READING

Managing a Checking Account

Introduction

John goes to the ATM to withdraw money two or three times a week from his bank account. His bank charges $1 for each **transaction** or use of the **ATM** (Automatic Teller Machine). While two or three dollars is not a large amount, by the end of the year John has spent almost $156 in ATM fees. John could consider finding a new bank that has no ATM fees, but he might not be aware that **different banks have different checking account policies**.

Eight out of ten adults have a bank or **checking account**. Checking accounts are popular because they offer people easy access to spend or save their money. It is helpful to shop around for a bank account that offers the most benefits with the least amount of fees or penalties. To choose wisely, there are basic elements and policies that are valuable to know.

Account Basics

A checking account allows people to make **deposits** (place money) in the account and to make **withdrawals** (take money) from the account. Each of these actions is called a **transaction**. The daily total of deposits and withdrawals results in a **daily balance**, which is the amount of money that is left in the account at the end of the day. Banks also provide protection for a depositor's money. The **FDIC** (Federal Deposit Insurance Corporation) provides banks with a federal insurance policy to safeguard a depositor's money up to $100,000.

Withdrawals from a checking account can be made in person at the bank, by **check**, with a **debit card**, or through an **app**. Banks allow both **automatic withdrawals** (also known as Electronic Funds Withdrawals) and **automatic deposits** for the convenience of account holders. Apps like Venmo, PayPal, or Apple Pay also can be tied to the bank account for automatic withdrawals. An example of an automatic deposit could be the repeated monthly deposit of a paycheck. Automatic withdrawals are usually reserved for recurring charges such as a monthly bill.

Checking Account Fees

Some banks require the customer to open an account with a certain amount of money, called the **minimum deposit** or the **minimum balance**. This set amount of money is the smallest sum allowed to open an account. Banks may charge a fee if the **balance** (amount of money) in the account falls below a certain sum. Banks may also charge a **monthly service fee** for maintaining the account.

The costliest fee is the **overdraft fee**. Almost all banks will charge an overdraft fee if more money is spent than is in your account. Typically, this fee will amount to $30 or more per overdraft. This means that each time the bank receives a withdrawal request from a retailer and the account holder does not have enough money in their account, the bank will charge that account holder another overdraft fee. Overdraft fees can accumulate quickly and become costly. The bank may also reserve the right to close the account for having **insufficient funds**, should the account holder fail to deposit additional money to address the withdrawals.

Managing an Account

It is understood by the bank that the account holder is responsible for keeping enough money in their checking account to address all withdrawals. Tracking the balance daily helps avoid unexpected monetary surprises or potential overdraft fees. Research shows that those who are not aware of their daily balance spend more. Banks offer the convenience of **online banking**, where the customer can keep track of their daily **transactions** (withdrawals and deposits).

Before online banking, customers tracked their daily balances using a paper **check register**. Check registers remain viable and useful for some account holders because they allow an account holder to double-check the balance and ensure that the bank has not made errors when calculating the balance online.

Some banking policies state that a late day withdrawal or deposit may not be **posted** (listed) to the account until the following day. If checking account funds are running low and there are still outstanding withdrawals that exceed the daily balance, it may be difficult to make a deposit quickly. Banks also do not post transactions on days they are closed, such as federal holidays and Sundays. If the account holder relies solely on the accuracy of online banking, the latest withdrawals or deposits may not be listed. Tracking the balance of the account by using a paper check register or a digital app can provide the most up-to-date information for the customer.

If using a paper check register seems impractical, the customer may choose from several apps that support money management and can be tied to the individual's checking account. Mint is one example of an app that not only balances your checkbook, but also creates a budget to track spending. The Clear Checkbook app manages a personal checking account and categorizes spending. There are many types of digital supports that offer the individual consumer a way to track and manage spending and saving accurately.

Mismanagement

An account that frequently has insufficient funds may create far-reaching negative consequences. If the account holder needs a large amount of money for a loan, the bank may refuse the loan based on the individual's inability to maintain a positive balance. Retailers who have had checks or withdrawals declined or returned by the bank may refuse to do future business with the account holder.

Frequent financial neglect can impact the consumer's **credit rating**. If an individual is considered a financial risk, then the lender may charge a higher interest rate or not loan them money at all. Retailers may not issue credit cards to them based on poor credit ratings or a poor **credit history**. Retailers also base credit card interest rates on the credit rating of the applicant.

Checking accounts provide an individual with an easy and practical way to conduct their financial business. Banks or credit unions can provide accessibility and features that assist the account holder in this effort. If you familiarize yourself with your bank's checking account policies, this can help you to avoid money mismanagement, costly fees, or even long-term financial difficulties. Managing a checking account takes time, persistence, and daily awareness.

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