Understanding Your Checking Account

If you have a checking account at a bank or other financial institution, you may have noticed some changes in recent years. According to a report issued by the Federal Reserve, of the 93 billion non-cash payments made in 2006, 63 billion were electronic compared to 30 billion using checks.

Checking accounts have changed. Up until a few years ago, you automatically received copies of your cancelled checks in your monthly bank statement. Today, some banks will charge you a fee to provide copies of cancelled checks. Therefore, it is important that you review your bank statement thoroughly each month to make sure the transactions listed on your statement match your receipts and entries in your check register.

Banks now exchange information electronically rather than waiting for a paper check. This is called Check 21. If you write a check to pay for a purchase or pay a bill, your check may not be processed as a check, but rather as an "electronic check conversion", and the payment will be debited from your account as an electronic fund transfer.

Overdrafts and Bounced Checks

It is very important that you know how much money you have in your account to avoid fees and penalties for insufficient funds and returned checks. In the "good old days", if you wrote a check without sufficient funds to cover it, the bank would likely honor the check and then call and tell you that you need to put some money in your account. Today's world is quite different.

If you write a check, make an ATM withdrawal or use your debit card to make a purchase or other electronic payment without sufficient funds in your account (an "NSF item"), it can prove costly. If your bank accepts the payment, you will probably be charged an overdraft fee. If your bank rejects the payment, you will be charged a "bounced check" or "non-sufficient funds" fee. Add that fee to the "returned check fee" from the merchant and that adds up to some hefty penalties. Processing NSF items is costly to banks and requires special handling, whether paid into overdraft or returned.

Most banks offer "courtesy overdraft protection" plans to their customers. While these plans are not free, they will protect you from the returned check fee from the merchant, credit report "dings" and possible criminal prosecution. You might also consider linking your checking account to your savings account, granting the bank permission to transfer funds between accounts. Or you might set up a line of credit with your bank. This would be considered more of a personal loan and you would be charged interest. If you have a credit card through your bank, you could link your checking account to the credit card. Remember, with each of these options, you will still have to pay a fee. However, it will be much cheaper than having a check returned to a merchant.

But, let's say that you are very diligent about managing your checking account. You still need to be aware of a few things. Never, never, never give your bank account information to anyone who calls you on the phone! If anyone requests this information, an internal alarm should immediately go off. The only time you would provide that information is when *you* have initiated the call. Scam artists can trick you into providing your account number and routing information and send a "demand draft" through your bank which is processed like a check. You may not know that the bank has paid the draft until you see the charge on your bank statement.

The world of check processing is changing, but to minimize your worries, just remember:

1. Do not give out your bank account information to anyone you do not know.
2. A checking account is a convenient and efficient way to manage your money.
3. Keep track of your transactions and know how much money you have in the bank *before* writing that check or using that debit card.