Advantages of Maintaining a Bank Account

19 TAC Chapter 74.34 (b)(a)

A checking account is a primary tool for managing personal finances. If you are employed, it is likely that you will receive a paycheck. Having a bank account often means having a safe place to store your money. It also provides you with easy access to your money, either with checks or a debit card. Maintaining a checking account has both advantages and disadvantages that must be considered prior to choosing a bank and its checking account options.

Advantages

- **Save fees** charged by storefronts that provide check cashing services and the ability to access funds by writing checks, instead of carrying cash with you. Funds are kept in a secured environment, with accounts insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC)(as of 2010).
- Having a bank account will improve your chances of being able to obtain a loan. If you are in need of a personal loan, automobile loan, student loan, or mortgage, you have a higher chance of being approved if you are already the customer of a bank. In addition of being approved for a loan with your bank, having a bank account can improve your chances of obtaining financing elsewhere. Before financing is granted, the lender in question will examine your ability to pay. If you have a checking account or savings account, the balance of those accounts will be taken into consideration. The more money you have in your account, the more likely it is that you will be approved for financing.
- Checks provide a paper trail or written proof that you paid someone. Each time you write a check that ultimately clears your account; there will be several records of it. Having this proof is important for tax purposes and whenever you are paying a person or company by mail.
- Having your paycheck automatically deposited to a checking account allows you to obtain your money faster, and it saves time and energy associated with depositing the check yourself.
- Debit cards – The majority of banks offer check cards for use with ATMs, and for making purchases anywhere Visa or MasterCard are accepted by using checking account funds without writing a check. Debit cards are used for online shopping, renting cars, purchasing tickets from airlines and to receive cash at many point-of-sale locations without ATM fees.

Types of Bank Accounts

19 TAC Chapter 74.34 (b)(8)

There are several types of bank accounts. Understanding them all can be difficult, as each banking institution may offer a broad range of bank account types. However, most bank accounts fall into one of five categories. By learning the different categories, you can make deciphering the choices easier.

A **checking account** is a bank account that uses checks as the primary instrument for withdrawing money. With a checking account, you can make purchases, pay bills, and give or loan money to anyone you choose. You can also use a check to transfer money from your checking account to a bank account at a different financial institution. Usually, financial institutions allow account holders to make as many deposits and withdrawals as they wish.

Many allow account holders to make withdrawals and deposits through automatic teller machines (ATM) as well.

A **savings account** is another type of bank account that allows the holder to make deposits and withdrawals. However, savings accounts are not as flexible as checking accounts. Often, holders of this type of bank account are limited in the number of withdrawals and deposits they can make each month. Also, savings account holders are not able to access their money with checks. Many financial institutions allow savings account holders to make deposits and withdraw funds through ATM, however.

Another type of bank account is a **money market account**. A money market account combines the benefits of a checking account and a savings account. This type of bank account pays interest at a higher rate than the rate paid on interest-bearing savings and checking accounts. Often, money market accounts impose a minimum balance for the account to start earning interest. The minimum required balance on a money market account is usually higher than that imposed on a checking or savings account. Some banks limit the number of transfers you can make with a money market account however.

A **certificate of deposit (CDs)** is a bank account that requires the account holder to make a deposit and agree to leave the funds in the account for a specific amount of time. In return for this agreement, the financial institution pays interest to the account. Often, the interest paid on a CD is higher than the rate paid on other types of bank accounts. The account holder is required to keep their money in the account until the specified term is over. However, some financial institutions allow account holders to withdraw interest, without affecting the principal. In some cases, account holders may be allowed to withdraw their principal funds before their CD matures, but a penalty is typically charged.

Some financial institutions also offer basic, **no-frills bank accounts.** A no-frills account may allow you to pay bills and cash checks without paying the high fees associated with completing such transactions without an account. An account of this type will likely allow for only a limited number of checks, deposits, and withdrawals to be processed in any given month. In most cases, interest is not paid on a no-frills account.