

Bank Products

1. Introduction

For many people, the first financial institution they deal with, and the one they use most often, is a bank or credit union. That's because banks and credit unions provide a safe and convenient way to pay your bills and accumulate savings, as well as other services that can help you to manage your money.

Banks offer two main products:

1. Transaction accounts, better known as checking accounts, which allow you to transfer money by check or electronic payment to a person or organization that you designate as payee
2. Deposit accounts, also known as savings accounts, which pay interest on your money in those accounts

In most banks, you can transfer cash electronically from your transaction account to your savings account, and vice versa.

Banks also provide other important services. For example, you can purchase guaranteed bank checks, sometimes called cashier's checks, which ensure the payee that the funds needed to cover the check are available. Some providers of goods and services require guaranteed bank checks to limit their risk of non-payment. If you need a signature guarantee on an application or other official document, your bank will normally provide one. And, in most cases, banks are also the place you go to borrow money when you need it, through lines of credit and loans.

2. Safety in Banking: FDIC Insurance

The money you put in a bank account is insured by the Federal Deposit Insurance Corporation (FDIC), an independent agency of the U.S. government. There's comparable protection for credit union deposits from the National Credit Union Share Insurance Fund. With this protection, your deposits are secure up to the maximum coverage that Congress has approved, even if your bank or credit union goes out of business. This coverage applies separately to each bank where you have accounts.

The exact amount of insurance at each bank depends on two factors—the kinds of accounts you have and the way those accounts are registered:

- Single accounts: Your total deposits in all the checking and savings accounts you own solely in your own name are insured up to \$100,000.
- Joint accounts: Your total share of all the checking and savings accounts you own jointly with others is insured up to \$100,000.
- Self-directed retirement accounts (such as IRAs): The balances in your self-directed retirement accounts are insured up to \$250,000, provided that the money is in certificates of deposit or other bank accounts.
- Revocable trust accounts (including payable-on-death accounts and living trust accounts): Each account that names a different beneficiary is insured up to \$100,000.

Let's assume, for example, that you had the following accounts at one bank:

- \$5,000 in a checking account plus \$95,000 in various savings accounts held in your name
- \$200,000 in a savings account that you own jointly with another person
- \$250,000 in certificates of deposit in an IRA
- \$200,000 in two payable-on-death account with different beneficiaries

According to the FDIC insurance rules, all of those deposits would be insured fully by the FDIC since each account is within limits of the coverage. In the case of the joint savings account, the insurance coverage would be shared by your co-owner, with each of you being eligible for \$100,000 insurance.

Suppose, however that the only money you had in a particular bank was a certificate of deposit valued at \$150,000, and you were the sole owner. In that case, \$100,000 of that amount would be covered, and \$50,000 would be uninsured.

In contrast to these bank products, securities investments such as stock, bonds,

and the mutual funds that invest in them are not insured or guaranteed by the FDIC. They could lose value even if you hold them in an account, such as an IRA, that you open with your bank. That's true even if the bank's name is used in the name of investment, such as Bank X Growth Stock Fund. Insurance company products that a bank sells, including life insurance and annuities, aren't covered by the FDIC either.

3. Transaction Accounts

Checking accounts allow you to handle a number of different financial transactions that it would be difficult to manage otherwise. You can write paper checks, specifying the amount you're paying and to whom. Or, with an online account you can transfer money electronically, either as an online bill payment or using a debit card. If you need cash, you can cash a check at a teller window in one of your bank's branches or use an ATM.

You can choose among a wide variety of checking accounts, from low-cost, no-frills basic arrangements to broad-based accounts linked to savings, a line of credit, or investment products.

Here's a list of the basic types of accounts a bank may offer you—or that may be available if you ask about them. If you are comparing accounts before choosing where you'll bank, remember that each bank tends to use different names for its accounts, include slightly different privileges, and charge different fees:

- **Lifeline checking:** Many states require banks to offer bare-bones, low-cost checking accounts for qualifying low-income customers.
- **Basic checking:** These accounts may impose per-month or per-check fees, or provide free checking. They may have transaction requirements, such as writing only a limited number of checks per month, that could result in extra expense if you exceed the limit. You may not be able to arrange overdraft protection on these accounts.
- **Relationship checking:** These accounts link all the accounts you have with the bank. They typically offer free checking and free ATM withdrawals along with other bank services if your combined balance is high enough.
- **Student or senior checking:** Special accounts for students or seniors are usually a bargain if you meet the requirements. These accounts sometimes provide extra benefits, such as no ATM fees or free checks.
- **Express checking:** These low-fee accounts are designed for customers who do most of their banking electronically. However, they may charge high fees for teller services.
- **Interest-bearing checking:** These checking accounts pay interest on your balance, although generally at a lower rate than savings accounts. They usually involve much higher minimum balances than basic checking accounts. They may charge high fees if your balance drops below that minimum.
- **Rewards checking:** This newer style of account awards you points or cash depending on your activities with the bank, such as paying you 10¢ for every debit card payment you make. These accounts generally have higher

minimum balance requirements and some combine the rewards with interest-bearing checking.

Choosing an Account

To find the account that's best for you, you'll need to determine the average balance you keep in your account, how many transactions you tend to make each month—including debits, checks, online payments, and ATM withdrawals—and how many other bank services, including electronic bill paying, that you're likely to use.

Before you decide, you also need to read the account agreement carefully. On the positive side, banks may waive certain fees if you arrange for direct deposit of your paycheck to your checking account. But some things can take you by surprise: For example, you might find that an account that offers free checking charges you a fee each time you use the bank's own ATM machines.

Fees are a large part of what differentiates one checking account from the next. This applies to different accounts within the same bank, as well as to similar types of accounts from different banks. Here are some questions you should ask about fees before deciding on a checking account.

- Is there a monthly fixed fee to maintain your account?
- Is there a minimum balance requirement to avoid certain fees?
- Is there a fee for each check you write?
- Is there a charge for paying your bills electronically, either monthly or per transaction?
- Is there a charge for withdrawing money, or getting checking account balances from the bank's ATMs?
- Is there a fee for using an ATM from another bank?
- Is there a charge for using your debit card to pay for a purchase?
- Is overdraft protection available?

Clearly, the fewer fees you pay, the better. An account that advertises free checking may not be the best deal for you if, in practice, you end up paying more fees because your balance falls below the required minimum or your transactions exceed the maximum allowed.

Perhaps the most significant fee you risk paying is if you draw more money out of your account than you have available—whether by check, debit, online bill payment, ATM withdrawal, or any other method. That situation is known as an overdraft, or having nonsufficient funds (NSF).

If your account balance is too small to cover a withdrawal, your bank, may refuse

to honor the transaction and may charge you a hefty NSF fee as well, perhaps as much as \$35 for the overdraft. You may also face an additional charge from the retailer or other payee, to say nothing of the hassle of dealing with unpaid bills.

In some cases, your bank covers the withdrawal or check and charges you the NSF fee plus interest on the overdrawn amount. That can be better than bouncing a check. But the bank may follow the same practice if you use your debit card to make a withdrawal that's more than your current balance. Rather than refusing the transaction, the bank approves it and you're charged the NSF fee. If you make several withdrawals before your monthly statement arrives, you could run up hundreds of dollars of fees plus interest charges without realizing you're doing so.

While having a withdrawal approved can be important in an emergency, you might prefer to be alerted to your low balance, with the opportunity to cancel the transaction until you could replenish your account on your own.

To avoid paying the NSF fees, it's a good idea to arrange to have overdraft protection added to your checking account. You'll probably have to ask whether or not it's available. With this service, you apply for a line of credit with the bank, which is similar to a credit card agreement. If you overdraw, the bank transfers money from the line into your account to cover the insufficient funds. You do pay interest on the amount that's transferred from the line to your account, and the interest rate on this borrowed money is often higher than the rate on credit card purchases. But there's no NSF fee, and the sooner you repay the transferred amount, the less interest you'll owe.

You may find, though, that this type of overdraft protection isn't available on low-cost checking accounts, such as those that charge no monthly fees. Or, you may not qualify for an overdraft line of credit if you don't have a strong credit history.

4. Deposit Accounts

Saving on a regular basis is often your first step toward reaching bigger financial goals, such as buying a home or having enough money to live comfortably in retirement. But savings are also important for meeting unexpected expenses, such as car repairs or replacing a major appliance, or dealing with an emergency.

For that reason, you'll want to keep part of your savings somewhere safe and liquid, such as a savings or money market account, where you can get to it quickly. And if you're setting aside money for future financial goals with a known deadline, you can consider another type of savings product called a certificate of deposit (CD).

Basic Savings

Bank savings accounts have traditionally been one of the simplest and most convenient ways to save. These accounts typically have the lowest minimum deposit requirements and the fewest withdrawal restrictions. But they often pay the lowest interest rates of any of the savings alternatives. However, when banks are competing for your deposits, they may offer substantially higher interest or other benefits for opening a savings account.

Traditional savings accounts used to be called passbook savings accounts, since tellers would record your deposits and add the interest you'd earned in a small booklet called your passbook. These days, electronic records make passbooks unnecessary. But some banks still offer old-fashioned passbook accounts, especially for children's savings accounts.

Most savings accounts pay compound interest, which means that your earnings are added to the balance to create a larger base on which future interest is paid. The bank will tell you whether the interest compounds daily, monthly, or on some other schedule, and when the interest is credited to your account. The more frequently it compounds, the faster your earnings will accumulate—though with small balances the increases won't be very dramatic. You generally begin to earn interest as soon as the money goes into your account, and that interest continues to accrue until you withdraw.

The bank will also tell you the basic interest rate and the annual percentage yield (APY). The APY is larger than the basic, or nominal, rate since it takes into account the impact of compounding. Banks often advertise the APY since it more accurately reflects the amount of interest the account will actually pay, and it makes the savings account a more attractive place to park your money.

Online banks may offer higher interest rates than more traditional brick-and-mortar banks. That's because online banks tend to have lower overhead, and can pass their reduced costs onto consumers in the form of increased earnings rates. Before deciding on a savings account, it pays to compare interest rates, along with other features, such as convenience of making deposits and withdrawals. Even a small difference in the rate can result in a substantial difference in interest over time, depending upon the amount you put into the account.

With a basic savings account, you can make as many deposits as you like, whenever you like. And you can usually withdraw as much as you like when you need the money. However, some banks may require minimum opening balances for basic savings accounts, and some banks charge fees if your balance falls below that minimum. Other banks don't have minimum balance requirements, so if your savings balance tends to be low, you may want to consider these fees in choosing a bank account.

You can also ask if the bank offers low-cost savings accounts. Many banks offer more flexible alternatives for children, college students, and senior citizens, and for people whose income falls below certain limits. But the way these accounts work vary from banks to bank.

One thing you can't do with a basic savings account is transfer money to another person or institution, so you can't pay bills from your savings account. But you can generally transfer funds from your savings to your checking account electronically, or withdraw funds from one of your savings account and deposit them in another. You should be aware of Federal Reserve Regulation D, though, which limits you to six transfers from your savings account in any four-week period, whether these transfers are made electronically, automatically, or by phone.

Emergency Funds

It's a good idea to have a separate savings account to serve as your emergency fund. Most experts agree that's important to set aside enough money to cover your living expenses for three to six months in an account you use exclusively for this purpose. This money would come in handy, for example, if you were to stop earning income temporarily, or if you were faced with unexpected events, such as big medical bills, or any other expense that could arise without warning. Without savings, you might need to rely on credit cards and other borrowing to pay for emergencies, which could result in serious debt.

Money Market Accounts and Money Market Mutual Funds

Money market accounts are similar to savings accounts, but may pay higher

interest rates. However, they tend to have higher balance requirements than savings accounts, and different interest rates may apply to different account balances. For example, there may be one rate for balances below \$10,000, a higher rate for balances between \$10,000 and \$25,000, and an even higher rate for \$25,000 and above. In addition, you may need a larger deposit to open a money market account.

Unlike traditional savings accounts, money market accounts let you write a limited number of checks each month, in essence combining features of savings and checking accounts. The ceiling is usually three checks—another of the restrictions imposed by Federal Reserve Regulation D. If you exceed the limit, the bank won't process any new transactions until the next period. However, you can make all the withdrawals you want by visiting a bank branch office in person, and you can deposit that money into your checking account without penalty.

You may want to use a money market account for a portion your emergency fund, or to park money you intend to invest until you've accumulated enough to make a particular purchase.

Money market mutual funds are similar to money market accounts in some ways. They typically pay interest at about the same rate and many offer check-writing privileges. One advantage is that there's usually no limit on the number of checks you can write each month. However, any check you write against the account may have to be for at least the required minimum, such as \$500. One drawback is that money market funds, unlike money market accounts, are not FDIC insured, although some offer their own insurance. While fund companies try to keep their money market share price stable at \$1 a share, there is the possibility you could lose some of your principal.

Certificates of Deposit (CDs)

Certificates of deposit (CDs) are time deposits. When you choose a CD, the bank accepts your deposit for a fixed term—usually a preset period from six months to five years—and pays you interest until maturity. At the end of the term you can cash in your CD for the principal plus the interest you've earned, or roll your account balance over to a new CD. But you must tell the bank what you've decided before the CD matures. Otherwise the bank may automatically roll over your CD to a new CD with the same term at the current interest rate. And you might earn a better interest rate with a CD that has a different term, or one offered by a different bank.

CDs are less liquid than savings accounts. You can't add to or withdraw from them during the term. Instead, to buy a CD, you need to deposit the full amount all at once. If you cash in your CD before it matures, you'll usually pay a penalty,

typically forfeiting some of the interest you've earned. To make up for the inconvenience of tying up your money, CDs typically pay higher interest than savings or money market accounts at the same bank, with the highest rates for the longest terms—though there are exceptions to this pattern. Like other savings accounts, bank CDs are insured by the FDIC, with your CD account balances counting toward your total insured amount.

In the past, each CD paid a fixed rate of interest over its term. But today you can also find variable rate CDs, sometimes called market rate CDs. With these accounts, the interest rate may rise and fall with changing market rates or be readjusted on a specific schedule. If the current rate is low, it may make sense to purchase a variable CD. That way, if interest rates rise, you won't miss out on the rate increase. On the other hand, if you expect rates to fall in the future, it may make more sense to buy a fixed-rate CD to lock in the higher rate for a specific term.

Another alternative is to create a CD ladder. You might start by dividing the amount you plan to invest in CDs into four equal amounts and buy four CDs with varying terms—say three months, six months, nine months, and one year. As each CD matures, you replace it with a one-year CD, so you have an amount to cash in or reinvest on a regular schedule. If you used a longer ladder, so that your CDs matured on an annual instead of a quarterly basis, you would never have all your money invested at the same rate, which would allow you to avoid locking in a large sum at a low rate.

CDs are usually described, quite accurately, as conservative investments because of their FDIC insurance and relatively short terms. However, not all CDs are alike. In addition to regular CDs, whose terms are rarely longer than five years, banks may offer long-term, high-yield CDs that pay a much higher rate of interest for terms as long as 10 or 20 years. These CDs may be callable, which means that the bank has the right to terminate the CD and pay you back your principal plus the interest earned to that point. This usually happens if your CD is paying higher interest than CDs currently on the market, and it means you would have to reinvest your principal at a lower rate than your old one paid. However, unlike the bank, you don't have the right to end a CD contract if the situation is reversed and your CD is paying less than the current market rates.

In fact, you may want to think twice about any long-term CD because of the early withdrawal penalty. Generally speaking, investments that cost you money simply for changing your mind are rarely the best alternative.

Brokered CDs

You may also be offered a brokered CD by a stockbroker or other investment professional who serves as a deposit broker for the issuing bank. Brokered CDs may have a longer holding period than a CD you purchase directly from a bank, and they may be more complex and carry more risk. Although most brokered CDs are bank products, some may be securities—and won't be FDIC insured.

Brokered CDs differ in other ways from traditional CDs. For example, you may have to pay a fee to buy a brokered CD, either as a fixed amount or as a percentage of the amount you are investing. If the fee is modest and the CD is paying a higher rate than you could find on your own, you may come out ahead. But you should take the fee into account. You may also have to invest a minimum amount, such as \$10,000 or more.

If the bank issuing the CD is FDIC-insured and if the CD is a bank product, your account value should be insured for up to \$100,000. Keep these two things in mind, though: To be eligible for insurance, you must be listed as the CD's owner, so you'll want to confirm that it's registered to you or held in your name by a custodian or trustee. Second, if the issuer happens to be a bank where you already have money on deposit, the total value of your accounts could be higher than the amount of the insurance. If the bank fails, you might be vulnerable to loss.

Unlike a traditional CD, brokered CDs can't simply be cashed in with the issuing bank. As a result, some firms that offer brokered CDs may maintain a secondary market—but these secondary markets tend to be quite limited. If you want or need to liquidate your brokered CD before maturity, you may be subject to what's known as market risk. This means the CD may be worth less than the amount you invested because other investors are not willing to pay full price to own it. This might happen if the interest rate that new CDs are paying is higher than the rate on your CD.

Before you buy any CD, you should ask several questions:

- What interest rate does the CD pay and what is the annual percentage yield (APY)?
- Is the rate fixed or variable, and if it's variable, what triggers an adjustment and when does the change occur?
- When does the CD mature?
- What's the penalty for early withdrawal and are there exceptions to the early withdrawal fee?
- Does the bank have the right to call the CD, and if so, when could that occur?
- Is the issuing bank FDIC insured?

And if you purchase a brokered CD through a deposit broker, you should also ask the following additional questions:

- Is the brokered CD a bank product or a security?
- What is the name of the issuing bank?
- Is the issuing bank insured by the FDIC?
- Is the deposit broker someone you know—whose credentials you have checked?

CDs are useful additions to most investment portfolios because they offer safety and a predictable return. If you keep a portion of your assets in cash, CDs or U.S. Treasury bills are usually the most logical choices. And if you've been accumulating money to pay for specific goals, such as making the down payment on a home or paying tuition bills, you may want move some of this money into CDs as the date you'll need the money gets closer. That way, you can be sure you'll have it when you need it.

5. International Remittances

An increasing number of banks offer international remittance accounts for people who want to be able to transfer money home to relatives or friends who still live in their native countries. These accounts make it easy to handle cross-border transactions without the risk of sending cash or the expense of using nonbank transfer agents such as Western Union, MoneyGram, or their competitors.

If you're interested in this service and don't have an account with a bank, it may be easier to open one than you think. You will discover that many of the major national banks as well as some more local banks and credit unions offer these accounts. Each of the banks will offer a slightly different program and charge slightly different fees, so you'll want to compare them to see which is most convenient for you and for the people at home.

To open an account, you will need identification that the bank will accept, such as an individual taxpayer identification number (ITIN) or an identity card that's been issued by the country where you are a citizen. ITINs are available to people who weren't born in the U.S., aren't eligible for a Social Security card, but are required to file income tax returns.

You can usually find the information you need about what accounts are offered, how they work, and what you need to open one from a customer service representative in a bank branch. There are usually printed materials that may be available in your native language as well as English. You may also find information online at the bank's Web site. You may discover that the remittance accounts are part of a larger account package that allows you to have access to other bank services as well.

6. Beyond Banking

In addition to checking and savings accounts, your local bank may offer you investment accounts that you can use to save for college or retirement, insurance coverage for your home or your life, or annuities to help you generate retirement income. But it's important to remember that just because you're buying these products from a bank doesn't mean they're FDIC insured. In fact, they're not.

However, you may find that the convenience of having all of your financial activities under one roof makes your life easier. And if you already have a relationship with a particular bank, you may feel more comfortable going there for a broader range of financial services. In fact, some banks now employ investment professionals, as well as tellers and account managers to help you coordinate your whole financial strategy. If you are unsure about which accounts are insured and for how much, be sure to ask.