VALLEY TAX

PROFESSIONAL SERVICES FIRM

Bank Accounts

Which banking fees should I watch for with a new bank account? Keep in mind that banks are always required to notify you of the fees for their accounts. The best account to choose is usually the one with the lowest fees, regardless of the interest rate. Keep an eye out for potential extra charges when shopping for checking accounts. Ask about monthly fees, check processing fees, and ATM fees. Also be wary of cost-free checking accounts, as the bank may charge you if your balance drops below a certain amount. Also, the charges for printing new checks can often be much higher at your bank than through an outside printing provider. In this day and age, it doesn't really benefit you to put money into an old fashioned "passbook" savings account. Often monthly account fees overshadow the small amount of interest you will earn. Instead, put your money into a checking account. If it is a larger sum, look into a money market account. In this type of account you will earn more interest than in a savings account, but watch out for additional charges if your balance drops too low.

What are the different types of bank accounts I can choose from?

- Checking Accounts

Checking accounts provide you with quick, convenient access to your funds. You are able to make deposits as often as you wish, and most banks provide you with an ATM card to access your funds, or to charge debits at stores. Of course, you can also use the conventional method of writing checks. Some checking accounts pay interest. These are called negotiable order of withdrawal (NOW) accounts. The more commonly used type, a demand deposit account, does not pay interest. There are several fees that are associated with checking accounts, other than the check printing fees. These will vary depending on the bank you choose. Some will charge a monthly maintenance fee regardless of your balance, others will charge a monthly fee if your balance drops below a certain point. Further, some institutions charge you based on the transactions you make such as each ATM withdrawal or each check you write.

- Money Market Deposit Accounts (MMDA)

An MMDA is basically an account that accumulates interest. You can also write checks from it. The rate of interest is usually higher than that of checking or savings accounts. However, they require a higher minimum balance in order to earn that interest. The higher your balance becomes, the higher your interest rate may rise. However, it is less convenient to withdraw money from an MMDA than it is from a checking account. You are limited to six transfers from the account a month, and only three of these can be through writing a check. Also, there are usually transaction fees associated with these accounts.

- Savings Accounts

You may make withdrawals from savings accounts, but there is less flexibility than with a checking account. Like an MMDA, the number of withdrawals or transfers may be limited. There are a few different types of savings accounts. The two most common are passbook and statement. Passbook accounts involve a record book that tracks all deposits and withdrawals and must be presented upon making these transactions. With a statement savings account, you are mailed a statement showing all withdrawals and deposits. Minimum balance fees may also be charged on savings accounts.

- Credit Union Accounts

These accounts are similar to those of banks, but with a different title. In a credit union, you would have a share draft account (a checking account), a share account (savings account), or a share certificate account (certificate of deposit account). The great thing about credit unions is that they usually charge less for banking services than banks do. If you have access to one, use it!

- Certificates of Deposit (CD)

CDs are time deposits. They offer a guaranteed rate of interest for a specified term which can be as short as a few days or as long as several years. When you pick the term you generally can't withdraw your money until the term expires. In some cases the bank will let you withdraw the interest you have earned on the CD. Because CDs are for a set amount of time, the rate of return is usually higher - and the longer the term, the higher the annual percentage yield. A penalty can be issued if you withdraw your funds before the maturity of your term. Sometimes the penalty can be quite high, eating into your interest earned as well as your principal investment. Your bank will notify you before your CD matures, but often CDs renew automatically. You should keep track of your maturity date if you would like to take out your funds before the CD rolls over into a new term.

What type of account should I go with?

This depends on how you plan to use the account. If you want to grow your money and do not need to access it readily, put it in a CD.

If you need ready access to your money, a savings account could be a good option. If your primary concern is paying bills, a checking account would be easiest. Remember, if you only write 2-3 checks a month, an MMDA could suit your needs very well. They have a higher rate of return, but also have a higher minimum balance requirement. Checking accounts can be very efficient. They simplify your recordkeeping; if you cancel a check, you have a receipt at tax time, and the check register is an easy way of tracking monthly expenses.

Bank institutions have varying fees and features with each of their accounts, so it is important to find out what these are before making a final decision on which bank and which type of account to choose. A good way to get the most out of a checking account is to inquire into what the minimum balance is and make sure you maintain that amount. Another way to maximize efficiency is to get a checking account that pays interest, or go with a bank that lets you distribute funds into both checking and savings accounts that, combined, reach the minimum balance.

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Bank Accounts – (cont.)

How should I "shop around" for an account?

There are several features of accounts you should investigate at various banks:

Interest Rates

- Find out what the interest rate is and whether the bank can change it after the account has been established.
- Also, find out if the bank pays different interest rates based on how much you have in the account, and if so, how it is calculated.
- Ask when the interest starts being compounded (when they pay you interest based on your principal plus your earned interest).
- Ask what the annual percentage yield is. This is a rate that will tell you how much interest you will earn on a deposit.
- Ask the minimum balance required before you start earning interest.
- Ask if you start earning interest when you deposit a check, or when the check is actually credited to the institution.

Fees

- Ask if you will pay a flat per-month fee.
- Find out if there is a penalty fee for dropping below a minimum balance.
- Ask if there is a charge for each deposit or withdrawal and how much.
- Inquire about ATM fees: making deposits, withdrawals, and how these fees vary if you use an ATM owned by the bank.
- See if there is a charge for bill payment by phone or online.

Additional Questions

- Will I be charged per check I write?
- Will my fees be reduced if I have multiple accounts with the bank?
- Will fees be waived if I use direct deposit?
- Is there a fee for canceling a check?
- Is there a fee per balance inquiry?
- Will there be a fee if I close my account soon after it is opened?
- Am I charged a fee if I write a check that bounces?

Limitations

- Find out if there is a limit to the dollar amount of withdrawals or frequency of withdrawals.
- If you close the account before your interest is credited, ask if you will still receive that interest.
- Find out how long it takes a check to clear, and how long you must wait to withdraw funds you have credited to your account.

CDs

- Establish the term of your account.
- See if the account will roll over automatically, and see if there is a grace period in which you can withdraw your funds after your term comes to maturity.

Can I negotiate my checking account fees with my current bank?

Yes, and here are some tips on how to approach this:

- See what your fees and charges have been over the past 3 years.
- Write down your checking needs, i.e. how many checks you write a month, how many ATM visits, how many deposits, how many times you have overdrawn, how often you go below the minimum balance.
- Take this info and do some research into other banks in the area. Compare their rates and fees to your bank.
- Go to your bank and ask to speak to a manager. Tell them you want to reduce your banking costs. If they don't negotiate, bring up their competition. If they don't want to lose your business they will negotiate. Also ask them other ways to cut costs.
- Keep in mind that many banks offer free checking to seniors, students, and the disabled.
- Don't rule out smaller banks as they may be more willing to cut your costs just to get your business.

What is overdraft protection and should I have it?

This is a federal law that requires depository institutions to inform you of the following:

- Annual percentage yield and interest rate
- Costs, fees, extra charges
- Other info including minimum balance requirements

Because of this act, you will get a disclosure of all this info from the bank you are opening an account with. This act also requires that banks provide you with this info upon request. The Act also requires that interest and fee information be provided to you in periodic updates, and that if you have a rollover CD, you will be notified before the maturity date.

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