Banking 101

Whether you're just opening your first bank account – or your first American bank account – or have had one for years, you may never have thought about why it makes sense to have a bank account. You just opened one.

Now that there are alternatives for getting cash and paying bills, that question becomes more interesting. Given the possible fees and annoyances of having a bank account, do you really need one? Read on to explore this question.

Why Use a Bank?

If you are new to banking – or have lived in countries where the banking system is untrustworthy – you might be wondering why you would want to use a bank at all. It's certainly easier than ever to get by without a bank account.

Prepaid debit cards make it possible to shop online and in stores – and even pay bills and withdraw money from ATMs – just like someone who has a bank account. (See *How do prepaid debit cards work?*) The IRS will deposit your tax refund to a prepaid debit card and many employers will load your paycheck onto one (though this option has many drawbacks).

Online services like PayPal and Venmo let you send and receive money without a bank account. You can also operate on an all-cash system by cashing your paycheck at Walmart or a check-cashing store, then paying your bills in person at a Walmart Money Center or at a check-cashing store. (For related reading, see *How to Find the Right Prepaid Debit Card*.)

However, if you meet the basic qualifications to open a bank account, you might appreciate the many benefits of a bank, starting with keeping your money more secure.

1. Security

Storing all your money in cash at home isn't safe. Your home could be burglarized. Someone who knows you and knows that you keep your money at home – a child, relative or friend – could pilfer your stash. Burglars know most of the places people hide their money. Even worse, you could be robbed while you're at home.

If your house floods or catches on fire, your money will likely be destroyed, and homeowners insurance covers just a limited amount of lost cash. If you bury it in the backyard, the container you put it in could become damaged or start decomposing and destroy your money. You could also simply forget all the places you've stashed your cash. Did you tape that $100 to the back of the family photo in your bedroom, slide it into your favorite book on page 52 or hide it in an oatmeal canister in the back of the pantry? Keeping all your money in prepaid debit cards is also less secure than keeping it in the bank.

If you live paycheck to paycheck, the most you're ever at risk of losing or having stolen is the amount of your last paycheck – a sum you clearly can't afford to lose if money is tight. Keeping your money secure is paramount. And once you have more than a few hundred dollars to your name, you'll want to protect your savings.

2. Convenience

When you have money in the bank, you can access it from anywhere – in person at your local branch, from the ATM at your grocery store, online, across town, even overseas. A checking account also makes it much easier and cheaper to pay bills – you'll no longer have to visit a store, check-cashing center or service provider's office to make payments, and you won't need to purchase a cashier's check or pay a transfer fee to send those payments.

Instead, you can use your bank's free online bill-pay service or – if you prefer to do things the old-fashioned and less secure way – you can write a check and put it in the mail, which is also free except for the cost of postage. (The benefits of using a bank to protect your money are similar to the benefits of using a credit union. For more, see *What Is a Credit Union*.)

3. Saving and Investing

Once you are earning more money than you need to get by each month, you'll want to go beyond a checking account and start saving and investing your money to give yourself more financial security.

With money in savings, you can handle irregular expenses like car repairs even if they don't fit into your monthly budget. A large enough emergency fund can tide you over during a period of unemployment. And once you have several months' worth of emergency savings, you'll want to transfer your extra savings into a retirement account.

You simply can't take advantage of the opportunity to earn money in the stock market or earn interest on deposits if you're only willing to keep your money under your mattress or on a prepaid debit card.

How to Choose a Bank

With a little common sense, most people won't have any trouble selecting a reputable bank. It's true that even big-name banks can fail (like Washington Mutual did in 2008), but FDIC insurance will protect your money in those situations. It provides $250,000 in coverage per owner, per account. So if you have a joint account with a spouse, a balance of up to $500,000 would be covered. (Learn more in *Are Your Bank Deposits Insured?*)

If you've come from a developing country that doesn't have deposit insurance, where you couldn't trust that your money was safe in the bank, the U.S. system should come as a big relief. As of June 30, 2018, there were 5,542 FDIC-insured commercial banks and savings institutions in the United States, according to the FDIC.

It's hard to make a major mistake when choosing where to bank, but some options are better than others in terms of convenience, fees and interest rates. Here are the key criteria to consider when deciding where to open your checking account.

1. Legitimacy and Reputation

First and foremost, you want to use a legitimate bank. Sticking with a large, widely known bank should be a safe bet. If you're considering a smaller institution – or if you just want to be extra safe – use the Bank Find tool at the FDIC's website to make sure the bank is a member of the FDIC, which means that your deposits will be insured up to FDIC limits.

Choosing a bank with a good reputation is a bit trickier. In 2016 Wells Fargo fired 5,300 employees who had opened 2 million unauthorized bank accounts for the bank's customers in order to meet sales targets and earn bonuses. Those customers then ended up paying fees on those accounts. The bank is now working to rebrand itself as "re-established 2018." Chase Bank has also paid hundreds of millions of dollars in fines and settlements in recent years related to bribing foreign officials, manipulating interest rates and other misdeeds. These aren't the only banks that have misbehaved on a massive scale, but they are the two best-known examples. You may want to do your research on reputation before committing to a bank.

2. Online Only vs. Brick-and-Mortar

One of the biggest decisions you'll need to make is whether to choose a bank that is entirely Internet based or one that has both a physical and online presence. Most banks nowadays have a strong online presence even if they started out as brick-and-mortar institutions, which means that regardless of which bank you choose, you will have access to features such as online bill pay, mobile check deposit and apps that let you bank anytime, anywhere from your computer, tablet or smartphone.

What are the main differences between online-only banks and banks where you can walk into a branch and talk to a teller? Generally, it's fees and interest rates. Because online-only banks have much lower overhead, they can pass those savings on to consumers by not having monthly maintenance fees or minimum balance requirements, and they can afford to pay a higher interest rate on savings accounts and certificates of deposit. Some of the big names in online-only banking are Ally Bank, Discover Bank and Capital One 360.

That said, community banks sometimes offer the same lower-fee, higher-rate advantages that online-only banks do while also giving you the option to meet with a banker face to face. You may also find low-fee accounts at a large traditional bank, so don't count them out without checking.

Consider what would make banking comfortable and convenient for you.

3. Location and Size

Most people who want an account at a brick-and-mortar institution want to use a bank that has a branch close to where they live and/or work so that visiting a teller and making deposits and withdrawals will be convenient. If you don’t travel frequently, this could be a large, national bank or a smaller regional or community bank. If you do travel frequently, you’ll want to do some research to see which banks have locations where you find yourself most often. You’ll want to have easy access to your money when you’re out of town, a real person to talk to face to face if you have any problems and no service charges for using out-of-network ATMs.

The other major consideration when it comes to size is that customer service may be better at smaller banks and that these banks take more of an interest in the local communities where they operate. There’s no universal rule, though, so if these factors are important to you, your best bet is to visit the bank in person and see what kind of experience you have.

If you choose an online-only bank, you’ll typically have access to a network of fee-free ATMs nationwide. Your bank may also reimburse you for a certain number of out-of-network ATM fees per month.

4. Fees

Some banks are free to use as long as you keep your account balance in the black, while others nickel-and-dime their customers with fees at every turn. Even small fees can add up over time and eat into your account balance, so look at a bank's fee schedule carefully and make sure you understand what you need to do to avoid them before you open an account there.

This advice holds true even if you sign up with a bank that advertises free checking; there are always fees somewhere. You may encounter fees for letting your balance fall below a certain threshold, not having your paycheck directly deposited to your account, overdrawing your account, using an ATM, requesting paper statements and even closing your account. (For more see *The Ins and Outs of Bank Fees*.)

Opening a Checking Account

If you'll mostly be using your bank account as a source of ready cash and to pay bills, what you need is a checking account. (You might also need a savings account if you want to use your bank for money funds; see below.) Except for some specialized free or low-income accounts, checking accounts generally let you make unlimited deposits and withdrawals, unlike the rules that limit the number of monthly withdrawals from savings accounts.

Before you spend too much time deciding which bank to use, you should first make sure you will qualify to open a checking account. Here's what banks generally need from customers.

- **Opening Deposit**
  The amount of money you'll need for an opening deposit depends on the bank you choose and the type of account you want to open. Plenty of banks will allow you to open an account with as little as $1, so if you don't have much to deposit, shop around. You're more likely to need a substantial opening deposit at a traditional brick-and-mortar bank than at an online bank.
- **Identification**
  To open an account in person, you'll need to provide identification such as a Social Security card, birth certificate, passport, driver's license or state identification card. To open an account online, you'll be asked to provide your date of birth, Social Security number and possibly your driver's license number, and the bank may follow up with requests for copies of supporting documents. If you are opening a U.S. bank account and are not a U.S. resident, you'll need one or two of the following: a foreign passport with photo, a foreign driver's license with photo, a foreign state-issued ID, an employment ID with photo, a college ID with photo, an alien registration card with photo, a permanent resident card with photo.

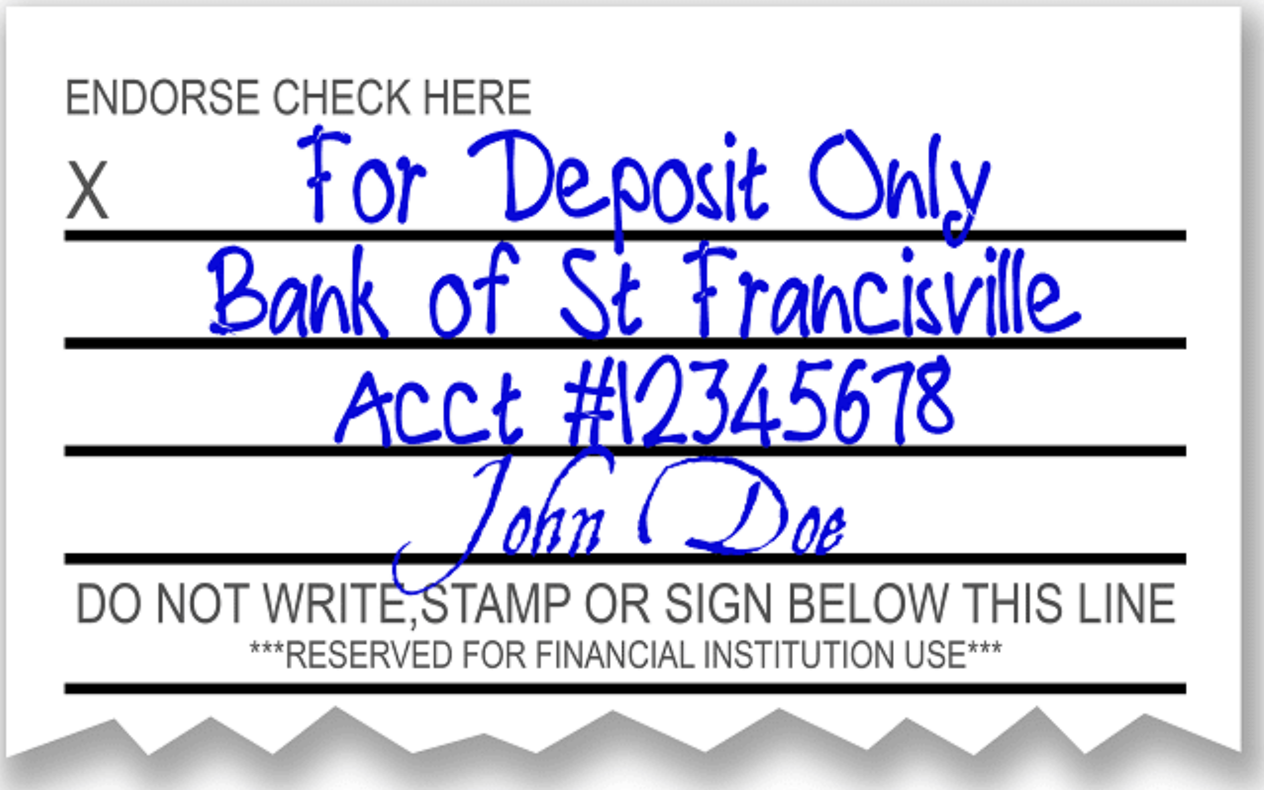
Also, you have to be at least 18 years old (or the age of majority, which is higher in some states – 19 in Alabama, for example) to open a bank account. If you're younger, you may be able to open a joint account with a parent or legal guardian.

6 Ways to Receive Deposits to Your Account

Making deposits is a key part of maintaining a checking account. If you don't make deposits, your checking account will run out of money. You won't be able to make payments or withdraw cash from it or buy anything using your debit card.

There are several ways to make a deposit, whether you're depositing a check or cash. But first, you'll need to prepare your deposit.

When you receive a check to deposit, flip it over. There are usually a few lines on one end of the check that say "Endorse Here." Sometimes you'll also see "Do not write or stamp below this line" – make sure to endorse the check above that wording, as shown here. You can sign your name first, or after you put in the other information.



Endorsing a check means signing your name on the back. The bank will reject any check you try to deposit that isn't endorsed. Depending on the bank and the deposit method, you may also need to write "For Deposit Only" and the number of the account in which you are depositing the check. If you're depositing cash, be sure you note down how much you're depositing.

1. Making Deposits in Person at a Branch

The old-fashioned way to deposit a check or cash is to visit a branch of your bank in person, wait in line and present the money to the teller along with a deposit slip, which is usually available at a stand near where the line starts. If you have a checkbook, you may find deposit slips with your checks. Here's a sample:

The deposit slips available at the bank will not contain any of your account information, whereas the ones that come with your checkbook will, saving you the effort of filling in your information on the bank's generic deposit slip. List each check by check number and amount where indicated on the deposit slip. If you're depositing cash, list the total amount on the line designated for cash.

When you reach the teller, you may need to swipe your ATM card and/or present your photo ID. Then the teller will deposit your money into your account and, if you wish, give you a receipt.

2. Making Deposits at an ATM

If you're making a deposit at an ATM, the process for endorsing a check is the same, but you won't need to fill out a deposit slip. And while you can withdraw money from any bank's ATM, you'll need to use one of your own bank's ATMs to make a deposit. If you use an online-only bank, you may be able to make deposits at certain ATMs. You can generally deposit both checks and cash at ATMs.

Insert your debit card in the machine and enter your personal identification number (PIN) to access your account. Follow the instructions on the screen to tell the system which account to deposit your money to. Next, you will usually key in the amount of your deposit. Some ATMs don't require this step because they will read your checks or count your bills when you insert them, then ask you to verify the amount before finalizing your deposit.

Depending on the ATM, you will then either put your deposit in an envelope before putting it into the ATM or you will put it directly into the ATM without an envelope. Get a receipt for your deposit in case there is a problem with the way it credits to your account – this is unlikely, but it's better to be prepared.

3. Making Deposits Online or by Smartphone

The most convenient and easiest way to deposit a check, once you get the hang of it, is to use your smartphone. Many banks have mobile apps that allow you to use your phone's camera to snap a photo of the front and endorsed back of the check, type in the check amount and tell the app which account to deposit the check to.

Making deposits online follows a similar process, except that you'll need to scan your checks or transfer photos of your checks from your camera or smartphone to your computer before you can upload them. Your bank will let you know how long you need to keep the paper checks After that time has passed, you can shred them.

4. Making Deposits by Mail

If you can't visit an ATM or a branch – and you don't want to deposit your checks online or using your smartphone – you can deposit checks (but not cash) by mail. You'll need to get your bank's mailing address for deposits, endorse your check and write "for deposit only" on the back to make it more difficult for someone to cash your check if they steal it from the mail. Enclose a completed deposit slip in your envelope.

Mailing deposits is the slowest way to gain access to your deposits since your check has to go through the mail before it can be processed by your bank and clear. There's a reason they call it "snail mail."

5. Receiving Direct Deposits

You can also add money to your account via direct deposit of your paycheck if your employer offers this payment method. This arrangement can make life easier for both you and your employer.

If you are paid by direct deposit, the funds should be available to you on payday. You won't experience the lag time that you would if you had to deposit a paper check. Some banks will waive monthly fees or offer other incentives if you have your paycheck deposited directly. Other types of payments that you can receive by direct deposit include annuity payments, dividend and interest payments, pensions, bonuses and commissions, Social Security benefits, child support payments and Veterans Administration benefits.

Direct deposits are conducted via automated clearing house transfer, more commonly known as an ACH transfer. This type of transaction is a way of sending money electronically. It often takes several days for the transaction to complete, but there are generally no fees involved. The sender can decide the date on which the payment will be available to the recipient – this is how you can get your money on payday without delay via direct deposit. To conduct an ACH transfer, you'll need to give your name, bank account routing number and account number to the company or institution you want to receive money from.

6. Transferring Funds Electronically from Another Account

ACH transfers can also be used to transfer money between financial institutions. If you have a checking account with a particular bank and a brokerage account with a particular investment company, for example, you can use ACH transfer to send money from your checking account to your investment account (or vice versa).

Here's another example of how you might deposit money to your account electronically: Suppose you have a PayPal account connected to an eBay seller account, which you use to earn money by selling toys, clothes and other items from your home that you no longer want. You might prefer to conduct all your banking activities from your primary checking account, so you first need to transfer the money you’ve earned from your PayPal account to your bank. You can do this online through the PayPal website or through the PayPal mobile app by providing your banking information.

You can also deposit money to your bank account after receiving money from friends, family or people you work for through an online payment service like Venmo, PayPal or Popmoney. Once the money is in that account, you can then transfer the money to your checking account. Sometimes there is a fee associated with these transactions.

Funds Availability

As a general policy, banks place holds on customers' deposits to protect themselves from fraud. When you look up your bank account balance at the ATM or online after making a deposit, you may see a difference between your account balance and your available balance. This lets you know that a deposit you've made hasn't cleared yet. It's extremely important to be aware of how your bank's deposit hold policy works so that you aren't penalized for trying to make a payment with money you don't yet have access to. The bank's hold policy will always apply to business days, not calendar days. A business day is any day that is not a Saturday, Sunday or federal holiday.

How long you'll have to wait to access deposited funds varies. According to the U.S. Treasury's Office of the Comptroller of the Currency, a bank has some flexibility in the hold times it imposes on deposits: It can make them available immediately, or it can delay deposit availability up to the maximum length of time prescribed by law under federal regulation CC. There may also be cutoff times, which vary by bank, that affect when your deposited funds will become available. A bank might state, for example, that deposits must be received by 9:00 p.m. ET for same-day credit, and funds will generally be available the next business day. The account agreement you receive when you open a checking account will explain your bank's rules on deposit holds, but here are some general guidelines.

Rules about funds availability also apply to money you deposit in a savings account, money market deposit account or other vehicles for saving available at a bank.

Accounts for Your Savings

After checking accounts, savings accounts are the next offering most people think about when they think about banking. Having a savings account where you can securely store extra cash that you can access easily in an emergency – but not so easily that you'll spend the money on things you didn't intend to – is a key component of any good personal financial plan. While a checking account helps safeguard your money and facilitate bill paying, a simple savings account helps you set aside money for near-term goals like going on a vacation, paying a large upcoming bill or establishing an emergency fund.

Regular Savings Accounts

Almost all banks offer a regular, basic savings account that you can sign up for in person, by phone or online. This is the type of savings account you might get by default from a traditional brick-and-mortar bank. The difference between this account and a checking account is that it generally doesn't have check-writing privileges and it may have a higher opening deposit requirement and, possibly, a higher daily minimum balance requirement. Savings accounts also have a limit of six monthly withdrawals or other outgoing transactions. This type of account may be called "Statement Savings," "Goal Savings," "Day-to-Day Savings," “Way2Save,” “Savings Plus” or something else that the bank’s marketing department thought was clever.

A regular savings account is easy to set up and maintain. You can link it directly to your checking account at the same bank and quickly and easily move money between the two accounts. Having these two accounts linked can sometimes help you avoid overdraft charges and minimum balance fees from your checking account.

The main disadvantage of this type of account is its often-pitiful interest rate. The national average savings account rate as of late June 2018 was just 0.07%, according to the FDIC. (See *These Savings Accounts Have the Highest Interest Rates*.) If you're serious about making your money work for you, you'll probably want to minimize the amount of money you keep in a regular savings account – if you use one at all – and opt for a more powerful savings vehicle instead.

Online Savings Accounts

An online savings account differs from a regular savings account in that you deal with it exclusively through the internet (sometimes also by phone, but not in person) and it pays a higher interest rate. As of September 20, 2018, for example, one of the highest interest rates available for a savings account was 2.25% for the CIBIC Agility Onling Savings Account from CIBC Bank USA, according to Bankrate. Meantime, Chase, the largest bank in the United States, was paying 0.01% on its savings accounts. Many online savings accounts were offering interest rates around 1.80%.

Some online savings accounts are offered by the same banks that offer regular checking and savings accounts, while others are offered by banks that don't have physical branches and exclusively offer online products. If you're comfortable with online banking, an online savings account may be a better choice than a regular savings account because of its greater earning potential. Many online savings accounts also do not have a minimum deposit to open an account, minimum daily balance requirements or a monthly maintenance fee, unlike many savings accounts associated with brick-and-mortar banks.

With some types of savings accounts, both regular and online, the rate of interest the bank will pay you depends on how much money is in your account. These accounts are called tiered-rate accounts. Customers with higher balances will earn interest at a higher rate. (Learn more about high-rate savings accounts in *Handling High-Yield Savings Accounts*.)

Two other types of accounts are also good places to stash some of your savings.

Automatic Savings Plans

Many banks offer automatic savings plans, and these can be a great way to develop a regular habit of saving money. At some banks, establishing such a plan is also a way to obtain lower banking fees.

An automatic savings plan is something you need to set up. It simply involves choosing a specific dollar amount that you're willing to have automatically transferred from your checking account to your savings account, usually once a month and on the same day every month (except when that day falls on a weekend or holiday).

If you have an idea of how much money you generally have left over after meeting your expenses each month, you can use this as the amount that you transfer automatically to your savings account. On the other hand, you may want to allocate your extra funds to several different places each month, such as a retirement account, investment account and savings account. In this case, you'll want to choose a smaller amount. If you don't know how much money you can safely contribute to a savings account each month, creating a budget will help you figure it out. You can always start with a modest amount, such as $20, and increase it later.

Although some people are nervous about the idea of committing to save a certain amount automatically each month, most investment gurus say that paying yourself first is a key component of building wealth. The other major benefit of establishing an automatic savings plan is that you don't have to remember to set aside money for savings each month – your bank will do it for you.

Money Market Deposit Accounts

The money market is a segment of the financial market where financial instruments with high liquidity and very short maturities are traded. It is considered a safe place to put money due the highly liquid nature of the securities and their short maturities. While money market investment accounts are not without risk, money market deposit accounts are virtually risk-free because they are FDIC insured, just like checking and savings accounts. Money market deposit accounts should not to be confused with money market mutual funds, which are offered by investment companies and are not FDIC insured.

Money market deposit accounts tend to have higher minimum balance requirements than regular or online savings accounts. This minimum usually ranges from $100 to $2,500. There may be a monthly fee associated with this type of savings account. The interest paid will be higher than that on a regular savings account balance, but possibly less than an online savings account would pay. For example, as of September 20, 2018, CIT Bank, an online-only bank, paid 1.85% APY on money market account balances and 1.55% APY on high-yield savings account balances; the minimum deposit is $100. From a functional standpoint, you may not notice much, if any, difference between a money market deposit account and a regular or online savings account.

Certificates of Deposit

A certificate of deposit (CD) is a savings certificate entitling the bearer to receive interest. In many ways, it is similar to a bond, except that instead of paying interest periodically over the life of the investment, it pays all its interest at once when it matures. Also, because CDs are a bank product, they come with FDIC insurance.

A CD has a maturity date and a specified fixed interest rate, and can be issued in any denomination. The term of a CD generally ranges from one month to five years. The amount of interest a CD pays depends on its term, with longer terms generally paying higher rates. CDs, like savings accounts, will pay more or less depending on market conditions. In the low interest rate environment the United States has experienced since 2008, CDs have paid little, but they often pay more than an online savings account does, depending on which banks you're comparing. The FDIC's Sept. 17, 2018, report put the average 60-month (5-year) CD rate at 1.11%, significantly higher than the average savings account rate of 0.08%. Meanwhile, on Sept. 20, 2018, Capital One 360 and American Express National Bank were offering one of the highest rates in the nation, according to Bankrate: 3.00% on a 60-month online CD.

Along with the higher interest rate you'll earn with a CD come restrictions on withdrawing your money before the CD matures. Do so and it will usually cost you money in the form of an early withdrawal penalty. (Find out everything you need to know about this investment vehicle in *Certificates of Deposit*.)

Federal Deposit Insurance: Spread Out Your Money to Be Safe

Federal deposit insurance protects consumers' bank account balances up to a certain amount as long as they're at a legitimate bank that is a member of the Federal Deposit Insurance Corporation (FDIC). According to the FDIC, since its creation in 1933, "no depositor has ever lost even one penny of FDIC-insured funds."

Under legislation passed during the financial crisis of 2008, FDIC insurance protection was expanded from $100,000 to $250,000 per depositor across all accounts of the same category. If the amount of money you keep in bank accounts exceeds current federal deposit insurance limits, you'll need to do some planning so that if a bank fails, all of your money will be protected, not just the first $250,000.

There's nothing wrong with doing this – it's perfectly legal. If your account balance exceeds FDIC-insured limits and you want to make sure all your money will be safe, visit the FDIC's website for more information. Ally Bank also has a helpful page explaining how you could achieve $2 million in FDIC coverage at the same bank by using a variety of accounts. You can also, of course, keep your money in more than one bank to spread your risk.

Spreading your money across several accounts isn't the only way to protect it. Whether or not you are banking online, you want to prevent unscrupulous individuals from stealing your identity and your funds. There are steps you can take, such as shredding bank statements and being on the lookout for card skimmers. Read more in *How to Keep Your Bank Account Safe*.

The Bottom Line

Banks provide security and convenience for managing your money and sometimes allow you to make money by earning interest. Convenience and fees are two of the most important things to consider when choosing a bank, whether you are opening a checking, savings or money market account or putting funds into a certificate of deposit. Be sure to develop methods to stay on top of your account balances in order to avoid fees, declined transactions and bounced payments.

To protect your money from electronic theft, identity theft and other forms of fraud, it's important to implement basic precautions such as having complex passwords, safeguarding your PIN and only conducting online and mobile banking through secure internet connections.