

## 5-3

# Banking Services and Fees

### GOALS

- Describe banking services available to consumers at most banks and credit unions.
- Discuss the costs of banking services.
- Explain consumer responsibilities for holders of bank accounts.

### KEY TERMS

- safe deposit box, p. 172
- overdraft protection, p. 173
- stop payment, p. 173
- cashier's check, p. 173
- money order, p. 173
- Internet banking, p. 174
- smart card, p. 174
- bounced check, p. 175
- inactive account, p. 176
- floating a check, p. 177

## What Banking Services Are Available to Consumers?

Financial institutions offer a number of services for consumers. Some of these are included with your checking account. For example, you may be able to have a “free” checking account if you process ten or more debit transactions a month. Other services cost additional money, either on a regular basis, such as monthly or once a year, or as you use them.

### SAFE DEPOSIT BOXES

Many banks and credit unions rent out safe deposit boxes as a service to their customers. A **safe deposit box** is a secure container located in the bank vault. You can use it to store important documents, such as

deeds and stock certificates, or valuable jewelry, among other things. The safe deposit box protects items from fire or theft. A safe deposit box usually costs from \$35 to \$100 a year, depending on the size of the box. Many banks require that the fee for the safe deposit box be electronically debited to your account once a year.

To open a safe deposit box, you will need an account at that institution. You will sign a signature card so that the bank can verify who has authority to open the box. You will be given a key for the box, and the bank will also have a key. Both keys must be used to open the box.

**safe deposit box** a secure container located in a bank vault



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*What is the purpose of a safe deposit box?*

## OVERDRAFT PROTECTION

With **overdraft protection**, if you write a check or make a withdrawal from your account and the account does not have enough money to cover the transaction, the bank will cover the shortage. This can be a valuable service to consumers. This service is not automatic; you must sign up for it. Still, it is at the discretion of the bank as to whether or not it will cover an overdraft. If you have a savings account at the same bank where you have a checking account, the bank may allow you to use the savings account for overdraft protection. If you write checks for more money than you have in your checking account, the bank will draw the money from your savings account.

Without overdraft protection, a check would be returned for *nonsufficient funds (NSF)*. In addition to the original amount of the check, you would have to pay fees to your bank and to the person or business to whom you wrote the check. Although banks may charge a fee for overdraft protection, it is usually less than the costs associated with an NSF check.

## AUTOMATED TELLER MACHINES (ATMs)

Banks and credit unions also provide ATM machines for their customers. When you use your bank's ATM machine, you are usually not charged a fee for the transaction. Your ATM or debit card allows you 24-hour access to your accounts. You can check balances, withdraw cash, deposit cash and checks, and transfer money between your accounts.

## SPECIAL SERVICES

Another service provided by banks is called stop payment. With a **stop payment**, the bank is instructed not to honor a check you issued or lost. The stop-payment order is generally good for six months. After that, the check will no longer be honored because checks over six-months old are not valid for cashing or depositing.

A **cashier's check** is a check issued against bank funds. When you buy a cashier's check, the money comes from your account to pay the bank. The money for the payee of the cashier's check comes from the bank's account. Some people prefer to receive a cashier's check rather than a personal check because a cashier's check is more secure.

A *traveler's check* is a special form of check that is used instead of cash or personal checks while traveling. When traveler's checks are purchased, money is taken from your bank account to cover them. With the widespread use of ATM machines and credit cards, the need for traveler's checks has diminished.

Some banks issue money orders. A **money order** is a type of check used to pay bills or make payments for which the money is guaranteed. Those who buy money orders must pay cash for them. The money order is a safe way to send money through the mail. It does not have your bank's account number or other personal information about you that would be found on a check.

Some financial institutions offer *car-buying services*. For a fee of about \$500, they will find and buy the new or used car of your choice. This saves you the hassle of negotiating the price for the car. Basically,

**overdraft protection** a bank service that covers a shortage in your account

**stop payment** an instruction to the bank not to honor a check that has been issued or lost

**cashier's check** a check issued against the bank's funds

**money order** a type of check used to pay bills or make payments for which the money is guaranteed



you are paying the company to negotiate on your behalf. In many cases, the bank or credit union is able to get a better price than you can.

## FINANCIAL ADVISING

Some banks offer personal financial advising services. They look at your financial situation and recommend financial products, such as mutual funds, that correspond to your goals and resources. Before investing, check options on your own. Be sure the funds and other financial products you purchase have been in existence for a long time and have performed well over time.

## LOANS

Banks use the money you have on deposit, combined with the deposits of other customers, to make loans. Credit unions also offer loans to their members. Because credit unions are nonprofit organizations, members may get lower interest rates on loans. Some examples of the types of loans provided by banks and credit unions are home mortgage loans, car loans, and personal lines of credit.

## INTERNET BANKING

Many banks allow their account holders to access and manage their accounts on the Internet. This is known as **Internet banking**. An access code or PIN number along with a user name is needed. Customers can view their accounts at any time on any day. Internet banking typically allows you to do the following:

- check account balances
- check that deposits are posted and checks have cleared
- monitor activity in your account
- view and print statements
- transfer money between accounts, such as from checking to savings
- see interest or fees that have been posted
- pay bills electronically

Internet banking can be as safe as writing paper checks. When deposits and withdrawals are made electronically, nothing can get lost in the mail. Account holders can see exactly how much is in their account at any time.

## BANK CARDS

Banks and credit unions issue several types of bank cards. These cards have special features and are electronically coded, allowing you to use them for purchases, cash advances, and deposits. ATM cards and debit cards, discussed earlier in the chapter, are two types of bank cards.

Banks may issue credit cards to their customers who qualify. These cards often have low, fixed interest rates. Because you are a customer, you may be offered a high credit limit.

Similar to debit and ATM cards, banks may issue customers a **smart card**, or *stored value card*, which contains a computer chip that stores electronic money. You deposit money to the smart card electronically when you purchase or renew the card. The card carries an electronic balance. When the money is spent, you can add more money to the card and continue using it. The advantage of a smart card is that it is not linked to your checking account, and if it is lost or stolen, the thief cannot access

**Internet banking** accessing and managing your account online

**smart card** a card that contains a computer chip that stores electronic money

your bank account. Smart cards often carry the Visa or MasterCard logo, making them acceptable for most kinds of transactions.

## CHECKPOINT ▶▶▶

List five banking services available to customers.

## What Are the Costs of Banking?

Banks charge their customers fees to help cover their operating costs and to make a profit. Be sure you are aware of what charges can be applied to your account. Fees range from small to large. You can learn about the fees at your financial institution by reading its account brochures. Before you open any account, you should compare services and fees. In many cases, a credit union will offer you the most services for the least cost.

It pays to ask about *relationship banking*, where you work with a bank officer who tries to gain an understanding of your needs and offers services to fulfill those needs. Developing a relationship with your bank allows you to enhance your banking services in a way that could result in lower fees. Your bank may offer suggestions such as carrying higher balances, having multiple accounts, and meeting minimum usage requirements.

## MONTHLY ACCOUNT FEES

Many financial institutions charge a monthly service fee for maintaining a checking account. The fee may be \$10 or \$20 a month or more. Unless you meet a minimum balance requirement, or have a special “free” account, you will be charged this fee. Some savings accounts (usually with small balances) also can be charged monthly account fees. Some banks allow you to link all of your accounts together (such as checking and savings accounts) to meet the minimum balance requirement, allowing you to avoid a service fee.

## NONSUFFICIENT FUND (NSF) FEES

One particularly high cost of banking is that of covering a bad check. A check that is not honored by a bank and is returned to the payee’s bank because of nonsufficient funds is called a **bounced check**. This means the bank returned the check without paying it. When you write a check but there isn’t enough money to cover it, it will “bounce” unless you have overdraft protection. The bank will charge you a fee when this happens—often \$30 to \$40 per check.

When a check bounces, the person or business that deposited it will also be charged a fee. You will be expected to cover that fee as well. A bounced check could cost you \$80 or more! If you have overdraft protection, NSF checks will be paid rather than bounced. In this case, you would have to pay the amount of the check plus an overdraft fee. However, the fee would be less than the fees associated with a bounced check.



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What are the benefits of relationship banking?

**bounced check** a check that is not honored by a bank and is returned to the payee’s bank due to nonsufficient funds



## SPECIAL SERVICE FEES

A bank or credit union typically charges a fee for special services, such as a stop payment. The fee may be \$25 or more per check. There also may be a fee for obtaining cashier's checks, traveler's checks, and money orders.

## ATM FEES

Many banks will allow you to use their own ATMs free of charge. If you use an ATM from another bank, however, the other bank will charge you a fee of \$2 or more. Your own bank may charge an additional fee of \$2 or more for processing the transaction with the other bank. If you have a special account or multiple accounts, you can get some or all of these ATM fees waived.

## SPECIAL CHARGES

Banks and credit unions also charge fees for inactive accounts. An **inactive account** is one that does not meet minimum account usage requirements. If your account does not have transactions (such as deposits, debits, checks, or other uses), the financial institution is not making money from those transactions. Thus, they impose fees to cover their costs of maintaining the account. Inactive account fees typically range from \$5 to \$15 a month. Clearly, if you have an inactive checking or savings account, the balance can be eaten up because of these charges.

**inactive account** a checking or savings account that does not meet minimum usage requirements

### CHECKPOINT ▶▶▶

List five types of bank fees.

## What Are Consumer Responsibilities of Banking?

Having a checking and/or savings account is not a right; it is a privilege. Banks, credit unions, and other financial institutions make these accounts available to customers. Using these accounts is a very convenient way to manage money. You have several responsibilities as a consumer.

### MAINTAIN YOUR BALANCE

Be certain you have money in your account to cover the checks you write. If you do not monitor your account balance carefully, you might write a bad check by mistake. Knowingly writing a bad check is illegal and unethical. Criminal or civil charges can be brought against a person who writes bad checks. Writing bad checks can also affect your credit rating. You may have trouble borrowing money for large purchases, such as a car, or getting a credit card if you have a poor credit rating.

Writing bad checks can be thought of as a form of stealing. Many merchants and individuals who are given bad checks never get the

money that is due to them. Merchants pass on some of the cost of bad checks to consumers in the form of higher prices.

Writing a check and planning to deposit money later to cover the check before it is processed is known as **floating a check**. You should write a check only when you have enough money in your account to cover it. In today's electronic age, checks are processed very quickly. You should not expect that you will have time to deposit money before a check clears.

If you allow creditors to make automatic withdrawals from your account, you may want to consider having a separate account for these withdrawals. Each month, before the automatic withdrawal is scheduled, you can transfer money from your main account to the account that will be accessed. This way, others do not have access to your main account where most of your money is kept.

## MONITOR YOUR ACCOUNT

Reconciling your bank account is one way to be sure that transactions posted to your account are legitimate. You should also be responsible with your checkbook. Keep your blank checks safe. Be careful to whom you give checks. Once someone has your check, he or she can see your name, address, bank routing number, bank account number, and other information that is printed on the check. Thieves can make and use fake checks based on your account information.

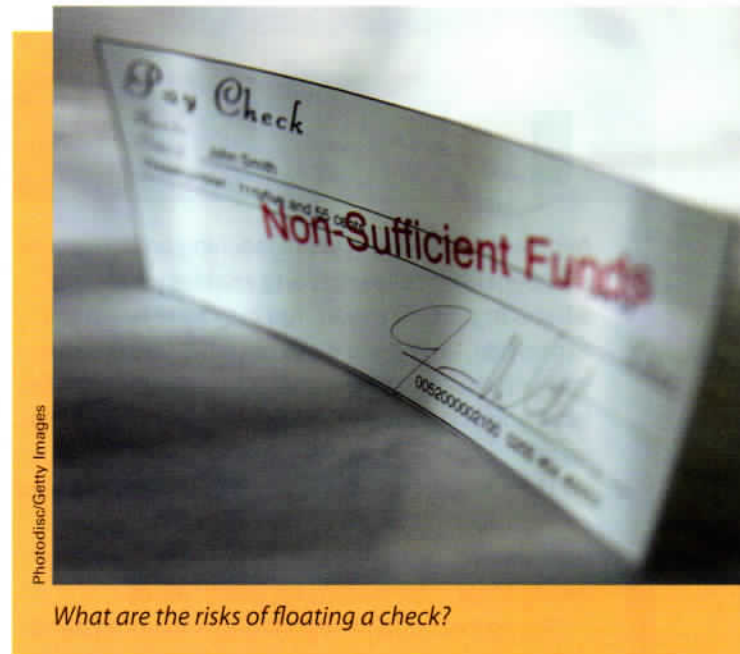
Your bank will not hold you responsible for check fraud. If money is stolen from your account, the bank will reimburse you. However, this raises the costs of banking for everyone, because banks will pass along the cost in the form of higher fees.

## KNOW YOUR RIGHTS

As a consumer, you have rights with respect to banking. The number of laws to protect consumers in credit and financial transactions has been growing since the 1960s. Congress has assigned the Federal Reserve System (the Fed) with the duty of implementing many of these laws. The laws are intended to ensure that consumers receive complete information and fair treatment by banks, lenders, and other financial institutions. Specific duties carried out by the Fed include educating consumers about consumer protection laws, enforcing consumer protection laws, and managing a consumer complaint program.

### Consumer Education

According to the Fed, being a well-educated consumer is the best consumer protection in the market. When you know your rights and responsibilities, you can use information provided to shop and compare banking services. The Fed provides consumer information and free educational materials at its website.



What are the risks of floating a check?

**floating a check** writing a check and planning to make a deposit later to cover it before the check is processed





## Success Skills

### NEGOTIATING

*Negotiation* is the process of reaching an agreement that benefits both parties and enables you to get what is important to you. You may have heard the expression, “In life you don’t get what you deserve, you get what you negotiate.” It’s true—people who have good negotiation skills get more of what they want!

The first step in negotiating is to understand your own position. What exactly do you want? In clear, unemotional words, be able to state your wants or needs. Have solid reasons for your choices.

The second step in negotiating is to understand your opponent’s position. What exactly does he or she want? What needs and motives does this person have? When you know his or her needs, you can find ways to meet them while meeting yours too.

Third, create a proposed solution. This usually means that you give up something minor to get

something that is important to you. It also means the other person will give up something to get what he or she wants.

People with good negotiation skills identify what is important to both sides and what they are willing to give up in order to reach an agreement. Both sides must feel good about what they are getting and what they are giving up.

#### Try It Out

Meet with your parents. Decide what you would like to change or have them do for you (such as a raise in your allowance). Then decide what you are willing to do (give up) to get that benefit. Consider their point of view—what is important to them. Are you offering them something of value? Negotiate with your parents and come to an agreement. Did you get at least part of what you wanted?

### Consumer Protection Laws

The Fed regularly examines financial institutions to ensure compliance with consumer protection laws and regulations. Most banks are evaluated every 48 months, although large banks are examined every 24 months, and poorly rated banks are examined more often.

### Consumer Complaint Program

The Fed responds to inquiries and complaints from the public involving consumer protection issues. The Fed maintains information on consumer inquiries and complaints in a database that it regularly reviews to identify trends on which it should investigate further or on which it should educate the public. It aims to uncover unfair or deceptive practices within the banking industry.

It is your responsibility, as a consumer, to file complaints when you believe you have been deceived or defrauded. Only when such violations are reported can appropriate actions be taken to protect you and others from them in the future.

### CHECKPOINT ▶▶▶

What are the three responsibilities of having a bank account?