



# Choosing and Balancing a Checking Account

Marquis looked up in the sky to see the signs the planes were towing. It was his first day on campus as a freshman at State U. All around him students were walking toward the big welcome party on the oval. Now he could read the signs: “Free Checking–Earn Rewards.” Another one said “EZ Check Cashing.”

He could smell burgers being grilled. Walking up to the booth, he found a very pretty young woman handing out a free lunch to everyone who applied for a credit card. Marquis was just 18 and a student. He wondered, why were so many companies trying to give him credit and banking services?

## Here's what to look for when shopping for a checking account.

- **Minimum balance:** Find out what minimum balance the account must have, and what happens if your account falls below that minimum balance.
- **Fees:** Does the account cost a monthly fee? A cost per check? A cost per online transaction?
- **Overdraft Fees:** How much does the bank charge, per check, for overdrawn balance?
- **Interest:** Does the checking account pay you interest on your balance?
- **Location:** Is there a branch and an ATM close to you?

## Banking ABCs

Banks provide traditional banking services such as checking accounts, student loans, and ATMs. Banks will cash checks for no fee if you are a customer. In the computer exercise of the lesson, you will see that check cashing services charge money for this. Will you pay a fee to get money from an ATM not owned by your bank? Check it out before you open your account.

While you can't get your own checking account or credit card until you are 18, you can get these from a bank if you get a joint account with a parent. Once you are 18, the parent can be removed from the account, and you will hold it on your own.

Often banks where you and your family have other accounts will give you a better deal. For example, if you need to cash a paycheck for \$300 and you only have \$200 currently in your account, you can only draw \$200. But if your family has money deposited beyond what you want to cash, the teller can waive, or disregard, that rule.

### Main Idea

Your checking account is the way you pay bills and save money. It is essential to plan ahead for money needs. Don't get stuck in a payday loan trap!

### After completing this lesson you will be able to:

- fill out a checking account application
- write a check
- record a check and a debit in a checking account register
- figure out the real cost of short-term loans

### Key Terms

- ATM
- Balancing a Checking Account
- Bank
- Bank Statement
- Basic Checking Account
- Check
- Check Cashing Service
- Check Register
- Debit Card
- Direct Deposit
- Fees
- Interest-Bearing Checking Account
- Overdrafts
- Payday Loan

## What Is a Credit Union?

A bank is different from a credit union in that a bank is open to the public, while a credit union takes customers only from member groups. Your parents' workplaces, charity group affiliation, or even your college may entitle you to credit union membership. Generally, credit unions perform the same functions as banks.

## Checking Accounts for Newbies

You've gotten your first checking account. You earn 5% on your balance as long as you stay above \$200. You are excited to have gotten such a good deal. Now you are at the university bookstore buying your textbooks. You make it to the front of the line, and you have your checkbook out. Suddenly you realize you have no idea how to write a check.

The cashier helps you. She has you write the date on the "Date" line,

The image shows a sample check form with the following fields and text:

- Your Name:** Any Street, Anytown  
Tel: (001) 555-0000
- DATE:** \_\_\_\_\_
- PAY TO THE ORDER OF:** \_\_\_\_\_
- \$** \_\_\_\_\_
- 100 DOLLARS** (with a security icon and text: "Security features Included. Details on back.")
- Any Bank:** Any Street, Anytown  
Tel: (001) 555-5555
- MEMO:** \_\_\_\_\_
- MP** (in the bottom right corner)
- MICR Line:** ⑆001⑆ ⑆00002⑆003⑆ 4567⑆890⑆

*A check is a piece of paper from a bank or financial institution that is used to pay a specific amount of money from a specific bank account held in the depositor's name with that institution.*

and the business name, University Bookstore, on the "Pay to the order of" line. She tells you to write the amount of the check in dollars and cents inside the little box. "Always squeeze the numbers to the left of the box so the number is right next to the dollar sign," she says.

The long line with "Dollars" written next to it, what could that be for? The cashier helps you out again. "Spell out the numbers in the amount on the line, and use the word 'hundredths' after the amount of cents," she says. "Don't forget to sign your name on the line in the bottom right corner."

## Points, Rewards, and Free Stuff

The spending habits you make now will be with you your whole life. Banks and credit card companies know this, and they want to get you hooked on the thrill of buying new stuff.

If you get a "Rewards" credit or debit card that gives you points based on dollars spent or transactions made, you are likely to feel you are getting something for nothing every time you swipe your card. That little buzz could get you hooked into a revolving credit lifestyle!

Instead, pay yourself "points" by saving your money every time you hear yourself think, "I'll buy this to earn more rewards."

## **How Do I Open a Checking Account?**

Opening a checking account is as easy as going into a bank with money. Usually, a bank officer will sit across the desk from you and type in your information to open the account. They will need your address, both to be printed on your checks and for shipping your checks once they are printed. They will need your Social Security Number and money to deposit. You can use your first paycheck to open your account, or your parents can write you a check to open the account. Opening amounts vary, but can be as little as \$50.

## **Checking Account Options**

Checking accounts can come with or without interest paid on the balance by the bank. Checking accounts may or may not have a monthly fee. They may have an overdraft fee, and there may be an option of overdraft protection on the account. Overdraft protection is like a credit card that you don't use until your checking account gets a negative balance. There can be a monthly or annual cost to have overdraft protection, in addition to the interest charged to you for all money borrowed this way.


You will have to watch your own usage to find out the best deal for you. If you always keep your checking account balance above a certain level that is comfortable for you, then interest-bearing or free checking is probably right for you. If you seem to skate close to the bottom of your account, it would probably be worth it to apply for overdraft protection.

## **Balancing Your Checkbook**

Every month, it is essential to balance your checkbook when you get your statement in the mail from your bank. Why? Banks can make mistakes. A teller can mistype numbers in the amount of a deposit, and an automatic check reader can misread a number in a check you wrote. The only way to find these errors is to check off each check you wrote against the corresponding amount on the bank statement. Then do the same thing for every deposit you made, and again for each ATM withdrawal.

The bank statement will have items that are not in your check register, and you should write these down. Such items as bank fees, overdraft charges, and interest charges should be written in the register column where you write your check amounts. Interest paid to you should be written in the register column where you write deposits.

To balance your checkbook, take the Ending Account Balance from your bank statement, usually at the top. You will subtract any checks in your check register that have not been marked as cleared. Add any deposits that have not been marked as cleared. This amount, then, should match your balance for the end of the month in your check register. If there's a difference, it should be the adjustments for the items that were on the bank statement (and not in your check register) such as interest and bank charges. If you correct for these and the balance still does not match up, you can always get help from your bank branch. They will reconcile your statement for you, and if they have made an error, they will fix it right away.



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Jane Doe  
Account Number: 2044  
Statement Date: 3/28/2010

Beginning Balance	Credits (+)	Debits (-)	Ending Balance
\$5,491.56	\$950.96	\$1,113.00	\$5,329.53

Description	Debits	Credits	Date	Balance
SuperMarket, Inc.	370.00		3/2	5,121.56
Wages Direct Deposit		237.74	3/6	5,359.30
City Bus	60.00		3/6	5,299.30
Wages Direct Deposit		237.74	3/13	5,537.04
City Property Mgt	552.00		3/19	4,985.04
NRG Electric	95.00		3/19	4,890.04
S&W Insurance	36.00		3/19	4,854.04
Wages Direct Deposit		237.74	3/20	5,091.78
Wages Direct Deposit		237.74	3/27	5,329.53

*When you have a checking account you will receive a bank statement at the end of every month. Your bank statement is a record of all the activity in your checking account such as deposits, withdrawals, debit card transactions, and fees.*

## The End of the World (Or, I Bounced a Check—Now What?)

Bouncing a check is an inconvenience, and a costly one. Not only do you have to pay an overdraft charge for every overdrawn item, but your bank also has the choice to either honor or reject a check that sends your account into negative territory. If they bounce the check, you will probably have to pay a fee to the business to whom you originally wrote the check, and have them resubmit the check for payment. Make sure you have enough money in your account to cover the resubmitted check, or you could end up paying the overdraft charge twice for the same check! No fun.

## ATM Cards and Electronic Banking

Most checking accounts come with the option of having either an ATM check card or an ATM debit card. An ATM check card can be used only to withdraw money from your account using an ATM. An ATM debit card, in addition to allowing ATM withdrawals and deposits, will allow you to purchase items in a store with the purchase amount being from your account.

The risk of an ATM debit card is that a bank will allow you to overdraw your account. You may think your account is fine because a transaction went through, when actually your account is overdrawn, and every transaction is costing you a new overdraft charge! An ATM check card will not allow you to withdraw more money than is in your account.

Electronic banking means you can check your account balance online, as well as any cleared transactions. You can also see images of checks that

have cleared. Banks used to send you the actual check you wrote with your monthly statement, but now they simply scan the image of the check and make it available online for you to view. This feature allows you to read any check you may have forgotten to note in your checking account register.

## Summary

Banks and credit card companies want young people as customers because it is likely they will stay with that bank for a lifetime. Opportunities are everywhere to spend money, but saving it can be more of a challenge and takes real ingenuity. One way to save money is not to spend it on service fees and overdraft charges. Another way is only to buy what you actually need, and never buy something just to earn “points” or “rewards” on your purchases.

Balancing a checkbook is an important monthly task, and it is also a good idea to check your balance online weekly. Bouncing a check has happened to everyone at one time or another, but it should be a wake-up call to take steps never to let it happen again. Even planning ahead by having your paycheck directly deposited and avoiding check cashing services for a fee can help you save money.

## Key Terms

### **ATM**

Automatic Teller Machine—a bank machine that gives out cash from your account and accepts deposits around the clock.

### **Balancing a Checking Account**

Calculations that are made to determine the difference between the payments from, and the deposits to, a checking account.

### **Bank**

Financial institution at which you can get a checking account or savings account.

### **Bank Statement**

Monthly printout from your bank that shows all transactions in your accounts.

### **Basic Checking Account**

A no-frills checking account that offers a low minimum opening deposit and reduced fees for students.

### **Check**

A debit against your checking account written on a paper form.

### **Check Cashing Service**

Business that charges a fee to cash a check such as a paycheck. Banks will provide this service for free to their customers.

### **Check Register**

The book in which you keep records of checks, deposits, debit card transactions, and ATM withdrawals.

### **Debit Card**

Like a credit card, but directly attached to a checking account, and can be used with a PIN to pay for items at a store.

### **Direct Deposit**

An automatic deposit of a paycheck without having to take a physical check to the bank.

### **Fees**

Service fees for use of the checking account, built into the service agreement.

### **Interest-Bearing Checking Account**

A checking account that pays interest on the balance.

### **Overdrafts**

Amounts withdrawn from your account beyond the money the account held.

### **Payday Loan**

A loan where a borrower gets a cash advanced based on his paycheck. These loans generally must be repaid on the next payday.