

DCC DOLLARS & SENSE

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Banking Basics

When dealing with a bank, you'll find there are several account options available to you. Some will have benefits and some won't. If the account offers any benefits than it's sure to have restrictions. Here's a list of accounts that most banks will provide.

Special points of interest:

- Highlights of different bank accounts.
- Interest bearing accounts

Basic Checking: As it's name indicates, this account is a simple checking account. It allows for consumers to use checks to pay bills

and in most cases offers a debit card for phone and ATM transactions. Basic Checking accounts generally require direct deposit or a low minimum balance to avoid fees.

Interest Bearing: Generally requires a minimum Deposit to open, and a high minimum balance to prevent fees. The higher your balance, the more interest you earn.

Joint Checking: An account owned by two or more people where, each individual on the account has the same access. Most accounts, whether it's basic checking, savings or money market, can be set up as joint accounts.

Express: Primarily for people who don't want to spend too much time with banking. These accounts generally require direct deposit and offer unlimited check writing. With a low minimum balance a consumer can avoid any fees, however, if you visit the teller, it will cost you.

Lifeline: Accounts for low-income consumers, these accounts generally require monthly fees ranging from zero to \$6, require a low, if any, minimum deposit and balance; and allot a certain number of checks per month. Most banks offer these types of accounts and in some states, it's the law.

Senior/Student Checking: Many institutions have special checking offers if you are a student or age 55 or over. The benefits will vary for each institution but may include free checks, discounted loan rates or discounts on everything from travel to prescriptions.

Money Market: This account combines checking with savings or investment accounts and offers a better Annual Percentage Yield (APY) There is usually a high minimum deposit required to open the account, higher balances to maintain in order to avoid fees and has more restrictions on checking transactions than other accounts.

There are a few things to consider when choosing which type of account you need. How much money you plan to keep in your account on a consistent basis, is an important factor. If you plan on keeping a small balance in your account, just enough to cover your monthly bills, you won't need to worry about interest bearing accounts and you'll be able to get by with a basic account.

The average minimum balance requirement on an interest bearing account to avoid fees is about \$2300. If you don't plan on having that much in your account, you won't earn enough to cover the cost of having the account open. The average interest paid on a standard interest bearing checking account is .27%. Through Internet Banks, however the interest paid generally more, closer to 2%. Internet banks tend to have a lower opening deposit and minimum balance requirements.

How many checks you need to write per month is another one. If you use your account to pay your bills, chances are you'll write a lot of checks each month. An Express Account may be the best option for you. However if you're using your account as a savings account, you may do better with a Money Market account. You'll have more restrictions on the number of checks you can write, however your money will be earning more each month.

Also, consumers should consider the total number of accounts they need and the services required. If a consumer has multiple accounts with one institution, that may entitle them to a discount on some of the services they're using.

Consider Interest, and Avoid Fees

Checking and savings accounts typically offer the lowest yields available. The average interest bearing checking account pays only .27%. This is certainly not enough to be considered an investment; in most cases it doesn't even cover the costs of having the account.

However there are other options available for consumers that are looking to earn more on their savings as an investment. A **Certificate of Deposit (CD)** is generally going to give a higher APY but the money needs to be kept in the bank for the specified period of time. This generally ranges from three months to five years or more, depending on the terms. The average APY on a one-year CD is 1.71%, that's not a substantial amount considering the money needs to be kept in the bank, untouched for the entire year. The good part is if the interest rates go down over the year, you'll still get the 1.71%. However, if the rates increase, you're stuck with the lower rate. Of course the longer the term, the greater the return but if you need to withdraw funds from the CD early, there's a penalty. For a consumer that is looking to make a larger deposit, there is a Jumbo CD, which requires \$100,000 or more. This of course will yield more interest, however the deposit is only insured up to \$100k, anything more is at risk. When deciding on whether a CD is right for you; make sure you know whether or not the interest is fixed or variable and if the interest compounds daily, weekly, monthly, yearly etc. These variations will vary the amount of your return.

Also available are **Money Market Deposit** accounts, generally referred to as a Money Market account. The Money Market account takes the amounts that you deposit and invest them in short term loans to corporations and government agencies. The minimum you need to keep is generally between two and three thousand and in some cases you're allowed to write checks against the deposit. The check writing is usually restricted, both in the minimum amounts that the checks can be written for and the number of checks that you can write. With all the restrictions that are placed on it, the Money Market account is generally free to maintain.

On any interest bearing account offered by banks, the rates change often. Banks review the APYs that are offered weekly and adjust them, as they deem appropriate. The rate that you had when you opened your account could be substantially different within a month. You'll want to look at how the interest is compounded. A bank is able to quote interest that compounds daily, weekly, monthly or annually. The more the interest is compounded, the more earning potential your money will

have. A lower rate that compounds daily or weekly potentially could yield you more than a higher rate that only compounds annually. The APY is calculated the same everywhere and the bank should be able to quote you both the APR and the APY. Consider them both when choosing your accounts.

Ask for the definition of the word "free". Many banks claim "free checking" but it's not always what you're looking for. Such as a free no interest checking account if you maintain a balance of \$500, but if you want an interest bearing account your average balance might need to be at \$2500. At present the average interest rate on a checking account is at .27%. If you only need an average balance of \$1000 to \$1500 to pay your bills each month, then you need to keep an *extra* \$1000 in your account to avoid bank fees. The average cost on an interest bearing checking account is \$20 per month if the minimum balance is not met. The .27% APY on the average balance of \$2500 is only \$6.75 annually. On a monthly basis, you're earning .56 cents. That extra \$1000 that you need to keep in your checking account to avoid paying for it could earn you three times as much annually in a certificate of deposit.

One way to work around this situation would be to see if your bank would link your accounts together. If you have a savings account, checking account and a CD, and if the bank links the accounts and considers the total balance as one, then you can work around needing to keep the full \$2500 in just your checking account. You can still receive a higher yield on the CD and earn the .27% on your checking account.

Many banks offer a free checking account if you are willing to have your paycheck directly deposited into your account. A lot of consumers choose to do this anyway so if your bank doesn't mention it, ask. It's not a bad thing to ask for benefits or discounts, the worst the bank can say is "sorry, we don't offer that". Direct deposit may earn you free checking, however it also adds other aspects to think about. If your check is deposited into your account, you now need to withdraw funds to live on. Many ATMs have surcharges if they are not your bank's ATM. To avoid the average \$2 to \$3 charge for using another bank's ATM, make one trip to your bank to withdraw the cash you need, or when making a debit card purchase, ask for cash back. This can help to cut down on the expense of accessing your money.