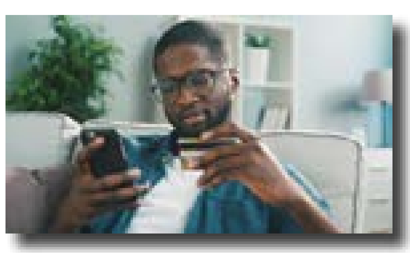
Taking these steps is worth the time and effort. In the long run, you will save time and aggravation when you have accounts that serve your needs and help you manage your money day-to-day.

Financial products that help you reach your goals

Financial institutions provide more than just basic checking and savings accounts. Your bank or credit union can also provide credit cards and loans, as well as other saving products that help your money grow faster.

Getting credit cards and loans through your financial institution

You are not required to get credit cards and loans through your bank or credit union, but you should always check what products they offer when you're looking for new credit.



Having a loan or credit card through your financial institution can be convenient and you may qualify for lower interest rates.

Always make sure to check with your financial institution first when you need a new loan or credit card. See what they have to offer. Then, you at least have a good bar to compare other offers you may find elsewhere.

Money Market Account (MMA)

A Money Market Account is a specialized type of savings account that can offer much better growth.

- The interest rate on an MMA is variable, meaning when interest rates are high in a good economy, you enjoy even better growth.
- Interest rates are also typically tiered, meaning the more money you have in the account, the more growth you enjoy, too.

MMAs may have more requirements than a standard savings account. As you shop for these accounts, you may see more minimum balance requirements and fees. But choosing the right MMA can give you a great place to keep savings in an account that's still easily accessible.

Certificate of Deposit (CD)

Another useful tool that banks and credit unions offer is Certificates of Deposit (CDs). You deposit a set amount of money in one lump sum. The CD matures with interest over a set period—anywhere from one month up to five years. At the end of the term, you receive the money back that you put in, plus the interest it accrued.

CDs also tend to offer better rates for more money. So, the more money you put in, the faster that money will grow.

CDs can be a great place to save money that you are saving for a specific purpose. For example, let's say you get $5,000 saved that you want to use for a down payment on a house in two years. Putting that money into a 2-year CD will help ensure you save it instead of spending it. You'll get your money back on time and have extra cash to cover moving costs.