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Scoring points for
your financial future

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Banks' free checking*

*Read the fine print; other fees may clip your wings if you're not careful

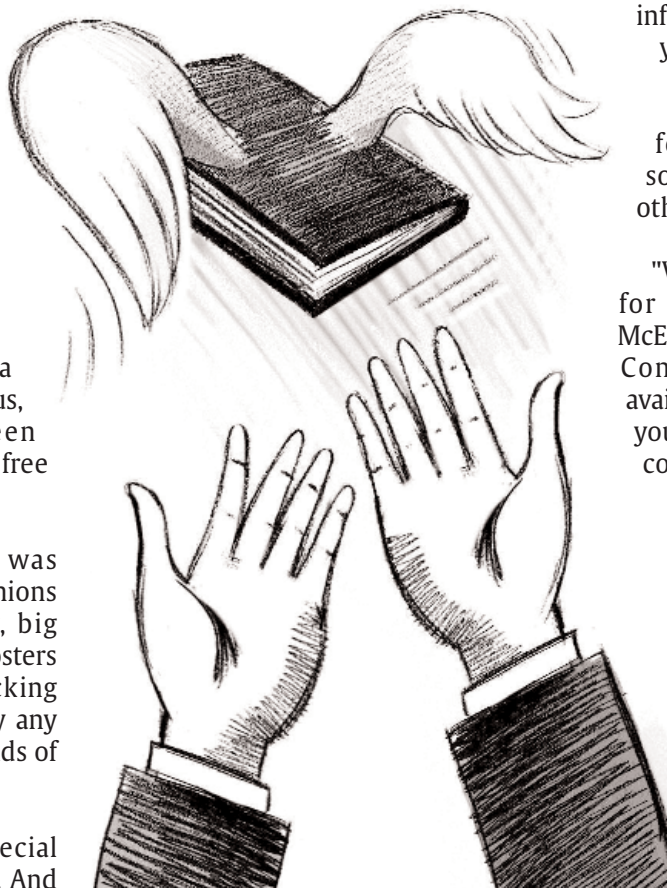
By Christine Dugas
USA TODAY

How many kinds of free checking are there?

To look at some of the ads running these days, there are a lot. Washington Mutual says it is taking free checking to a new level. Bank of New York offers free checking for life. Bank of America says it provides free checking, plus, plus, plus. And Chase has been running ads touting the power of free checking with no compromises.

In the past, free checking was mostly the province of credit unions and community banks. Today, big banks are among the biggest boosters of free checking. But free checking doesn't mean that you won't pay any fees at all. It just limits certain kinds of charges.

You will still pay a fee for special services, such as certified checks. And you'll still pay a penalty for certain



Keith Simmons, USA TODAY

infractions, such as overdrawing your account.

Some banks offer more free features than others, while some have hidden charges and other strings attached.

"We're telling consumers to look for free checking," says Ken McEldowney, executive director of Consumer Action. "It's widely available, so there's a good chance you can find an account without conditions."

But don't be swayed by advertising promises alone. Start by learning the basics:

Why are banks jumping on the free-checking bandwagon?

After a period of consolidation, banks are expanding their branch networks and competing for customers. A checking

Presented by:



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account typically is the basis for any new customer relationship. "A checking account is an integral part of the banking relationship," says Daniel Carretta, senior vice president of checking products at Bank of America.

"There has been a realization that once a consumer signs up for a checking account, the bank can cross-sell them other products and make money from them," McEldowney says.

Bank branches today sell investments, insurance, mortgages and other financial products.

In addition, banks offer free checking because they make money from related fees, consumer advocates say. Banks took note of the credit card industry, which long ago did away with annual fees and instead makes money from late fees, penalty interest rates, cash advance charges and the like, says Ed Mierzwinski, consumer program director for U.S. Public Interest Research Group.

What do free checking accounts have in common?

The federal Truth in Savings Act

governs what can be called free checking. Under the law, free checking accounts cannot charge a recurring maintenance fee and cannot require a minimum balance to avoid a fee. They cannot charge a fee for excessive check writing. They cannot charge a per-check fee or fee for a deposit.

But they can require an initial amount to open the account.

Many banks also require you to sign up for direct deposit of a paycheck or Social Security check to qualify. The rules do not specifically address direct deposit. The Federal Reserve staff has said that accounts that require direct deposit should not be advertised as free. But because the law does not allow for civil liabilities, there is little risk for banks who ignore the directive.

What are some of the fees to watch out for?

Just because there is no monthly maintenance fee doesn't mean you won't get hit with other charges. When you sign up for an account, ask for a list of fees.

Some banks charge a fee if you close

an account soon after opening it or if the account is dormant for long periods. There may be a fee for calling to inquire about your balance or for getting copies of canceled checks. Some banks charge a monthly fee to have a debit card, while others have added debit card transaction fees.

At most banks you can expect to pay for extra services. If you need to notarize a document, get traveler's checks or get a money order, you'll probably pay a fee.

There are different ways you can be penalized for bounced checks. Among them:

▶ **An NFS fee.** You write a check that bounces. Your bank returns the check and charges you a fee for having insufficient funds.

▶ **A return of deposited item fee.** You deposit a check from another person and it bounces. You get charged a fee from your bank.

▶ **A stop-payment order.** You ask



Bank checking fees can add up

Average bank charges for overdrawing a checking account and other fees:

	Overdraft Protection	Insufficient funds	Stop-payment order	Return of deposited check	Transfer from deposit account	Transfer from line of credit
Large banks	\$26.77	\$26.48	\$24.53	\$6.38	\$4.31	\$2.91
Small banks	\$21.57	\$21.79	\$18.27	\$5.41	\$2.07	\$1.58
All U.S. banks	\$23.02	\$23.19	\$19.78	\$5.74	\$2.60	\$1.51
Credit unions	\$19.99	\$19.47	\$14.10	\$11.93	\$2.43	\$0.69

Data as of June 2003; Sources: Moeb's Services and Federal Reserve

the bank to withdraw a check that you've written.

► **Line of credit.** If you bounce a check, your bank agrees to cover it by extending credit. There will be an interest charge and sometimes a transfer fee.

► **Deposit transfer.** You bounce a check and the bank covers it by transferring funds from your savings account. There will be a fee.

Most people don't intentionally bounce a check. But 87% of consumers don't reconcile their checking accounts, and so it's bound to happen occasionally, says Michael Moebis, chairman of Moebis Services, an economic research firm. When it does, most people are happy to pay a fee to avoid the hassle.

But consumer advocates say that some banks are encouraging

consumers to deliberately overdraw their accounts, offering to cover overdrafts up to a set amount.

Bounce protection also lets consumers make debit card charges and ATM withdrawals that exceed the money in their accounts. And at some banks, the available balance that is displayed on an ATM receipt is misleading because the bounce protection limits have been added. So consumers may unwittingly incur fees.

Bounce protection is costly. Banks generally charge \$20 to \$35 per transaction. And some add a fee of \$2 to \$5 a day until the account has a positive balance. So a \$100 advance for 30 days would be the equivalent of paying at least a 243% annual percentage rate, according to the National Consumer Law Center and the Consumer Federation of America.

"Our position is that it's an expensive form of credit," says Chi Chi

Wu, an NCLC staff attorney. But the Federal Reserve recently issued a proposed rule that says such products would not be considered a loan and instead would be regulated under Truth in Savings.

Bounce protection should not be confused with traditional overdraft protection that comes with a line of credit. That is considered a loan and is more tightly regulated.

The good news is that banks are competing for your business. By shopping around, you can find free checking accounts that include other free services. For example, Bank of America, Chase, Bank of New York and Washington Mutual offer free online banking and bill payment with their free checking accounts. While BofA and Chase require direct deposit, Bank of New York pays customers a \$20 bonus if they sign up for it.

Banks' free checking*

Objectives:

Students will:

- examine the article, "Banks' free checking,*" for information on different kinds of checking accounts.
- research the checking account plans at a particular bank, and decide which one suits a particular consumer.
- identify a checking account that meets their personal needs.

Concepts:

- Cost/benefit analysis
- Competition
- Consumerism
- Banking

Preparation:

- Give each student a copy of the article, the discussion questions, activity instructions and graphic organizer.
- After students have read the article, discuss the questions either as a class, or in groups.
- Direct individuals or pairs to complete the "Checking out checking accounts" graphic organizer. (This can be given as a homework or computer lab assignment.)

Activity at a glance:

- Grade level: 9-12
- Subjects: economics, business, life skills, math
- Estimated time for this activity: 30-90 minutes

Materials:

- Reading: "Banks' free checking*"
- "Checking out checking accounts" graphic organizer

Banks' free checking*

Discussion:

What charges on free checking accounts are prohibited by the Truth in Savings Act? What fees are permissible? Why are so many banks currently offering free checking accounts? How do banks profit from them? What is direct deposit? Legally, can a free checking account require direct deposit? When opening a checking account, what information should a consumer request?

What does it mean to “bounce a check”? What are the drawbacks of bounce protection? How do bounce and overdraft protections differ? Why do you think 87% of consumers don't balance their checkbooks?

Activity:

Visit an online banking site such as www.suntrust.com, www.citibank.com, www.chase.com, www.bankofamerica.com, www.wachovia.com, etc., and compare the checking accounts that bank offers. (Or, visit a bank in your community, and ask for information on its checking account options.) Next, decide which type of account best suits the needs of each of the people profiled on the graphic organizer. Complete the worksheet, and compare your decisions with a peer's.

Additional resources:

- Goodpayer.com offers a handbook entitled “Learn Now or Pay Later” that helps young adults understand the basics of credit and debt. Visit www.goodpayer.com. You will see the booklet available in PDF format. Goodpayer.com provides tips on choosing a checking account, writing a check, preventing identify theft, etc. To order a copy, call 800-756-4912.

Activity extensions:

- Research the pros and cons of paying bills online versus writing checks. Which option do you think you will use?
- Research the evolution of money – from objects to coins to checks and debit cards. Then, create a visual timeline that shows money's past *and* predicts its future.

Checking out checking accounts

Profile 1

An elderly couple on a fixed income of roughly \$35,000 survives on their Social Security checks and the husband's military pension. They own a small home in a rural area, do not have computer access and write between five and 10 checks a month.

Bank: _____

Name of checking account: _____

Type of checking account: _____

Monthly maintenance fee: _____ Internet banking? _____

Minimum balance requirement: _____

Other pertinent fees:

Type: _____ Fee: _____

Type: _____ Fee: _____

Type: _____ Fee: _____

How does this checking account meet the needs of the person profiled at left? _____

Profile 2

An attorney in an urban area makes close to \$200,000 a year. She travels frequently, works long hours and is savvy about her investment options. This professional clocks many hours on her computer.

Bank: _____

Name of checking account: _____

Type of checking account: _____

Monthly maintenance fee: _____ Internet banking? _____

Minimum balance requirement: _____

Other pertinent fees:

Type: _____ Fee: _____

Type: _____ Fee: _____

Type: _____ Fee: _____

How does this checking account meet the needs of the person profiled at left? _____

Checking out checking accounts

Profile 3

A single mother in her 30s lives in a large city in the Northeast. She runs her own dog-walking business and does catering on the side. She receives checks from multiple clients each week, and has business-related and personal bills to pay. This entrepreneur sometimes has cash flow problems when clients don't pay on time. She does not have Internet access.

Bank: _____

Name of checking account: _____

Type of checking account: _____

Monthly maintenance fee: _____ Internet banking? _____

Minimum balance requirement: _____

Other pertinent fees:

Type: _____ Fee: _____

Type: _____ Fee: _____

Type: _____ Fee: _____

How does this checking account meet the needs of the person profiled at left? _____

Profile 4

Create your profile below. Then, decide what type of checking account fits your needs now (or will be a good option after high school).

Bank: _____

Name of checking account: _____

Type of checking account: _____

Monthly maintenance fee: _____ Internet banking? _____

Minimum balance requirement: _____

Other pertinent fees:

Type: _____ Fee: _____

Type: _____ Fee: _____

Type: _____ Fee: _____

How does this checking account meet the needs of the person profiled at left? _____
