



Choosing and Balancing a Checking Account

Almost everybody has a checking account, even if they never write a paper check. A checking account gives you a place to safely stash your earnings. It usually comes with a debit card, that most useful of modern conveniences. And most checking accounts now also enable you to pay your bills online—no more writing checks and licking stamps. Let's take a closer look at 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 a 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. Why, he wondered, were so many companies trying to give him credit and banking services? The answer is simple: Banks and credit card companies want young people as customers because it is likely they will stay with that bank for a lifetime.

How Do I Open a Checking Account?

While you can't get your own checking account or credit card until you are 18, you can 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.

Opening an account is as easy as going into a bank or credit union with money. A bank officer will help you set up the account. The bank 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 your initial 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 they can be as little as \$50.

Checking Account Options

Checking accounts can with a myriad of options. Some pay interest, and some don't. Some banks charge a monthly fee. Some offer overdraft protection; this means your bank will cover you if you write a

check for more money than you have in your account. There may be a monthly or annual fee for overdraft protection in addition to any interest charged on the overdrawn amount.

If you always keep a comfortable amount of money in your checking account, an interest-bearing or free checking account is probably right for you. If you are often at risk of overdrawing your account, it is probably worth having overdraft protection.

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 the account falls below it.
- **Fees:** Does the account have 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? Does the bank offer overdraft protection?
- **Interest:** Does the checking account pay interest on your balance?
- **Location and convenience:** Is there a walk-in branch near you? Does the bank have a lot of ATMs in your area? Will you have to pay fees for using another bank's ATM?
- **Online banking:** Does the account include online bill paying and account management?

Checking Accounts for Newbies

So Marquis has gotten his first checking account. He'll earn 5% interest as long as he keeps at least \$200 in his account, and he's excited to have gotten such a good deal. Now he's at the university bookstore buying textbooks. He makes it to the front of the line and whips out his checkbook. Suddenly he realizes he has no idea how to write a check!

The image shows a blank blue check form with a wavy border. The fields are as follows:

- Your Name:** Any Street, Anytown, Tel: (001) 555-0000
- DATE:** _____
- PAY TO THE ORDER OF:** _____
- Amount:** \$ []
- Bank Name:** Any Bank, Any Street, Anytown, Tel: (001) 555-5555
- MEMO:** _____
- MICR Line:** ⑆001⑆ ⑆00002⑆003⑆ 4567⑆890⑆

Additional details on the check include the number "001" in the top right corner, "100 DOLLARS" written across the amount field, and a security icon with the text "Security features included. Details on back." in the bottom right area.

The cashier helps him out. She has him write the date on the "DATE" line and the business name (in this case, University Bookstore) on the "PAY TO THE ORDER OF" line. She tells him to write the amount of the check in numerals inside the little box directly to the right of the dollar sign. Marquis writes "75.50."

Next, the cashier points to the line that ends with the word “DOLLARS” and explains that Marquis should write the amount of the check in words on this line. Marquis writes “Seventy-five and 50/100” and then, as the cashier tells him to, draws a line to the word “DOLLARS.” That way, she explains, nobody can change it to a larger amount. Marquis writes “Textbook purchases” on the “MEMO” line (this line can also be used for account numbers or other pertinent information) and finally signs his name on the bottom-right line.

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 an overspending lifestyle!

Instead, pay yourself by putting aside some savings every time you hear yourself think, “I’ll buy this to earn more rewards.”

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 compare each check you wrote against the corresponding amount on the **bank statement**. Do the same thing for every deposit you made, including **direct deposits**, and each ATM withdrawal.

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

To balance your checkbook, take the ending account balance from your bank statement, usually at the top. 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 should match your balance for the end of the month in your check register. If there’s a difference, it should be because of adjustments for 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. They will reconcile your statement for you, and if they have made an error, they’ll fix it.

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

Bouncing a check—that is, writing a check for money than you have in your account—can be a costly mistake. 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 the business will have to 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!

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 drawn from your account.

The risk of an ATM debit card is that a bank will allow you to overdraw your account. Transactions might go through that overdraw your account, each one 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 and transactions online. You can also see images of checks that have cleared. Banks used to send you the actual checks 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 enables you to see 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 to avoid spending it on service fees and overdraft charges. Another way is to buy only what you need and avoid purchases just to earn “points” or “rewards.”

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.

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

bank statement: Monthly document from your bank that shows all transactions in your account.

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

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

credit union: A credit union is a member-owned financial institution that offers many of the same services as a bank.

debit card: Like a credit card, but directly attached to a checking account; a debit card can be used 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 holds.

Math Examples

The math problems in this curriculum are intended as practice in applying math concepts to the real world. The concepts included are generally those covered through Algebra I.

While this curriculum is not intended as a substitute for standard math courses, several review tools are included.

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	



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

- Below you will find example questions very similar to those on the math quiz for this lesson. A complete solution is given for each example.
- On your course homepage, a Math Concepts Reference link is included beneath the Tutorial. This reviews key math concepts as well as business and financial formulas.

Example Questions

1. The following transactions, in order, are expected to hit your checking account next month: \$40 deposit, \$10 withdrawal, \$40 withdrawal, \$30 deposit, and \$60 withdrawal. What is the least amount you can have as a beginning balance without overdrawing the account?

SOLUTION:

Assume you start with \$0 in your account. Your transactions and running balances will be:

+ 40 deposit, balance = \$40

- 10 withdrawal, balance = \$30

- \$40 withdrawal, balance = -\$10

+ \$30 deposit, balance = \$20

- \$60 withdrawal, balance = -\$40

You must begin with at least \$40 in the account to not be overdrawn.

2. Your check register shows a balance of \$425. Your last bank statement shows an ending balance of \$605. You know that you have three outstanding checks for \$70, \$45 and \$85 that are recorded in your check register but are not on the bank statement. Does your register balance with the statement?

SOLUTION:

$\$605$ (statement balance) - $\$425$ (check register balance) = $\$180$

Outstanding Checks: $\$70 + \$45 + \$85 = \200

The register does not balance with the statement because the amount of the outstanding checks does not match the difference between the statement balance and the check register balance.

You mostly likely have missed a transaction for \$20.