Opening your Checking and Savings Accounts

Section I: What are checking and savings accounts?

Put simply, checking and savings accounts are two types of bank accounts. They're places where you can store and save your money securely.

A checking account is where you store money that you'll need in the near future. Funds for rent, groceries, or the movies, to name a few examples, should go in your checking account.

A savings account is where you save money for emergencies or big purchases in the distant future. Funds you can use if your car breaks down or when you want to buy your first house should go into your savings account.

Section II: Why is it important to have checking and savings accounts?

It might seem a bit counter-intuitive to put the money that you earn somewhere other than your home. Why not just store it under your mattress or in some store-bought safe? As it turns out, there are many reasons, and the first is security.

Storing large amounts of money in your home or on your person is risky. If an unfortunate event occurs-- someone breaks into your house or a natural disaster sweeps through your neighborhood-- your funds could disappear, and you likely won't have a way of getting them back.

It is much safer to store your money in bank accounts. For one thing, banks (and other institutions, like credit unions) protect their clients' funds with multiple and advanced security measures. They also insure all accounts. That way, no matter what happens to your bank, you won't lose your money.

Safety aside, much of the world operates as if you have bank accounts. For example, you must pay important bills, like rent, with a check. Checks pull funds from checking accounts, so to pay bills, it's easiest to have a checking account. As another example, employers pay their employees through checks or direct deposit. It is complicated (and can cost you money) to cash a paycheck without a checking account. Direct deposit, the most convenient way to get paid, *requires* that you have an account to which your employer can transfer funds.

Having a savings account is important for many reasons. First, it encourages you to put money away for emergency expenses (like paying for car repairs or for a hospital visit) and big, significant purchases (like buying your first house). Second, when you have your money in a savings account, you actually earn interest on it. Interest is a small percentage of your balance that the bank pays you as a reward for having money in your savings account.

Section III: Where should I open my accounts?

Chances are you're familiar with some of big, national banks like Wells Fargo or Bank of America. You could definitely open accounts at institutions like these, but did you know that you have other options? It's good to do some investigating before you choose where you're going to open your checking and savings accounts. Different types of institutions offer different perks. A few guidelines are listed below to inform your research process.

First, when researching, be aware that the types of institutions at which you could open checking and savings accounts largely fall into four categories:

1. **Big, National Banks**: These are the names you're likely to see no matter where you travel, including Wells Fargo, Bank of America, TD, PNC, and Chase.

2. **Local Banks**: These banks are specific to a community. You will see branch locations and ATMs for these banks in a specific city, town, or area. Their names will usually reflect the community in which they're situated, eg., Asheville Savings Bank.

3. **Credit Unions**: These are non-profit organizations that provide a lot of the same financial services as banks. People that have accounts at credit unions are members of that union.

4. **Online Banks**: These are banks that have no physical locations, but that offer many of the same services as physical banks.

Each of these types of financial institutions has a unique set of pros and cons. When researching them, you want to pay especially close attention to the **fees** and **interest rates** associated with the accounts they offer. It is important to note, as well, that each institution offers a number of different accounts.

<u>About Fees:</u>
It's good to be aware of the kinds of fees that financial institutions charge. That way, you can learn how to make choices to keep them low. Here are some common kinds of fees:

1. **Maintenance Fees:** These are fees for having an account. You can avoid them either by finding an institution that offers, "free accounts" or though "fee waivers". "Fee waivers"

are forms you can fill out to avoid paying maintenance fees. Note: Usually, you have to qualify for a “fee waiver”, but this isn’t hard to do.

2. **Overdraft and Insufficient Funds Fees:** These are fees for using money in your account that isn’t there. Say you have $5 available in your checking account, and you try to take out $20. Your bank will provide you with the $20, but you’ll owe the $15 and then an extra $35 or so in fees. You can avoid this by making sure the institution you choose can turn off “overdraft protection.” That way, you won’t be able to withdraw more than you have.

3. **ATM fees:** Institutions often charge a “foreign ATM fee” if you withdraw money from your account using an ATM that isn’t associated with your bank or credit union. This is easy to avoid by learning where your institution’s ATMs are located or which banks they are partnered with. (When one bank partners with another, for example, you can usually use either ATM without a fee.)

<u>About Interest Rates:</u>
When it comes to opening a savings account, try to find one with a good interest rate. An interest rate is the percentage that an institution pays you over a certain period of time on the balance in your account. The average interest rate is 0.06% per year. But some banks offer more, which can make a big difference!

To demonstrate this how interest works, imagine that you have $8,000 in your savings account at the end of the year. If the interest rate on your account is 0.06% per year, then you will earn $4.80 on your account.

Now that you know a little more about interest rates and fees, here are some general pros and cons associated with each of the four types of financial institutions listed above:

(Note: These are general trends. Be sure to research individual banks to learn more about their offerings.)

Type	**Pros**	**Cons**
Big Banks (Wells Fargo, Bank of America, etc.)	● Offer every type of service you will ever need ● You can get fees waived ● Lots of ATM and Bank locations nationwide	● Fees are usually high ● Interest rates on savings accounts are usually pretty low
Local Banks (Specific to a	● Offers almost every	● Bank and ATM

community)	service you will ever need ● Fees tend to be reasonable, waivers are often available ● Sometimes offer “specials” on interest rates	locations are usually restricted to one area, although it is possible that your local bank partners with other banks
Credit Unions	● Not-for-profit! ● Fees tend to be low ● Free accounts are easier to find ● Interest rates tend to be high	● You must qualify to be a member (this often isn’t hard, though) ● Branch and ATM locations are limited, but many credit unions participate in shared branching, that way, you can visit another credit union’s if you need to make a withdrawal
Online Banks	● Offer free checking and savings accounts ● Fees tend to be low ● Offer some of the highest interest rates on savings accounts	● No physical bank or ATM locations, which can be problematic (they often participate in bank networks, though).

IV. How do I actually open my checking and savings accounts?

So, now you know what to look for when choosing a financial institution at which to open your accounts. The next step is to go ahead and open them! You’ll need a few things:

1. Identification. This should be a government issued ID (driver’s license, passport, military ID, etc.)
2. Your social security number (or something similar to it)
3. Your physical address
4. Money for an initial deposit

If your bank has a physical location, then you can visit the location itself to open your accounts. If you have chosen an online account, you’ll have to do everything yourself on the computer.

Many banks offer lots of different kinds of checking and savings accounts. You should choose the ones which make the most sense based on the fees and interest rates associated with them. Once you've done that, you provide your information, either to a banker or online. Then, you agree to the terms of your accounts. These outline the rules that you must abide by when using your accounts. These should be read carefully. Here's a few reasons why:

1. You need to double check what the fees are.
2. You need to know when you can start taking money out of your accounts once you've opened them.
3. You need to make sure you know whether "overdraft protection" is on or off.

When in doubt, ask lots of questions. That's what bankers are for! Once your accounts are open, you will receive:

1. Account Numbers: Banks and credit unions use these numbers to identify your accounts.

2. A Debit Card: This card is linked to your checking account. You can use it to purchase things with the money in that account. It also allows you to use ATMs.

3. A Checkbook: Like your debit card, the checks in your checkbook are linked to your checking account. You can use them to pay for things with the money in that account.