# BANKING 101

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You have a number of ways to save your money, invest your money and to keep your money safe. The best thing for you to do is educate yourself and do the proper research to find the options that will benefit you personally and financially.

## How to Choose a Bank

A bank offers you services such as checking accounts, savings accounts, credit card services, car loans, home loans, business loans and other financial assistance – but you should always remember that a bank is a business. Banking is not free.

First figure out what you want out of the bank you choose. Do you want a simple savings account; or do you want a savings account, checking account and access to ATM machines?

Check out the different interest rates (the rate that is paid to you for the use of your money while it's in the bank) and make sure they are competitive with other banks. You will also want a bank that is located close to your home or place of employment. Investigate what types of fees they will charge you – is checking free, what is the overdraft penalty if you write a check without sufficient funds in your account, what is the minimum balance requirement?

Also, visit the banks you are interested in doing business with. The staff should be professional and courteous. Ask your friends and family where they bank and if they are satisfied with their banking experience. This is a big decision and you don't have to give your money to a financial institution that has poor customer service or limited hours of operation.

A quick word about ATM cards – yes, they are convenient but you will be charged a fee if you use an ATM that does not belong to your bank. Be sure to find out where your bank's ATMs are (and if they are convenient to use when you are shopping or away from home) and use those machines instead of the one's that will charge you a fee.

***Tip*** *– If you need cash and are out shopping and don't have access to an ATM that is associated with your bank, ask for cash back when you make your purchases with your debit card. There is no charge.*

## Credit Unions

You may also want to research credit unions. A credit union is a cooperative financial institution, owned and controlled by the people who use its services. The difference between a bank and a credit union is that credit unions are non-profit institutions and are not in business to make a profit like regular banks. You should make certain that the credit union you are researching is convenient for your banking purposes.

## The Different Types of Accounts

**Savings accounts** actually pay you for keeping your money in the account. This is where the interest rate comes in. If you are not going to use the money on a daily basis, because you are

saving for a new car or for school, then this would be your best bet. You don't need a lot of money to open up the account and it is a safer place to keep your money compared to hiding it in your closet or some other secret place that does not pay you interest. You can also withdraw your money at any time.

**Checking accounts** allow you to deposit money and withdraw money from a protected account. Generally speaking, a checking account enables you to use personal checks in place of cash to pay debts. You can also use electronic debit cards or ATM cards to access individual accounts or make cash withdrawals.

Remember, you are responsible for your checking account and for keeping track of your available funds, although every month your bank will send you all the checks you used or a list or copies of the checks. You can treat these checks as receipts if you are having problems over whether or not you paid a bill. If you did, you will have the check as proof of payment. Also, you must have enough money in your checking account to cover the checks you are writing. Checks are not just paper, they represent real money and if you write a check for an amount higher than your available balance, you will pay the consequences in the form of numerous fees and possible legal action.

## What is a Check?

Simply put, a check is a way of communicating with your bank by informing them of what you want done with your money. When you write a check, you are letting your bank know that you want to transfer a specific amount of money from your checking account to another person or an organization. You can also write a check to convert some of the money that you have in your checking account into cash.

When you fill in the blank spaces on one of your checks, you are notifying the bank as to the amount of money that you want transferred and to the specific person, company or organization that should receive it. Once you sign the check you have given the bank authorization to do what you instructed on the check. It is simple and convenient. Another reason why checks are so common is that people can use a cancelled check to prove that they paid a bill.

A money market account is simply another type of savings account. The difference is that they usually pay higher interest rates, which is good for saving your money over a long period of time, but they also have higher minimum balance requirements (sometimes $1,000-$2,500). Money market accounts usually only allow three to six withdrawals per month and will charge you a fee if you withdrawal more than that allotted amount.

As with a checking account, your bank will send you a statement each month of your account either in the mail or by e-mail if you prefer. This statement will list all of your transactions as well as any fees charged to your account and interest your money has earned. In order to make sure you didn't forget to

write down any withdrawals and/or deposits you should go through each entry in your register and compare it with the bank statement. You should also spend the extra time to look over the bank's records to make certain that the bank did not make any mistakes regarding your account.

## How to Open an Account

In order to open an account, you must provide some information to the bank. They do not open bank accounts without certain details about you. This is to protect them against risk and to comply with a variety of regulations. You'll need to provide simple details like your name and birthday, as well as identification numbers (in the U.S. this is most likely your Social Security Number). You may also need to provide a government ID or Driver's License number.

If you're doing this online, which may be more convenient for you, you'll simply type the information into a secure textbox. If you open bank accounts in person you can hand your ID's over to the banker who will probably make photocopies.

## Electronic Banking

Electronic banking uses computer and electronic technology as a substitute for checks and other paper transactions. Many people think of electronic banking as 24-hour access to cash through ATM's, a way of paying their bills without having to go to the bank or receiving paychecks, which are deposited directly into checking or savings accounts.

**Here are some of the basics of electronic banking:**

**Automated Teller Machines or 24-hour Tellers** are electronic terminals that let you bank almost any time. To withdraw cash, make deposits, or transfer funds between accounts, you generally insert an ATM card and enter your personal identification number (PIN). Remember, if the machine you are using is not associated with your bank, the ATM may require a surcharge, or usage fee (which can be up to two or three dollars or more). This applies to those who are not members of the specific banking institution or on transactions at remote locations. The ATM must reveal that a surcharge will be taken out of your account on the terminal screen or on a sign next to the screen. Check the rules of your institution to find out when or whether a surcharge is imposed.

**Direct Deposit** lets you authorize specific deposits, such as paychecks and social security checks, to your account on a regular basis. This is very convenient and you should check with your employer to see if they offer this service. If so, take advantage of it. You will not be stuck carrying around a pay check or waiting on long lines at the bank to deposit it. You also may pre-authorize direct withdrawals so that recurring bills, such as insurance premiums, mortgages, and utility bills, are paid automatically.

**Personal Computer Banking** allows you to conduct many banking transactions electronically by using your personal

computer. This is another benefit of electronic banking – you can do most of your transactions from the comfort of your home or office. An example is that you may use your computer to view your account balance, request transfers between accounts, and pay bills electronically.

**Pay-by-Phone Systems** allow you to telephone your financial institution with directions to pay certain bills or to transfer funds between accounts. You must first have an agreement in advance with the institution to make such transfers.

## How can you invest Your Money?

**Certificate of Deposit Accounts (CD)** are a place to put your savings for a fixed period of time – until the CD matures, which can range from only a few weeks to several years. The longer the time period for maturity, the greater the amount of interest you will receive on your money. Keep in mind that you cannot touch this money as you could in a savings account or other accounts, so you should be positive that you can live without the money you invest in a CD. Also there are no check writing privileges on the money; once it is invested, it is there for the duration.

**Savings bonds** are a way for the government to collect money. Just like individuals and large corporations, the government needs to borrow money occasionally. In essence you are loaning money and the government is agreeing to pay the money back at a fixed rate of interest over a fixed period of time. The purchase price is one half of the face value of the bond. For example, a $100 bond costs $50.

Bonds are great for protecting your principal, saving for a child's education, giving as a gift, or generating tax-deferred income for retirement.

**Traditional Individual Retirement Accounts (IRA)** are unique in that they allow you to make tax deductible contributions. Your money, through the account, can be invested in stocks, bonds, mutual funds, and other financial vehicles, and the earnings grow tax-free until you turn 59 1/2 years old. When you turn that age you will be allowed to start withdrawing money from the account to help with your retirement. If you withdraw money before you turn 59 ½ years old, you will be penalized 10%.

**With Roth Individual Retirement Accounts** you will not receive the income tax deduction. If you happen to need some money from your account, you could withdraw the principal at any time (although, you will pay penalties if you withdraw any of the earnings your money has made). The appealing thing about the Roth IRA is that when you reach retirement age, you will be able to withdraw all of the money 100% tax free.

Unfortunately, there are requirements to be met in order to quality for a Roth IRA. You can easily educate yourself on these requirements by searching the web.

IRA's can be opened through a bank or brokerage house. Make sure that you research your options before you open an account. You may need a broker if you are interested in holding

stocks or bonds in your IRA.  Another good thing is that an IRA account is easy to open.

When it comes to your money you should be diligent and informed, not nonchalant. Your money deserves your attention and respect – after all, you earned it and should want to maximize its potential.

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