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## Consumer Decision Making Contest

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### 1997-98 Study Guide

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## CHECKING ACCOUNTS

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It would be both inconvenient and risky if we had to conduct all our financial transactions with cash. Inconvenient, because of the sheer volume of cash that would have to be available in all segments of the economy all the time; risky because a loss of cash is irreplaceable. Checking accounts make financial transactions safer and more convenient.

The Depository Institutions Deregulations Act of 1980 made it legal for all banks, savings and loans and credit unions to offer a variety of financial services. These institutions now compete for the business of the 88 percent of Americans who have checking accounts and write \$40 billion worth of checks annually. With this blurring of differences between financial institutions, it is now more difficult for depositors to choose the best account to meet their needs.

Five criteria can be applied when choosing an account and financial institution; cost, safety, convenience, treatment of customers, and range of services.

### Cost

For many years, banks offered free checking, covering expenses through activities such as loans and money made on their customers' checking account deposits. At that time checking accounts did not earn interest. The trend in banking now is to assess charges for each service rendered, while many accounts earn interest. Thus, institutions usually charge customers to maintain a checking account. Some institutions offer free checking as a promotional device to bring in new customers, hoping that new customers will also want other, paid services. Free checking accounts may be available as part of a savings/checking package offered by some institutions.

Consumers can evaluate and compare the costs of checking accounts by finding out the answers to several important questions:

1. What is the minimum balance to open an account?
2. What are the fees or service charges for:
  - **New checks.** Printing costs for checks average \$12 to \$15 for 200 checks. Checks may be reordered through the bank's printer or through independent printing companies.

Independent printers advertise in magazines and usually cost less than the bank's printer.

- **Monthly service charge.** Financial institutions may charge between \$5 to \$15 in service charges. Find out if the service charge can be avoided.
- **Returned checks ("bounced checks").** These are checks returned to the institution because there is not enough money in the account. The average charge is about \$15 for a returned check but may be higher.
- **ATM transactions.** If the account comes with an Automated Teller Machine (ATM) card, there may be fees for using the machine. Some banks do not charge for using the bank's own machines but may charge up to \$1 or more for using other machines that belong to the same ATM network. Beginning in April of 1996, banks were allowed to charge users who do not have accounts at their bank a fee for using the ATM. This fee is over and above the fee the user's bank may charge for using the ATM card.

3. Is a minimum balance required to avoid a monthly service charge? How is this balance calculated? Some institutions require the customer to maintain the minimum balance every day. Other institutions calculate an average daily balance. The average daily balance is better for most consumers since it allows some days with low balances. Some institutions will also consider money in other accounts, such as a savings account, when figuring the minimum balance.

4. Does the account receive interest? What is the Annual Percentage Yield (APY)? The APY is better than the Annual Percentage Rate because it tells you exactly what you will earn on your money. How often is it paid? Some interest bearing accounts pay interest on the lowest balance in the account during the month. Others pay interest on the average daily balance. The average daily balance method will result in more interest being paid.

5. Do I qualify for a checking account because of my age, income, or level of checking account activity?

6. Are canceled checks returned with monthly statements? What is the fee for a copy of a canceled check? Credit union checking accounts (called share draft accounts) and some accounts at banks and savings and loans do not return canceled checks to the account holder. These are called "truncated accounts" and may have lower charges than if canceled checks were returned. Most people with truncated accounts use 2-part checks when writing checks. A carbon of the check provides the account holder with a copy for his/her records. If ever needed, copies of canceled checks can be obtained for a fee.

### Safety

For maximum safety, financial institutions should be insured by the Federal Deposit Insurance Corporation (FDIC-banks), the Federal Savings and Loan Insurance Corporation (FSLIC-Savings and Loans) or the NCUSIF (National Credit Union Share Insurance Fund -Credit Unions).

Federally insured institutions insure accounts up to \$100,000. Some institutions are state-insured for a like amount through a state-approved program. Some institutions are uninsured and should be avoided. If an uninsured institution becomes

insolvent, depositors will lose part or all of their money.

### Convenience

Convenience is important when deciding where to open a checking account. Find out if the main office or at least a branch office is located nearby. Does the bank have walk-up and drive-up services? Are the business hours set so that customers can make transactions before and after work and on Saturdays? Is there a nearby automated teller machine (ATM) available twenty-four hours a day?

### Treatment of Customers

Frequent research studies by financial institutions show that lack of courtesy is a major reason why they lose customers to competitors. Most checking account customers expect courteous service both in person and over the telephone.

If a financial emergency arose and you needed a loan, would you expect your financial institution to lend it to you? When choosing a checking institution, find out how loyal it is to customers. When credit is hard to get, your institution may give you priority or even a lower rate of interest on a loan.

### Range of Services

Financial institutions offer a variety of services which you should consider when deciding where to open a checking account.

**Waiting Periods.** Many financial institutions require checking account customers to wait for a check deposit to clear before writing checks against the funds. A new federal law limits these waits to one day on checks drawn on local banks and four days on checks drawn on out-of-state banks.

Check clearing is the process of transferring funds from the bank, savings and loan association, or credit union upon which the check was drawn to the financial institution that accepted the deposit. Some checking institutions may give preferred status to certain customers, permitting them to write checks immediately on a deposit under a set amount (perhaps \$500). Others allow access immediately by placing a hold on funds in another account--for example, a savings account--until the check clears.

**Stop-payment Order.** If you write a check in payment for a faulty product, you may wish to issue a stop-payment order on the check. This assures that the check will not be honored when presented to your financial institution. Almost all stop-payment orders do stop checks from being cashed if they are issued soon enough. However, realize that most financial institutions probably have a contract clause relieving them of responsibility in case of an oversight. The cost for issuing a stop-payment order ranges from \$5 to \$15, and the order can last up to six months.

**Overdrafts.** Some people have difficulty keeping track of how much money is in their checking account and occasionally write a check for which there are not enough funds in the account. Less than 1 percent of all checks "bounce;" 60 percent of them are for amounts under \$100. If you write a bad check, your financial institution can take one of four actions.

First, your bank may stamp the check "insufficient funds" and return it to the person to whom it was written. Your bank will charge you from \$5 to \$30 and the person who was paid with the check will probably also charge you a fee. Most places of business post a notice of their charge for a bad check.

Second, if the check amount is not large or if you are a good customer, your bank might honor the check by paying it and telephoning to remind you to put the funds into the account as soon as possible. Some smaller institutions have this policy.

Third, if you have arranged for automatic funds transfer (AFT) with your bank, the necessary amount to cover the check transfers from your savings to your checking account.

Fourth, if you have an automatic overdraft loan agreement with your bank (often called "check plus" or "overdraft protection"), needed funds automatically transfer from your VISA or MasterCard account. It helps your credit rating to avoid writing bad checks, but using an automatic overdraft loan can be expensive.

**Other services.** Financial institutions may offer certified checks, cashier's checks, money orders, traveler's checks, automatic payment of bills, safe-deposit boxes and trust services. All these services

may be important considerations in view of personal needs.

### Using a Checking Account

There are numerous benefits to having a checking account. There is no need to carry much cash, and it is easier and less expensive to pay bills by mailing a check rather than traveling all over town to make payments. The first step in opening a checking account is completing a signature card which provides verification of the check writer's signature. This card is compared against checks written later.

Once you make an initial deposit, you will be assigned an account number. Then you must decide how much personal information to include on your checks, such as address and telephone number, and what your checks will look like. Checks of a solid color are usually less expensive than checks printed with halftones and exotic scenes.

**Deposits and Endorsements.** Along with your checks, you will receive a supply of deposit slips. You need to record the date and amount of cash and/or checks deposited.

Endorsement of checks is the process by which checks are transferred from one person to another. When you sign, or endorse, the back of a check written to you, it can then be cashed or deposited. New rules require check endorsements in a specific area of the check.

**Writing checks.** The person who opens a checking account and writes a check is known as the *drawer* or *payer*. The financial institution at which the account is held is the *drawee*. The person or firm paid with the check is the *payee*.

When you write checks in payment of a purchase or bill, make certain you have written out the check carefully. Do not leave empty spaces that could be filled in by someone else. For example, fill in numbers close to the area allowed so that no one can add a figure. If you aren't careful, someone could turn your \$10 check into \$100. Be careful also in writing out the amount in words. A \$10 amount should read Ten and no/100xxxxDollars, with any remaining space carefully filled. Don't leave any room for an unscrupulous person to modify or alter your check. You should not carry around blank

checks that you have already signed. That would be an open invitation for trouble!

Always record the amount of the checks and deposits in your check register. Keep your balance current and reconcile your account when you receive your monthly statement.

#### References:

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Rosefsky, R.J. *Personal Finance*. New York: John Wiley & Sons, Inc. 1983.

For more information on checking accounts, ask your Consumer Life Skills Leader to present Lesson 17 - "Using Financial Services - Checking Accounts" from the *Consumer Life Skills Leader Guide*.

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