Opening a Bank Account

Section Objectives
A basic component in establishing financial independence is Opening a Bank Account. Banking services are essential tools for managing personal finances and building assets, as well as qualifying for and obtaining credit. Banks can help consumers manage their expenses and help them manage their money as they receive it. Opening a savings or a checking account can help you set a financial goal towards purchasing a home, a vehicle, affording college and making other major purchases.

This section will help you understand the various services offered by commercial banks and management of your bank account. It will help you in making sensible decisions about choosing a bank and the types of accounts you would want to use. After completing this section you will be able to:

- Understand the basics of banking
- How to select a bank or a credit union
- Manage your checking account
- Recognize the different kinds of savings and checking accounts

Section Table of Content
Opening a Bank Account 1
Section Objectives 1
Key Terms 2
Basic Banking 3
Checking Accounts 3
Checking Accounts Overdraft Protection 3
Savings Account 4
Retirement accounts 6
Chexsystems 6
Exercise – Choosing a Bank or a Credit Union 7
Managing your Checking Account 8
Exercise – Managing your Check Register 9
Banking On Line 10
Section Review 11
Additional Learning Resources 12
Web Sites and Contact Information 12
### Key Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Automatic Teller Machine (ATM)</strong></td>
<td>An electronic device that allows a bank’s customer to make cash withdrawals and check their account balances.</td>
</tr>
<tr>
<td><strong>Annual Percentage Rate (APR)</strong></td>
<td>Annual Percentage Rate, the rate expressed in percentage terms, of interest on a loan charges each year.</td>
</tr>
<tr>
<td><strong>Annual percentage yield (APY)</strong></td>
<td>is the interest rate you earn on a certificate of deposit (CD) or other fixed-term deposit. The APY calculation assumes that you hold the investment until maturity. APY is greater than the stated rate on the deposit if interest is compounded. For example, a bank may be selling a one-year CD at a stated rate of 10%. If the CD compounds interest on a quarterly basis, the APY rises to 10.38%. If compounded daily, the APY rises to 10.52%.</td>
</tr>
<tr>
<td><strong>Checking Account</strong></td>
<td>An account for which the holder can write checks</td>
</tr>
<tr>
<td><strong>Check Register</strong></td>
<td>A listing of checks issued normally in numeric sequence in order by date issued where the check amount is detailed and the account balance is computed.</td>
</tr>
<tr>
<td><strong>Chexsystems</strong></td>
<td>A network of financial institutions that regularly contribute information on mishandled checking and savings account to a central location</td>
</tr>
<tr>
<td><strong>Credit Card</strong></td>
<td>A bank issued card that allows consumers to purchase goods and services on credit</td>
</tr>
<tr>
<td><strong>Debit Card</strong></td>
<td>A card issued by a bank and used for making purchases where the money is deducted directly from your checking account and to withdraw money from the ATM.</td>
</tr>
<tr>
<td><strong>Electronic Banking</strong></td>
<td>A form of banking in which funds are transferred using computerized support between financial institutions</td>
</tr>
<tr>
<td><strong>Interest</strong></td>
<td>Amount charged to a borrower for the privilege of using the lender’s money or the amount given to a depositor in a bank, usually expressed in terms of a percentage</td>
</tr>
<tr>
<td><strong>Online Banking</strong></td>
<td>Banking services that are processed electronically and offered to customers via the Internet.</td>
</tr>
<tr>
<td><strong>Overdraft</strong></td>
<td>Withdrawals, checks and ATM/debit purchases that exceed the amount of money you have deposited in your account.</td>
</tr>
<tr>
<td><strong>Savings Account</strong></td>
<td>An account at a bank on which interest is usually paid and from which withdrawals can be made</td>
</tr>
<tr>
<td><strong>Retirement Account</strong></td>
<td>A plan for setting aside money to be spent after retirement</td>
</tr>
</tbody>
</table>
Basic Banking

Banks are called depository institutions because they take in and lend out money. These are the two basic functions of commercial banks. Banks make their money from interest on loans, investments, and various service charges. Among their services are savings and checking accounts, automobile loans, traveler’s checks, safe deposit boxes, personal loans and wire transfers.

Recently, Internet banking has changed the way Americans bank. In 2004, 53 million Americans, or 44 percent of all U.S. Internet users, were using some form of online banking, a secured internet-based services that allows an account holder to obtain 24 hour account information as well as manage certain banking transactions through a personal computer.

Checking Accounts

A checking account is a bank account from which funds can be deposited and then used to write a check, use an ATM or debit card, or make personal withdrawals. Keeping your money in a checking account is safer than having cash in your pocket. The cancelled checks and receipts generated by using these accounts automatically register your purchases and are your record of your spending activity. Most businesses will more likely accept your checks as long as you carry proper identification. Also, you may obtain cash from automatic teller machines (ATMs) twenty four hours a day and make purchases at point of sales terminals like the grocery store using your ATM or Debit Card. Some checking accounts earn interest. Some banks may assess charges and fees for services when using a checking account including: monthly fees for having an account, overdraft fees if you exceed the amount you have on deposit, and excess check fees if you use more than the allowable number of checks the bank specifies during a given month.

Checking Accounts Overdraft Protection

When an overdraft occurs on an account, meaning the balance of the account becomes negative; funds are automatically transferred from a line of credit linked to the account to cover the negative balance. Overdraft protection prevents the consumer from having to pay overdraft charges. The overdraft protection requires an agreement with the Bank or Financial Institution to cover overdrafts. This service will typically involve a fee and be limited to a pre-set maximum amount.

Below are the most common types of checking accounts that commercial banks offer today:

- **Low cost checking account**
  The fees for services are usually less than $5 per month. There maybe a limit on the amount of checks that you can write. As well as perhaps a minimum balance expected to be maintained or a fee will be assessed.
• **Free checking account with automatic deposit**
  A free checking account that requires that you have your employer direct deposit your paycheck onto the account. You may also be limited in the amount of checks you can write monthly and a fee may be assessed for using Automatic Teller Machines (ATM).

• **Regular checking account**
  A regular checking account usually requires a minimum balance on the account to avoid payment of a minimum service fee. The bank may assess a fee for Automatic Teller Machine (ATM) use and may allow an unlimited amount of checks written.

• **Interest bearing checking account**
  This type of checking account generally requires a minimum balance to earn interest and avoid payment of service fees. The interest rate on this type of account is usually between .5% and 1% per year.

**Savings Account**
A savings account is a bank account where money is placed and accrues interest monthly based on the amount of money deposited. Money can be withdrawn at any time.

Saving can help you manage your money better, improve your life style, be prepared for unplanned events like job loss, automobile repairs or hospitalization. You may also use your savings for a down payment on the car or home of your dreams, pay for college or vacations.

Savings accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) and at credit unions by the National Credit Union Association to $100,000. Ask your bank or credit union to make sure that your money will be insured. Because these accounts accrue interest, your savings account grows. Having money in a savings account help you plan your finances by forcing you to think before you spend.

The following are types of savings accounts offered by most banks and credit unions:

• **Basic savings account**
  A basic savings account that usually pays from 1 to 4% depending on market conditions, account daily balance, and bank incentives. Market conditions are factors that, at a particular point in time, may affect, for example, the sale or purchase of a home or the stability or volatility of a securities market at a given time.

• **Money market accounts**
  Generally earn more interest than a basic savings account, you may write several checks per month on a money market account, the number of withdrawals and deposits to these accounts is limited on a monthly basis.

• **Christmas club accounts**
  Save for a year prior to Christmas expenses, these accounts are like savings accounts, but occasionally require that you leave your money within them for a specified period of time.
• **Certificate of deposits (CD)**  
  There are 1, 3, 5 years CD’s. The longer the length of time, the higher the interest rate paid to you. Banks usually require that you keep your money in the account for a specified amount of time in return for a higher interest rate paid by the bank. Early withdraw of these funds can lead to a penalty including forfeiture of the interest you had earned to the point of your withdraw.

• **Education savings plan**  
  Saving money for children’s college education usually there is no tax assessed on the contributions, but they may only be used for the child named on the account and for the purpose of higher education.
Retirement accounts

- **IRA (Individual retirement account)**
  You may save a limited amount of your income each year. You will not have to pay taxes on the amount saved until you withdraw your money when you retire (after the age of 59 and 1/2). There are fees and penalties for withdrawing the money early (prior to age 59 1/2).

- **401(k)**
  This is a savings plan for retirement offered through many employers. You finance your own contributions before taxes which sometimes are matched by your employer. You will not pay taxes on the amount until the money is withdrawn. You must be 59 1/2 in order to withdraw the money without penalty.

- **Keogh Plan**
  A Keogh plan is another type of retirement plan approved by the federal government for people who are self-employed. It allows self-employed persons to save for retirement to a limited amount. Taxes are not paid until you retire and start withdrawing the money.

- **Annuities**
  An annuity is an interest-bearing contract between an individual and a life insurance company that guarantees periodic payments to the individual during a specific time period. On expiration the balance is exhausted. Capital withdrawals are generally not allowed.

Chexsystems

Most banks will review your check usage history through companies like TeleCheck or ChexSystems. If you are refused access to a bank account it may be because your name might have been placed on the ChexSystems data base, the largest national account verification company. These databases provide merchants with continually updated information including bad check activity as it occurs, automated inquiries using the consumer’s identification (Driver’s License or state ID) as well as checking account data. The consumer identity verification options allow merchants to determine what risk level is acceptable for their individual business. These verification systems reduce the likelihood of multiple fraudulent transactions and also help detect fraud in progress.

Since December 2004, consumers have the right to receive a free copy of your ChexSystems report each year from www.chexhelp.com or by calling 800 428-9623. You may also get a free report if you have been denied a bank account during the last 60 days or if you have been a victim of bank fraud. The report includes instructions to question erroneous information.
Exercise – Choosing a Bank or a Credit Union

Keep this worksheet with you to use when you are ready to select a bank or a credit union to determine how each option matches your needs. A good way to learn about the services offered by a bank or a credit union is asking a bank officer to review all or some of the following questions with you.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Name of Bank or Credit Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>How much money do I need to open an account?</td>
<td>Bank 1</td>
</tr>
<tr>
<td></td>
<td>Bank 2</td>
</tr>
<tr>
<td></td>
<td>Bank 3</td>
</tr>
<tr>
<td>What is the interest rate I can expect, on average for various types of accounts?</td>
<td></td>
</tr>
<tr>
<td>Do they have a free checking account with no monthly fee?</td>
<td></td>
</tr>
<tr>
<td>What are the requirements for a free checking account?</td>
<td></td>
</tr>
<tr>
<td>What happens if my account balance falls below the minimum requirement?</td>
<td></td>
</tr>
<tr>
<td>Is there a maximum amount of monthly withdrawals that I can make without additional fees?</td>
<td></td>
</tr>
<tr>
<td>Does the account include an ATM or debit card?</td>
<td></td>
</tr>
<tr>
<td>Does the bank charge for the use of Automatic Teller Machines (ATM) at this bank?</td>
<td></td>
</tr>
<tr>
<td>How much do other banks charge for using the ATM?</td>
<td></td>
</tr>
<tr>
<td>Do they offer overdraft protection?</td>
<td></td>
</tr>
<tr>
<td>What is the charge for overdraft protection?</td>
<td></td>
</tr>
<tr>
<td>Do they offer free on line banking?</td>
<td></td>
</tr>
</tbody>
</table>
Managing your Checking Account

Managing your checking account begins with knowing the basics. Staying in control of your account and your finances is simple if you master a few basics - check writing, recordkeeping, and balancing - and know a few checking account do’s and don’ts. With these skills and know-how, you’ll find that managing your account can be easier than you think!

It is important that you manage your account to be able to use your checkbook effectively, keep track of your debit and ATM cards charges and utilize on line banking and bill paying to your benefit.

For starters, let us become familiar with some of the checking account tools:

- **Your checking account**
  Your checks include your name, address, banking branch and your account number. Your checking account will include pre-printed deposit slips. For security reasons it is highly recommended not to include (print) your Social Security Number or drivers license number in your check. This helps prevents identity theft.

- **Your check register**
  Every time that you deposit or withdraw money from your account you are performing a “transaction”. Each transaction needs to be recorded on your check register. Do not try to keep your balance in your head because you might forget a transaction and end up over drafting your account.

- **Your ATM or debit card**
  The Automatic Teller Machine (ATM) is a computerized terminal that can dispense cash from your account. Using the ATM and your Personal Identification Number (PIN) you can access your account 24 hours a day. A debit card is similar to an ATM, but has more functions. With a debit card you can perform purchases where accepted.

- **Writing a check**
  A check is a written contract between your bank and you. When you write a check, you are asking the bank for money to give it to someone else. The first step before you write a check is to make sure that you have enough money in the account. Many vendors submit your checks electronically; therefore, those checks will clear your account immediately, much as a debit card transaction would.

  Always write a check using ink, write clearly, and record every check in your check register. Include the check number, date and amount of the payment.

- **Deposits**
  To add money to your bank account, you need to make a deposit. You need to give the teller a completed deposit slip to let him/her know the amount of your deposit. Deposit slips are included with your checking account and have your account number printed on them. You may deposit cash or checks. If you run out of deposit slips, you may get blank ones at your bank. Make sure that you write your account number on the blank deposit slip so that your money goes into the correct account.

- **Check Account Reconciliation**
  Performing your check account reconciliation is the act of confirming that the balance in your checkbook matches the corresponding bank statement. You should reconcile your check account at least every month after receiving your account monthly.
In order to perform the reconciliation you should save copy of your deposits, ATM withdrawals, cancelled checks and receipts of transactions performed with your debit card. If you notice differences between the information on the bank statement as compared with your evidence you should visit your bank or credit union and discuss it with an institutional officer.

Exercise – Managing your Check Register

Instructions:
First, record your withdrawals and deposits to maintain an up-to-date balance on the check register. Second, use the check register to answer the questions that follow. Third, use the completed check register and the bank statement to reconcile the account.

Your account balance on March 1st is $260.19.

1. On March 5th, you use your debit card at Ollie’s Deli to buy lunch for $8.35.
2. On March 8th, your write check #456 in the amount of $88.44 to State Insurance for your insurance premium.
3. On March 13th, you fill up your gas tank at Metro Fuel for $35.15 using your debit card.
4. On March 15th, your employer deposits your pay check in the amount of $525.00.
5. On March 20th, you transfer $10.00 on line from your checking account to your savings account.
7. On March 22nd, you withdraw $20.00 from the ATM.
8. On March 25th, you write a check for $135.66 to Eastern Bank for your car payment.
9. On March 28th, you write a check to your landlord Springfield Apartments for $450.00.
10. On March 28th, you deposit a check for $10 to your friend for a pizza that you shared last month.

<table>
<thead>
<tr>
<th>Notes</th>
<th>Check No.</th>
<th>Date</th>
<th>Addressee</th>
<th>Transaction Amount</th>
<th>Deposit Amount</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>3/1</td>
<td></td>
<td></td>
<td></td>
<td>$260.19</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3/5</td>
<td>Ollie’s Deli</td>
<td>$8.35</td>
<td></td>
<td>$251.84</td>
</tr>
<tr>
<td>456</td>
<td>3/8</td>
<td>State Insurance</td>
<td>$88.44</td>
<td>$63.40</td>
<td>$163.40</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3/13</td>
<td>Metro Fuel</td>
<td>$35.13</td>
<td>$28.27</td>
<td>$128.27</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3/15</td>
<td>Pay check</td>
<td></td>
<td>$525.00</td>
<td>$653.27</td>
<td></td>
</tr>
<tr>
<td>457</td>
<td>3/20</td>
<td>Transfer to savings account</td>
<td>$10.00</td>
<td>$643.27</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3/20</td>
<td>Wireless Phone</td>
<td>$20.89</td>
<td>$622.38</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3/22</td>
<td>ATM Withdraw</td>
<td>$20.00</td>
<td>$602.38</td>
<td></td>
<td></td>
</tr>
<tr>
<td>458</td>
<td>3/25</td>
<td>Eastern Bank Car Payment</td>
<td>$135.66</td>
<td>$466.72</td>
<td></td>
<td></td>
</tr>
<tr>
<td>459</td>
<td>3/28</td>
<td>April Apartment Rent</td>
<td>$450.00</td>
<td>$16.72</td>
<td></td>
<td></td>
</tr>
<tr>
<td>460</td>
<td>3/28</td>
<td>Peter check for a pizza</td>
<td>$10.00</td>
<td>$6.72</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Use the check register to answer the following questions:

1. What was your balance on March 16th?
   
2. Could you have made your car payment on March 14th instead of on March 25th?
   
3. What was the balance on March 26th?
   
4. Could you afford sunglasses for $4.25 on March 29th? What would be your balance as a result of this?
   
Banking On Line
Many banks and credit unions offer on line banking services. Some charge fees for banking on line and others offer it for free, but charge a fee for online bill paying. On line banking is a secured internet-based services that give you convenient 24-hour account access. It allows a bank account holder to obtain account information as well as manage certain banking transactions through a personal computer. Financial institutions also offer convenient bill payment services on line that allow you to get your payment to your creditor in a fast and easy way.

Traditionally, banks have used the generally accepted practice of processing deposits and debits to customer's accounts overnight in “batch” mode. However, in recent years, technological shifts in the market have encouraged them to consider hastening this traditional process cycle. The move is towards processing transactions in “real time”, which means that your deposit or debit to your account will be processed in a matter of seconds. Many community banks and credit unions are already operating in “real time” and it is expected that larger banks will transition into “real time” transaction processing in the near future.

Some of the benefits of banking on line are:

- you have access to the account 24 hours a day, 7 days a week via Internet.
- you may transfer money between savings and checking without having to visit the bank
- you can reconcile you bank statement with your check book automatically
- the benefit of paying bills on line

Whichever bank service associated with your checking account you choose, always manage your money wisely by keeping records of all your transactions, paying yourself first (saving) and making sure that you plan before you spend.
Section Review
Circle the correct answer:

1. What are the two most common types of bank accounts?
   a. credit and debit  
   b. check cards  
   c. savings and checking  
   d. deposits and withdrawals

2. The bank never charges fees on a checking account.
   a. true  
   b. false

3. A money market account is a form of
   a. savings account  
   b. bank advertising  
   c. bank loan  
   d. business account

4. A check register is used to
   a. keep track of expenses  
   b. keep track of deposits  
   c. make your car payment  
   d. both a and b

5. A check register keeps track of
   a. deposits  
   b. credit  
   c. ATM withdrawals  
   d. retirement account

6. On line banking helps you to reconcile your checking account
   a. true  
   b. false

7. A deposit slip is used to
   a. write a check  
   b. deposit money in your account  
   c. reconcile your account  
   d. keep track of deposits

8. A bank fee is usually charged by the bank for a service.
   a. true  
   b. false

9. Savings accounts are insured by the FDIC up to
   a $150,000  
   b $200,000  
   c. $100,000  
   d. $199,000

10. A benefit of having money in the bank is safety.
    a. True  
    b. False
Additional Learning Resources

Federal Deposit Insurance Corporation (FDIC) Money Smart Curriculum
ASPIRA Facilitator’s Guide to Money Smart Curriculum

Web Sites and Contact Information
http://www.fdic.gov/consumers/consumer/moneysmart/order.html
http://www.aspira.org/money_smart.htm