



Focus on **FINANCE**

Banking Basics

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GLOSSARY

ATM/Automated teller machine card: A form of debit card used in a cash machine to access an account by using a code or personal identification number.

Banks: Businesses that accept deposits and make loans.

Checking account: An account held at a bank, credit union, or other financial institution in which account owners deposit funds. Account owners can write checks on their accounts and are able to use ATM cards or debit cards to access money in the account.

Credits: Additions or deposits to an account. Credits are added to the balance.

Credit union: A nonprofit financial institution that is owned by its members.

Debit card: A card that allows an account owner to withdraw or make payments directly from the account.

Debits: Charges to or withdrawals from an account. In a bank account register, debits are subtracted from the balance.

Direct deposit: Money deposited electronically directly into an account from another account.

Fees: Money charged by banks, credit unions, or online banks, such as overdraft fees, fees for using a different institution's ATM, or fees for not maintaining a required balance.

Online(-only) bank: A bank customers access only through the internet or web—there are no physical branches.

Online banking: An electronic payment system that allows customers of a bank or credit union to conduct a wide variety of financial transactions through the bank or credit union website or app.

Overdraft: Occurs when an account holder authorizes a withdrawal through a check, ATM withdrawal, debit card purchase, or electronic payment when the account does not have enough money to cover the amount of the transaction.

Savings account: An account at a bank, credit union, or other financial institution in which account owners can deposit their money for future use and earn interest.

Withdrawal: A sum of money taken out of an account.

"If you would be wealthy, think of saving as well as getting."

—Benjamin Franklin

"It is thrifty to prepare today for the wants of tomorrow."

—Aesop

Why Do You Need a Bank Account?

Do you have some extra cash you're saving? Where do you keep it? Some people stash their cash in shoe boxes, "piggy banks," or other secret places. Sooner or later, you have to choose whether to spend the money or continue to save. If you continue to save, you have to choose whether to keep the money at home or open a bank account. If you keep your money at home, it won't earn any interest—money a **bank** would pay for keeping your money in a **savings account**. There is also the chance that a burglar or some other disaster will wipe out your savings.

Opening an account with a traditional bank or **credit union** or an **online-only bank** or credit union is a big step because you are counting on someone else to handle your money responsibly. Before you do that, it is a good idea to learn more about banks, credit unions, and online-only banks and the types of services they offer.

What Are Banks, Credit Unions, and Online Banks?

Banks and credit unions are safe places to keep your money. They make it easy for you to keep track of your money. Depending on the account you have, you can take money from the account with an **automated teller machine (ATM) card**, pay for goods and services with a **debit card**, pay bills electronically, or write checks. This makes it easy to pay bills, buy stuff now, and save for later. If your bank or credit union debit card is lost or stolen, and you report it to the institution within two business days, your loss is limited to \$50. Depending on the type of account and where you open it, you might also earn some interest on the money in your account. Banks, credit unions, and online-only banks all offer savings accounts, **checking accounts**, and other financial services. They also make loans.

A bank is a business. Banks don't manufacture products or sell food, clothes, or other things. Banks sell financial services such as car loans, home mortgage loans, checking accounts, and credit card services. People go to banks because they are safe places to keep money or because they want to borrow money to buy a house or a car, pay for college, or do other things that require borrowing money.

When you open an account at a credit union, you become an owner-member of the credit union. Credit unions are mutual associations rather than corporations. This means that the members of the credit union own and control it. Credit unions offer services like those offered by banks. Their interest rates, **fees**, and services are very responsive to the needs of their members. As a result, credit unions often offer higher interest rates on accounts, lower interest rates on loans, and reduced fees.

Both banks and credit unions let their customers do **online banking**. This means customers can use an electronic payment system through the bank's or credit union's website or app to make payments and accept deposits.

Online-only financial institutions are banks and credit unions that operate without actual buildings. Because of this, they have lower operating costs and a reputation for offering higher interest rates on deposits and for keeping fees low compared with traditional banks and credit unions. Online banks often offer user-friendly apps and tools that make it easier for you to manage your money. The trade-off is that you can't just walk into an online bank for customer services, and many online banks don't offer traditional bank services such as safe deposit boxes.

You aren't limited to choosing one option—you can have an account at an online bank or credit union and an account at a local bank or credit union. Whatever you choose, make sure that your bank is a member of the Federal Deposit Insurance Corporation (FDIC) or that your credit union is a member of the National Credit Union Association (NCUA). If your account is insured, your money is safe even if the bank or credit union goes out of business. The insurance covers each account up to \$250,000 per depositor.

What Type of Account Do You Want?

People use banks, credit unions, and online banks for different purposes. Some want to save; others want to

borrow. Some want to manage household finances; others want to manage business finances.

Savings accounts are for people who want to keep their money in a safe place and earn some interest at the same time. You don't need a lot of money to open a savings account, and you can withdraw your money easily.

Banks, credit unions, and online banks offer checking accounts. You can easily deposit and withdraw money from a checking account. You can access the money in your account by setting up automatic bill payment, using a debit card, using an ATM, using a peer-to-peer payment app, writing a check, or visiting an actual bank or credit union building. You can track your deposits, **withdrawals**, and payments online. You may be able to have a no-fee checking account and earn interest if you keep a certain amount of money in an account; that amount is called a minimum balance.

What Things Should You Think About?

With all of these choices, it seems like a good idea to compare the requirements, fees, and features of each type of account at different banks, credit unions, and online banks before choosing what account to open and where to open it. The box "Questions to Ask When Opening an Account" has some things to consider.

What Do You Need to Open an Account?

To open an account in person, you will need two types of identification, such as your Social Security card, a state-issued driver's license or state identification card, your passport, or your birth certificate. If you are not a U.S. citizen you may be able to use identification issued by your country, such as your passport. You should also bring a utility bill or lease agreement with your name and address on it. You will have to complete an application and signature card. You'll also need the first deposit. This could be cash, a money order, a check from another account, a transfer using routing and account numbers from another account, or a **direct deposit** from your employer.

If you are opening an online account, you will be asked for an email address, an address that can be verified as a legitimate postal address by the online system, your Social Security number, and your driver's license or state identification number. You'll also be asked to agree to

Questions to Ask When Opening an Account	
Checking accounts	Savings accounts
Is the account covered by federal deposit insurance through either the FDIC or NCUA?	Is the account covered by federal deposit insurance through either the FDIC or NCUA?
Are there monthly fees? Avoid an account with a monthly fee. Look for an account with no fee or one for which the fee can be avoided. For example, the fee may be waived if you have your paycheck automatically deposited to your account. And, there are sometimes free accounts for students.	Do you have online and mobile access? You want to be able to withdraw or deposit money without having to go to a branch. This is a savings account, so you won't want to access it every day, but you will want to access it in a true emergency.
Is there a minimum balance required? Some banks require people to keep a certain amount of money in their account. If your balance falls below that amount, they charge a fee. This could be very expensive, so look for an account with no minimum balance requirement.	Do they offer a competitive interest rate? Compare the interest rates being offered by various institutions.
Are there limits to the number or type of transactions? You should be able to deposit money, withdraw money, make payments, or transfer money from your savings account to your checking account as often as you want with no limits and no fees.	Are there limits on the number of withdrawals during a certain time period?
Is there ATM, online, and phone access? You should be able to withdraw money using your ATM card without the bank charging a fee. You will want to access your account using your computer or phone.	
Are there overdraft protection fees? Understand how this fee is applied.	

certain rules or terms for the account by clicking on an “I agree” button. You may be allowed to sign forms electronically, or you may have to print, sign, and mail documents to them. As with opening an account face-to-face, you will need the first deposit. This could be provided using debit card information or routing and account numbers from another bank account you own. It might also be direct deposit information from your employer.

Whether face-to-face or online, if you are opening a joint account—that is, an account with someone else—you will need the same identification and information for that individual.

Why Should You Manage Your Account?

Once you have opened your account, watch the mail for your debit or ATM card and possibly checks, depending on the type of account. And, once your account is opened, keep track of deposits (**credits**), withdrawals, and payments (**debits**) from the account. You can do this online. It isn't enough to simply check your balance once in a while. You need to be sure that correct amounts are being deposited to your account and that any withdrawals or payments from your account are correct. This is important

so that you i) don't pay any overdraft fees, ii) know where your money is going, and iii) can make certain the records and account balance are correct.

Conclusion

There are lots of reasons to keep your money in a bank or credit union. For example, they are safe places to keep your money; you may earn interest; you have a record of your spending and saving; and you'll likely have 24-hour access to your money through use of a debit or an ATM card.

Choose the best option for you—bank, credit union, or online bank. When choosing, consider whether a minimum balance is required, what fees are charged for use of an ATM or for overdraft protection, and the interest rate paid on the money in your account. Once you've made your choice, be sure you have all of the identification and information you need to open the account. And, once you have an account, carefully track your withdrawals, deposits, and expenses so that you don't pay any fees and will know your records and balance are correct. ■

Sources

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Please visit our website and archives at <http://research.stlouisfed.org/publications/page1-econ/> for more information and resources.

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Name _____ Period _____

Federal Reserve Bank of St. Louis *Page One Economics*®:**“Banking Basics”****After reading the article, answer each of the following questions:**

1. Banks are businesses that provide financial services.
 - a. True
 - b. False
2. If properly insured, each of your bank accounts is protected up to
 - a. \$25,000.
 - b. \$50,000.
 - c. \$150,000.
 - d. \$250,000.
3. Make sure that any bank at which you open an account is a member of the
 - a. Office of the Comptroller of the Currency.
 - b. Federal Deposit Insurance Corporation.
 - c. Consumer Financial Protection Bureau.
 - d. Federal Reserve Board.
4. Make sure that any credit union at which you open an account is a member of the
 - a. Office of Thrift Supervision.
 - b. Consumer Financial Protection Bureau.
 - c. National Credit Union Association.
 - d. Federal Securities and Exchange Commission.
5. Online-only banks provide online banking services; banks and credit unions do not.
 - a. True
 - b. False
6. When choosing a bank or credit union for a checking account, an important thing to consider is whether
 - a. there are monthly fees or minimum balance requirements.
 - b. your friends have accounts with the same bank or credit union.
 - c. the online bank is near your home or school.
 - d. the online bank has a twitter account.

7. Which of the following is NOT a reason for having an account at a bank or credit union?
 - a. Your money is safe, and money in an account may earn interest.
 - b. You have a record of your transactions.
 - c. You'll likely have 24-hour access to your money.
 - d. You are guaranteed a loan.

8. Once you have an account at a bank or credit union, it is important to manage your account. This means checking
 - a. the balance in the account once in a while.
 - b. the deposits made to the account once a week.
 - c. that deposits withdrawn from your account and payments made to your account are accurate.
 - d. that deposits made to your account and payments made from your account are correct.

9. Online banks have physical buildings that you can go to if needed.
 - a. True
 - b. False

10. If your bank debit card is lost or stolen and you report it within two business days, your loss is limited to \$50.
 - a. True
 - b. False