Whether you have a history of overdraft or non-sufficient funds charges or you just want to know how to best manage your first checking account, this booklet will give you the tools and information needed to become and remain a successful checking account holder. You will learn key components of wise checking account management, including checking account fundamentals, deposits, withdrawals, keeping your account in good standing, and protecting your account.
Checking Account Fundamentals

A checking account is a service provided by financial institutions that allows you to deposit money with them and withdraw it at a later date. Checking accounts typically come with a low or no interest rate, but you can access your money almost anywhere, and there is usually no limit to how many withdrawals you can make in a month. In contrast, savings accounts and certificates of deposit (CDs) come with a higher interest rate but restrict or penalize withdrawals. Most people use a checking account for day to day money management, such as paying for groceries and clothing, and a savings account and/or certificate of deposit for saving.

You may be wondering if having a checking account is truly safe. Some people avoid opening one because they fear that they will lose all of their money if their financial institution goes out of business. Instead, they use check-cashing stores and carry around large amounts of cash. This is not a good idea. Check-cashing places charge exorbitant fees, much higher than the fees charged by traditional financial institutions (if they charge any at all). Furthermore, while you can cancel a lost or stolen debit card or check, if you lose cash or are robbed, the money is gone forever. The safest place to keep your money is in a financial institution—banks and credit unions are insured, so within limits, even if your financial institution were to go out of business, you would not lose your money.

Types of Accounts

There are several different types of checking accounts:

- **Individual**: As the name implies, an individual account only has one owner. Some financial institutions offer one basic checking account, while others offer a few. If you have a choice, look at the features of each account, such as the fees, minimum required balance, and services provided, and decide which one best meets your needs.

- **Joint**: A joint account is similar to an individual account, only there is more than one account holder. Because any account holder can withdraw all of the money from the account, you should only get a joint account with someone you trust.

- **Senior/student/teen**: Some financial institutions, particularly credit unions, offer special checking accounts for seniors, college students, and/or teens. These accounts typically come with a low or no minimum required balance and minimal or no fees.

- **Business**: A business checking account is intended for people who own their own business and want a separate account to handle its finances.

Opening a checking account

Although some institutions let you apply for a checking account online, most people apply in person at their local branch. Since opening an account can take several minutes, only go when you have plenty of time, and remember to bring identification and funds to deposit with you. (The minimum required deposit varies, but generally, you cannot open a checking account with a zero balance.) An employee will fill out an application for you by collecting your personal information, including your name, address, phone number, and Social Security number. If your application
is approved, you will receive your new account number. You may also be given a limited number of checks, but the full checkbook and debit card will likely be mailed to you. Along with receiving everything you need to use your account, you should also be given a fee schedule. Be sure to read this carefully to understand what fees you are being and could be charged.

Getting a checking account is an easy process for most people. However, if you have a ChexSystems report, it could be a challenge. ChexSystems collects information on negative checking and savings account activity and provides the information to financial institutions. Negative activity includes writing fraudulent checks or committing other acts of fraud, bouncing checks, and overdrawing your account. There is no standard for reporting to ChexSystems — some financial institutions will report a check that bounced due to a miscalculation, where others may only report cases of fraud. If you have a ChexSystems report, you can get a free copy of it once a year by visiting www.consumerdebit.com or calling (800) 428-9623.

Some financial institutions also check your credit report when you apply for a checking account. Unlike with ChexSystems, your credit report monitors both positive and negative credit activity. Having a history of late payments or a bankruptcy, judgment, repossession, or foreclosure on your credit report can make it difficult to get a checking account. You can get a free copy of your credit report from all three credit bureaus yearly through the Annual Credit Report Request Service (www.annualcreditreport.com or (877) 322-8228).

Are you doomed to keeping your money in a shoebox if you have a ChexSystems report or negative information in your credit report? Not necessarily. If you are initially denied, talk to your financial institution about what you can do. If you have an outstanding debt, you may be able to get a checking account if you pay it. Your financial institution may also be willing to let you open an account if you complete a course on checking account management.

**Deposits**

**Endorsing a check**

Even in this electronic age, the check is still the payment method used by many employers (and doting grandparents!). In order to deposit or cash a check, you first need to endorse it. There are three basic types of endorsements:

**Blank endorsement:** A blank endorsement is made by signing your name on the back of the check. You must sign it exactly the way it appears on the “Pay to the Order of” line. Anyone can cash or deposit a check with a blank endorsement, even if the check is not written to him or her. You should only do a blank endorsement if you are cashing a check, and don’t sign it until you are at the financial institution.

**Restrictive endorsement:** A restrictive endorsement is made by writing “For deposit only” on the first line of the back of the check and then signing your name underneath. A check with a blank endorsement can only be deposited into an account in your name. Some financial institutions also prefer that you write your account number on the check to make it easier to process. However, others see this as a security risk, and ask you not to write your account number on the check.
Special endorsement: A check is signed with a special endorsement when you want to give your check to another person. It is different from a blank endorsement in that the check can only be cashed or deposited by the person you are assigning the check to. To do a special endorsement, write “Pay to the order of [name of person you are giving check to]”, and sign your name underneath.

Depositing checks and cash
In order to deposit a check or cash, you must go to the financial institution and see a teller or use an ATM.

To make a deposit with a teller, you need to fill out a deposit slip. You may have deposit slips in your checkbook that already have your account number printed on it. When you are filling out the amount(s) you are depositing, remember to write in the correct section – generally, there are different sections for currency (paper cash), coin, and check deposits. List each check separately, and use the back side if needed. If you want to receive some cash back from a check you are depositing, you should write that amount in the “Less Cash Received” section. (You may not need to fill out a deposit slip if you are cashing the full amount of a check.)

If you are using an ATM, first read the instructions for making a deposit. All ATMs require you to insert your debit or ATM card and enter your pin number, but while some ask you to fill out a deposit slip and insert the slip and deposit into the machine in an envelope, others allow you to directly insert checks or cash into the machine without an envelope or deposit slip. Remember to save your receipt, and when you receive your statement or check your account activity online, verify that your balance was properly credited.

When you deposit a check, it is common for all or part of the funds to be placed on hold (unavailable for withdrawal) while the check is being processed. Even if you cash a check, a hold will often be placed on an equivalent amount of money in your account. Once the money is deducted from the check writer’s account, the hold is lifted. Processing time varies, but it is usually no more than a few business days.

However, if the amount the amount of the check is greater than the funds in the check writer’s account, the check may bounce. If this happens, you will not get the money from the check. In addition, your financial institution may charge you a fee. If someone gives you a check that later bounces, you should immediately contact that person and give him or her the opportunity to correct the situation – this can include paying you the amount of the bad check (you may want to insist on payment in cash) as well as any fees you are assessed.

Direct deposit
Direct deposit is deposit method in which money is electronically transferred into your
account without the issuance of a paper check. This method is frequently used for employee paychecks and government benefits, such as Social Security and unemployment insurance. If your employer offers direct deposit, you may want to take advantage it. Direct deposit is convenient – you don’t have to be constantly running to the bank or credit union to deposit your paychecks. You also do not have to worry about your checks getting lost or stolen. Furthermore, direct deposits are often processed quicker than paper checks, giving you access to the money sooner.

To enroll in direct deposit, ask your employer for a sign-up form. In addition to providing your account information on the form, you may also need to supply a voided check. To void a check, simply write the word “VOID” across it. Once the direct deposit is set up, you should monitor your account to make sure that the money is being properly deposited. If there are any problems, notify your employer immediately.

Withdrawals

Debit cards
A debit card (also called a check card) looks like a credit card, but it functions like a combination ATM card/check. ATM cards are used to access – what else? – ATMs. ATMs allow you to do many banking transactions, such as deposit checks, withdraw cash, and check your account balance. For security reasons, when you insert your ATM card, you must enter your pin number. (Either you will be given a pin number when you receive your card or have to create one before you can use it.) Memorize your pin number, and do not share it with anyone or carry it in your wallet. You can use your debit card at any ATM, but be aware that if you use one that is not part of your financial institution's network, you may be charged a fee.

Like checks, debit cards allow you to pay your bills and make purchases in supermarkets, restaurants, and other stores. Many people find it more convenient to use their debit card than write a check, and, in fact, many stores today do not even accept checks. When you use your card, the cashier may ask, “Do you want to use debit or credit?” When you select the debit option, you are required to enter your pin number in a keypad. In some stores, such as supermarkets, you are also given the option of getting cash back. There is typically no fee charged for this service. When you select the credit option, you are required to sign the receipt, unless the purchase amount is very small. You are also given some protections that credit cards have. For example, if the item you purchased is defective, you can ask for a chargeback (a reversal of the charge to your account). Neither option is inherently better than the other, but because of the additional protection provided, you may want to choose the credit option for larger purchases.

Keep in mind that regardless of whether you choose the credit or the debit option, a debit card does not work the same way as a credit card. When you use a credit card, you are borrowing money from your financial institution that issued that card, and you pay it back at a later date. If you want to buy a $100 pair of shoes with a credit card, it does not matter if you have a $100 the moment you buy it. (However, just because you can, does not mean you should use your credit card when you cannot afford to pay off the balance in full.) When you
use your debit card, the money is immediately deducted from your checking account. If you only have $50 in your account, either the transaction will be denied or, if approved, your account will become overdrawn and you may be charged a fee.

**Checks**

Even if you use your debit card for most transactions, you probably will write checks at least once in a while. It is important to fill out the check correctly if you want to avoid having it returned to you. Always use a pen – this prevents someone from erasing what you wrote and writing in something different. In the upper right corner, fill in the date that you are writing the check. In the “Pay to the Order of” line, write the name of the person you are writing the check to. In the same line, after the “$” sign, write the amount of the check in numbers. In the line underneath, write out the amount of the check in words, and sign your name in the lower right corner. Filling out the memo line of the check is optional but recommended – most people list what they are writing the check for, or, if paying a credit card or other type of bill, their account number. If you make any mistakes, write “VOID” across the check and fill out a new check.

Furthermore, once the check is deposited and no longer outstanding, you should mark that as well. Most checkbooks come with a register where you can record your check information. If not, a piece of paper or computer spreadsheet will do the trick.

One very important difference between debit cards and checks is that when you write a check, the money is not deducted from your checking account immediately. The money is only deducted once the person you wrote the check to brings it to his or her financial institution and the check is sent to your financial institution. (However, there are special types of checks that are pre-paid, namely certified and cashier’s checks and money orders. These types of checks may be required when you make certain purchases.)

Since the money is not deducted right away, is it okay to write a check for more than amount you have in your account if you expect to deposit more money in the next day or two? No. This is called “floating”, and it is an extremely dangerous practice to engage in. While in the past it commonly took several days for a check to be processed, checks today can be transmitted electronically and are processed much quicker. If the check is processed before you deposit additional funds, your check could bounce or your account could become overdrawn.

It is easy to forget about a check once it leaves your hands. To prevent this from happening, take the time to note at least the following for every check you write:

- Check number *(this alerts you if a check is missing in sequence)*
- Date you wrote the check
- Who you wrote the check to
- What you wrote the check for
- The amount of the check
Electronic checks
An electronic check (also called an EFT payment) is essentially a personal check that is written online. Many lenders, utility providers, insurance companies, and other businesses accept electronic checks. By using this method, not only are you saving yourself a trip to the post office, but you also do not need to worry about your check getting lost or delayed in the mail. When you write an electronic check, the money is immediately deducted from your checking account, just like when you use your debit card. In fact, the only real difference between using your debit card and using an electronic check is the information you are required to input.

In order to pay by electronic check, you must provide your routing number and account number. Sometimes a check number is also required. The diagram below shows where you can find this information on a check. Only submit electronic checks on secure sites (look for a web address starting with https or a lock icon), and remember to print out the payment confirmation page for your records.

Automatic debit
Automatic debit is the opposite of direct deposit – every month (or another set period) money is automatically withdrawn from your checking account to pay a bill. Automatic debit saves you the hassle of having to remember to pay a bill, but you still need to make sure there is enough money in the account to cover the debit. For example, if your $1,000 mortgage payment is debited on the 5th of the month, you should have at least $1,000 in your account by the 4th of the month. This is a fairly easy task if the monthly payment is fixed (like for a mortgage or car loan), but can be tricky for bills that vary (like credit cards and some utilities). That is why many people only use automatic debit for fixed bills.

Like with direct deposit, starting automatic debit can be done by filling out an enrollment form. (Most businesses provide them on their website or will send one upon request.) It is a good idea to check your account the day after the scheduled debit date to ensure that it actually took place. Mistakes sometimes happen, and if the debit for some reason did not occur, you are still responsible for paying the bill. If you decide after enrolling in automatic billing that you want to cancel it, you usually can do so as long as you give enough notice.

Online bill pay
Many financial institutions offer the option of online bill pay. Instead of writing a paper check to pay a bill, you log into your checking account online and input the amount that you want to send to your service provider, lender, or whoever else you need to pay. Your financial institution will then either send an electronic check or print and mail a check for you. Using online bill pay through your financial institution offers convenience – you can pay your bills through
one website instead of having to log onto the individual websites of every service provider and lender. To set up this service, you usually just need to provide your financial institution with the information that is on your bill, such as your account number and the company’s name and address. It is also a good idea to confirm with your lender or service provider that they accept online bill pay.

Keeping Your Account in Good Standing

The most basic and important aspect of checking account management is ensuring that there is enough money in your account to cover your transactions. Ultimately, keeping your account in good standing is your responsibility.

What happens if you do try to use your debit card or write a check when you do not have enough money in your account? That depends on the way your account is set up:

- **If you are not allowed to overdraw your account, your balance cannot go below zero.** Your debit card transactions will be denied, and your checks will bounce. For each check that you bounce, you can be charged a NSF (non-sufficient funds) fee. If you frequently write bad checks, you could lose your account, and you could even be subject to legal actions.

- **If you are allowed to overdraw your account (but have no overdraft protection), your balance can go below zero,** so debit card and check transactions will not be denied even if you do not have the funds in your account. (However, your account may have a limit as to the amount you can be overdrawn and what types of transactions overdraft protection will be provided for.) Essentially, your financial institution is giving you a loan. But without overdraft protection, you will likely be charged a fee every time you overdraw your account. Furthermore, the money that you owe to your financial institution (the amount you are overdrawn) can be deducted from your account immediately the next time you make a deposit. Like when you bounce checks, your account could be closed if you routinely overdraw your account.

- **If you have overdraft protection, you are not charged a fee every time you overdraw your account.** There is often a monthly fee for this service, but it is usually less than overdraft and bounced check fees. With overdraft protection, your checking account is typically linked to your savings account, credit card, or a line of credit, and the amount you overdraw is automatically deducted from or charged to that.

Having the ability to overdraw, even if you have overdraft protection, does not relieve of your duty to make sure you have enough money in your account to cover your transactions. Remember, when you overdraw your account, you are not given free money – you must pay back the amount you overdraw.

People often get stuck in a vicious cycle where, because they have to pay back their overdrafts from the previous month, they continue to
overdraw. If you find yourself in this cycle, try to reevaluate your spending habits and/or look for ways to increase your income so that you can break out of it.

The best way to prevent overdrawing or bouncing checks is to monitor your account balance. Is it necessary to check your balance every time you want to buy a $1 pack of gum or $3 magazine? No, but it is a good idea to do so whenever you are not sure if there is enough money in your account.

In this day and age, knowing your balance is a snap – most financial institutions will let you check it over the phone or online. (Remember to subtract from your balance the amount of any outstanding checks.) If you see that you don’t have enough money, don’t make the purchase. But what if you need to buy an essential, like gasoline or food? The ability to overdraw your account can come in handy in a pinch, but as mentioned above, it is better to manage your finances so that you do not need to do it.

Checking account ledger
If you do not feel comfortable checking your balance online or over the phone, you can also use the pen and paper method. Start with the opening balance. Every time you make a deposit, record it and add it to your balance. Every time you make a withdrawal (including writing a check, even if it has not yet been deposited), record it and deduct it from your balance. When you want to know your account balance, you can simply look at your sheet. (Make copies of the Checking Account Ledger on page 10, or download a print-friendly PDF from our website on the Financial Education page under "Checklists and Charts").

Protecting Your Account

Preventing identity theft
In the past, a thief would look to steal the cash you were carrying or the jewelry you were wearing. However, today, many thieves are looking to take steal your account information so they can take far more than the $5 bill in your wallet. In fact, they may try to completely drain your account. This type of crime is an example of identity theft, and it has victimized millions of people.

There is no surefire way to prevent identity theft, but there are many things you can do to reduce the likelihood of it occurring:

- Only carry with you what you need. If you are not going to use your debit card or checks, leave them in a safe place at home.
- Never carry your PIN with you or write it on your debit card. Do not share your pin number with anyone.
- Report a lost or stolen check or debit card to your financial institution immediately. If unauthorized charges were made, the maximum amount you can be held liable for

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under the federal Electronic Fund Transfer Act is dependent on how quickly you report it: $50 if reported within two business days, $500 if reported within 60 days but more than two days, and unlimited liability if you wait more than 60 days.

- Never disclose your account or debit card number over the phone or online unless you know you’re dealing with a reputable company.

- Cut up or shred old debit cards and statements before disposing of them.

### Balancing your checkbook

Because identity theft can occur even if you take steps to keep your account information private, you should regularly inspect your checking account statements for unauthorized charges. It is also a good idea to check for clerical errors, such as being charged a monthly maintenance fee when your account is supposed to be free.

The traditional method used to monitor statements for accuracy is called “balancing your checkbook”. To balance your checkbook, you first need to independently record every single deposit and withdrawal that you make. Then, when your statement comes, you compare your records to the statement to see if they match. Keep in mind that some differences are to be expected.

For example, if you wrote a check that has not yet been deposited, it would show in your records but not in your statement. Before you can properly compare your records to your statement, you must:

- Subtract from your statement balance any checks you wrote that are still outstanding.

- Add to your statement balance any checks that were deposited that have not yet cleared.

- If not already done so, add to your records balance any automatic deposits and subtract any automatic withdrawals.

- Add to your records balance any interest earned on your checking account.

- Subtract from your records balance any legitimately charged fees, such as a monthly maintenance or NSF fee. (If you believed that a fee was charged in error, report it to the financial institution.)

If, after you do all this, your records and statement are still different, you know there is a problem. But is it a problem with your account or a mistake made in your recordkeeping? To figure that out, some research may need to be done. For example, if your records say you wrote a check for $79 to the supermarket, and your statement says $179, look for the canceled check (a copy should be included with your statement) or receipt. If it is an error in your recordkeeping, fix it. If you believe it is error by the financial institution or an unauthorized charge, call them right away.

The practice of balancing one’s checkbook has somewhat lost popularity in recent years as banking habits have changed. Whereas years ago people had to wait for their monthly statements to be mailed to see what transactions were posted to their account, nowadays most people can check their account activity online whenever they want.
When you, for example, receive a statement on February 25 for the period of January 15 to February 15, it is hard to know based solely on memory what charges are legitimate. (That is why keeping your own records comes in handy.) However, if you go online on January 18 and check all of the transactions that have posted to your account from the 15th to the 18th, it is much easier to remember what you did and notice an error or unauthorized charge without needing to resort to balancing your checkbook. Nevertheless, many financial experts still recommend taking the time to do it, especially if you do not frequently monitor your account activity online.

Using a checking account properly is neither hard nor time consuming – it just takes getting into the routine of monitoring your accounts and following a few simple habits.