

Checking Accounts

by Sophia



WHAT'S COVERED

In this lesson, you will learn about the development and purpose of checks and checking accounts and note how strong technology skills can allow you to use these accounts for a variety of activities. You will also explore how to keep your information secure. Specifically, this lesson will cover:



WATCH

Are you interested in a video preview of this lesson? Click play to learn about the basics of checking accounts. When you're through, move on to section 1.

1. Overview of Checks

A **check** is simply a written order to a bank to pay a third party (payee). Technically, your check can be written on anything, but checks generally tend to be uniform in design. And as strange as it may seem, physical checks have changed very little over the centuries.



TERM TO KNOW

Check

A written order to a bank to pay a third party (payee).

1a. Form of Checks

The following illustration shows what a typical check looks like today. Three elements are required when you write a check:

- The name of the person or company that gets the money (the payee)
- The date
- The amount to be paid



HINT

The amount needs to be recorded both in numerical and written form.

Mary Timberly
5432 Oconee Road
Watkinsville, Georgia 30677

1001
August 9, 2020

Pay to the Order of John Melody Music Supply Company **\$** 325.00

Three Hundred Twenty-Five and 00/100 **DOLLARS**

FOR Mary Timberly

⑆012345678⑆ ⑆876544310⑆ 1001

**Routing
Number**

**Account
Number**

**Check
Number**

It is possible to make a check payable to “Cash” instead of a person or company, but be aware that once you do this, anyone who comes into possession of the check can cash it.

HINT

When linking your checking account with online or other electronic payment tools, you’ll need to know your **bank routing number** and account number. These can be found on a check or obtained from your bank.

Technology: Skill Tip

Strong technology skills come in handy if you have a checking account. Many bills can be paid online using your checking account and many people receive their paychecks electronically using this same method.

TERM TO KNOW

Bank Routing Number

The nine-digit code on the lower left of a check (in combination with a bank account number) that acts as a payment trail for transferred funds.

1b. Check Alternatives

What started out as a simplified and productive means of doing business in local towns has turned into the foundation for nearly all local, national, and international consumer-based transactions, including the use of debit cards. It’s hard to imagine living, working, and interacting in the marketplace without a checking account (most debit cards are tied to a checking account). Approximately 92% of Americans have a checking account, but that means 8% of Americans conduct business on a daily basis without one. These consumers are forced to use some other form of payment, such as the following:

- **Money order:** A prepaid check purchased from a bank, credit union, or convenience or grocery store.

- **Certified check:** A personal check issued by a bank that guarantees the amount will be paid; the bank charges a fee for this type of check.
- **Cashier's check:** A check of a bank or other financial institution that can be purchased by paying the amount of the check plus a service fee.
- **Traveler's check:** A prepaid check purchased from a credit card company, bank, or credit union that must be signed before it can be cashed. (Note that worldwide electronic payment systems are making traveler's checks obsolete.)



DID YOU KNOW

Check alternatives are rapidly being replaced by electronic payments, which are more secure.



TERMS TO KNOW

Money Order

A prepaid check purchased from a bank, credit union, or convenience or grocery store.

Certified Check

A personal check issued by a bank that guarantees the amount will be paid. The bank charges a fee for this type of check.

Cashier's Check

A check of a bank or other financial institution that can be purchased by paying the amount of the check plus a service fee.

Traveler's Check

A prepaid check purchased from a credit card company, bank, or credit union that must be signed before it can be cashed.

1c. Cashing a Check

Fewer and fewer people today write checks. In fact, many college-age students may never write a check in their lives! Instead, they make purchases using debit cards and electronic transfers. On the other hand, nearly everyone will need to cash a check from time to time. Although you can certainly use a check-cashing service – generally not recommended because of high costs – a better option is to cash a check at the bank or credit union where you have an account.



Technology: Skill Reflect

Do you know how safe your information is online? Is your debit card linked to merchants to pay bills? Have you stored any debit card information on insecure sites? Strong technology skills can help you keep your information secure.



HINT

Banks and credit unions offer similar services and products. The primary difference is that credit unions work on a non-profit basis, whereas banks are for-profit institutions. Banks tend to offer a broader line of services as well.

Before you can cash a check – which means to receive money from the bank for the amount of the check –

you must first endorse it. An **endorsement** is just your signature. Three types of endorsements are common:

1. Blank endorsement: Your name signed on the back of the check. Once you have signed the check, anyone can cash it, so be careful and sign the check only at the time you plan to deposit or cash it.
Example: *John Melody*.
2. Special endorsement: A way to transfer the amount of the check to someone else. Example: You could write the following on the back of the check. Example: *Pay to the Order of Mike Smith, John Melody*.
3. Restricted endorsement: A way to sign your check and ensure that it gets deposited into your account.
Example: *For Deposit Only (1357902468), Oconee City Bank, John Melody*.



TERM TO KNOW

Endorsement

Your signature.

2. Opening and Using a Checking Account

It goes almost without saying that you *must* have a checking account to continue your lifetime financial journey. Here are four reasons why.

2a. Advantages of a Checking Account

1. Liquidity: A quick and easy way to access cash. Checking accounts provide a baseline level of liquidity; however, they generally pay low or no interest on deposits.
2. Direct deposit of paychecks: A way for an employer to transfer your earnings directly to your bank or credit union account. This not only saves time, it also eliminates the need to cash your paycheck. Remember, check-cashing services outside financial institutions are costly.
3. FDIC insurance: A protection of all deposits up to at least \$250,000 in case the bank fails or goes out of business.
4. Debit cards: The way to obtain one is to have a checking account. A debit card acts as an electronic version of a check.

2b. Checking Account Warnings

Although having a checking account opens up new ways to spend money, you need to be careful. For example, nearly all banks belong to ChexSystems®. This network of member financial institutions reports information on closed checking and savings accounts. Before opening an account for you, banks and credit unions use ChexSystems to evaluate your previous bank account history. If you have mismanaged an account in the past, you may find that either you can no longer open a new account or may be subject to higher fees and restrictions.

Common red flags within ChexSystems include allowing an account balance to go to zero and bouncing a check.

- Bouncing a check refers to writing a check for an amount greater than your account balance (this is also known as an **overdraft** or non-sufficient funds). Another name for this is writing a bad check. Not only is this embarrassing, it is also against the law in most states.
- When this happens, the person trying to cash your check will be denied access to the promised payment.

Sometimes, your bank will pay the amount of the check, but it will then turn around and charge you a hefty overdraft fee, which is a penalty assessed by the bank.

- Banks receive billions of dollars each year in overdraft fees. These fees, however, can easily be avoided by bank customers through regular tracking (daily or weekly) of cash coming into and going out of their accounts.



TERM TO KNOW

Overdraft

Writing a check for an amount greater than your account balance; also known as bouncing a check.

3. Know Before You Spend

One of the most important things you can do to minimize fees on checking accounts is to avoid withdrawing more money than is in the account. Overdraft fees can add up quickly and be very costly. Perhaps the easiest way to monitor your checking account balance is to use both online banking services from your bank or credit union and a mobile banking application.

Your bank or credit union knows a great deal about your transactions, but one thing it does not know is the amount of any checks you have written that have not yet been cashed. Outstanding checks can create headaches when trying to determine how much you have available to spend in your checking account.

If you do not have access to online banking services or mobile banking applications or choose not to use these services, then it is very important that you **reconcile your check register** with your checking account statements on a regular basis.



TERM TO KNOW

Checking Account Reconciliation

The process of comparing your check register with your monthly bank statement.



SUMMARY

In this lesson, you learned about another **form of money: a check**. This **overview of checks** included a look at **check alternatives**, such as money orders and certified checks. You also learned how to **cash a check** at a financial institution, such as a bank or credit union.

You can **open and use your own checking account** to take **advantage** of the perks that it offers. To choose an account that's right for you, always heed the **checking account warnings** which appear in your signed terms of agreement and beware of overdrafts that can make your account go negative. In other words, **know before you spend** your money using checks. If you don't purchase banking services that help you monitor your spending activity, it's a good idea to reconcile your checking account regularly on your own.

Strong technology skills can help you use your checking account to set up electronic transfers. These skills can also help you take the steps needed to make sure any information about your account is secure at all times.

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Check

A written order to a bank to pay a third party (payee).

Checking Account Reconciliation

The process of comparing your check register with your monthly bank statement.

Endorsement

Your signature.

Money Order

A prepaid check purchased from a bank, credit union, or convenience or grocery store.

Overdraft

Writing a check for an amount greater than your account balance; also known as bouncing a check.

Service Charge

A reasonable monthly fee charged by any financial institution to use its services.

Traveler's Check

A prepaid check purchased from a credit card company, bank, or credit union that must be signed before it can be cashed.