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About Checking Account

At the core of your day-to-day finances is at least one checking account. This is an account that you open at a bank or credit union. You deposit money into this account for both safekeeping and to make the money conveniently available to you as cash, for making payments and purchases, or to transfer money to other types of accounts.

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A little history

The term “checking account” is relatively modern. The practice of writing instructions on a serialized piece of paper to access money held by a “cashier” first appeared in Holland in the early 1500s. That practice spread and eventually became the modern checking account with preprinted, serialized checks being issued to the account holder who used a check register, a hand written, preformatted log or journal, to keep track of checks that were written as well as other account transactions.

The check register is how a person keeps track of how much money, the account balance, is available for their use. A check register is needed by the account holder because the account balance maintained by the bank or credit union does not include the checks that had not yet been cleared: received and deducted from the account.

With the advent of computers and the Internet, the name “checking account” for many may seem out of date. With each new generation the idea of writing checks to make payments or withdraw cash from their checking account is losing ground to electronic methods. For example, a debit card, which is fundamentally a reusable, plastic check, is used along with a personal identification number (PIN) instead of paper checks.

The check register is disappearing as well. It is either not used at all or is replaced with a computerized version such as a spreadsheet. The practice of manually keeping track of checking account transactions has been abandoned to the point that the term “check register” no longer appears in the vocabulary of younger wage earners. They have no idea what a check register is. In addition, the name “checking account” is beginning to morph into “debit account,” reflecting the increased use of debit cards.

Regardless of how you handle it, something like a checking account is typically the hub of your day-to-day household finances. It is the one place through which your money can flow from the sources of your income to the monetary destinations that you choose.

It is this flow of cash through one checking account that you manage with You Need A Cash Plan.

Types of checking accounts

There are several types of checking accounts offered by banks and credit unions. This is an introductory list intended to show you some of the unique features by type of account. When looking to open a checking account, consider the alternatives such as fees, availability of branches and ATMs as well as minimum balance requirements to find a checking account that works best for you.

| Checking account | Unique features | Typical user |
|------------------|---|---|
| Traditional | Checks, debit or ATM card, online bill payment | Anyone wanting to pay bills and use a debit card |
| Premium | Free checks, money orders and safe deposit box, waived out-of-network ATM use | People who can maintain a high account balance |
| Student | Overdraft forgiveness, ATM fee reimbursement, free checks | Students aged 18-23 |
| Senior | Free checks, no monthly fees | People ages 55 or 60 and older |
| Interest-bearing | Pays interest on the account balance | People with a high account balance |
| Business | Business checks, accept credit and debit card payments | Business owner |
| Checkless | Debit card, online bill pay | People who have no need to write paper checks |
| Rewards | Cash back or points on purchases made with a debit card | People who make frequent debit card purchases |
| Private bank | Access to a private banker, higher interest rates on deposit products, lower interest rates on loans, free safe deposit box | People who can maintain the needed high minimum balance |
| Second-chance | Service fees, no overdraft | People who have been denied |

| | | |
|--|------------|-------------------------|
| | protection | other checking accounts |
|--|------------|-------------------------|

When you use You Need A Cash Plan to manage your everyday money, you will need at least one checking account. You will need a separate checking account if you prefer using a debit card for your spending money.

Overdraft coverage

An overdraft (non-sufficient funds (NSF)) happens when more money is withdrawn from a checking account than is available in the account. What happens when an overdraft happens depends on whether the checking account has overdraft coverage.

When a checking account has overdraft coverage, a check that causes an overdraft is honored by the bank or credit union and you are charged an overdraft fee. If the checking account does not have overdraft coverage, a check that would cause an overdraft is returned as NSF. You are not charged a fee by the bank or credit union, however, the business to which you gave the NSF check may try to collect from you both the amount of the returned check and a returned check fee. If you gave an NSF check to a person the result could be a strained relationship including the exchange of strong words.

Here are two examples. You have \$50 in your checking account and write a check for \$75.

- If the checking account has overdraft coverage, when the check is processed, you are charged an NSF fee of \$35 to cover the \$25 overdraft. This leaves a new balance in your checking account of -\$60.
- If your checking account does not have overdraft coverage, the NSF check is returned to the payee who is out the \$75. You are not charged an overdraft fee and the balance in your checking account does not change.

Here are the overdraft fees at a few popular financial institutions as of August 2024.

| | |
|-----------------|------|
| Wells Fargo | \$35 |
| Bank of America | \$10 |
| Chase | \$34 |
| USAA | \$29 |
| Capital One | \$0 |
| Ally Bank | \$0 |

Overdraft fees can be expensive, but are avoidable by opting out of overdraft coverage when you open a checking account and using one of these alternative options.

- Sign up for overdraft alerts. You are notified automatically when your checking account balance drops below an amount that you set.
- Use overdraft protection. You set up a line of credit with the bank or credit union. Your checking account is linked to your line of credit. Whenever an overdraft occurs, the amount needed to cover the overdraft is automatically transferred from your line of credit to your checking account. You then repay the amount borrowed from your line of credit plus interest.
- Keep a cushion balance in your checking account.

Debit cards

A debit card lets you spend money from your checking account without writing a paper check. When you pay with a debit card, the money comes out of your checking account immediately. There is no bill to pay later.

With a credit card it's easy to purchase anything you want, even if you don't have the funds. With debit cards, you avoid spending more money than you have. However, with a debit card, it's easy to spend more than you have in your checking account. The resulting overdraft fees can be more than the interest charged on credit cards.

Merchants and debit cards

Merchants tend to dislike debit cards because they limit purchases to the balance in a customer's checking account. Credit cards are not so limited and, thereby, can encourage more spending. Merchants pay the same processing fee for debit card transactions that they pay for credit cards, but their potential sales with debit cards are typically lower than with credit cards.

Locking your debit card account

When renting a room or car with a debit card, the money in your checking account could be locked to cover unexpected charges. Often the lock on your checking account isn't lifted until several days after you check out or return the rental car. With a credit card, any unexpected fees are covered with additional charges.

Fraud

Debit cards are more vulnerable to fraud than credit cards, according to the Identity Theft Resource Center in California, a nonprofit consumer education organization. The reason: account monitoring isn't as thorough for debit cards because the transactions are processed through different networks.

In addition, using debit cards at gas stations, deli kiosks, and other unattended locations are vulnerable to "skimming" which can be done two ways.

- A reader is attached over the card acceptance slot or a deep insert skimmer is inserted into the slot to collect card numbers.
- A pin-hole camera is attached above the keypad to collect videos of people entering their PINs.

Recovering cash stolen from your checking account with your debit card is possible, but not guaranteed. The time you have to report fraudulent activity is much shorter than for credit cards. And, you may not have access to your money while a refund is being processed.

The safest way to use debit cards is only at on-site ATMs for deposits and withdrawals. For all other transactions, especially at off-site ATMs and unattended locations, credit cards are safer.

Credit cards vs. Debit cards

Here's a quick comparison of credit and debit cards.

| Credit cards | Debit cards |
|--|--|
| Money is borrowed from the card issuer. | Money is deducted immediately from your checking account. |
| Spending limit is set by the credit card issuer. | Spending limit is the balance in your checking account. |
| Interest rates and fees vary. | No interest charges. May have overdraft fees. |
| Helps you build credit. | Does not help you build credit. |
| Overspending can lead to debt. | No accumulation of debt. |
| Offers fraud protection. | Limited fraud protection. |
| 60 days from statement date to dispute fraudulent charges. | 60 days from statement date to dispute fraudulent withdrawals. |
| Regulated by Fair Credit Billing Act. | Regulated by Electronic Fund Transfer Act. |
| May offer rewards. | May offer rewards. |

Paper checks

Personal checks are a traditional method of making payments, typically used for transactions like paying bills or making in-person purchases. While paper checks are being replaced by debit cards, they are not entirely dead. The Federal Reserve reported that the volume of checks written in the U.S. dropped from 50 billion in 1995 to 11.2 billion in 2021. Still a respectable number.

The following are the most important benefits that paper checks offer:

- Access to small businesses that do not accept credit or debit cards. Card processing can be expensive and not every business can afford this cost.
- Paper checks are an easy way to make person-to-person payments, especially when you are paying someone who does not use a payment app such as PayPal, Venmo, or Zelle.
- Paying with a paper check is more secure than handing over cash.
- Using a paper check creates a paper trail.
- Checks can be post-dated (dated after today), thereby delaying when they become valid.
- Payment of a paper check by the bank or credit union upon which the check is drawn can be stopped to prevent the check from clearing.

Even though you may be totally into going cashless with apps and debit cards, being able to write a paper check is still a financial skill that you may need occasionally. It doesn't hurt to have a book of checks lying around, and know how to use them, in case a need arises.

Where to get paper checks

Paper checks can be ordered from the bank or credit union where you opened your checking account or from third-party vendors. The checks are a standard size and are generally printed in pads of 40 checks. The checks you order will probably come with free check registers, which you will not need for the checking account you manage with You Need A Cash Plan. The program maintains your transaction register for you.

Paper check format

The parts of a check are normally arranged as shown below, but there could be variations in format. Refer to the numbers and correlating example here for explanation.

1. Your name and address. Including your phone number simplifies using checks at stores that require it. Do not include your social security number.
2. The number of the check printed and in machine readable format.
3. The date you write the check or a future date for a post-dated check. The check is not valid until this date.

4. The person or company to whom you are paying the money. How this name is written may be important to whoever is receiving the check, as their account may require a specific spelling.
5. The numerical amount of the check.
6. The amount of the check written in words.
7. The name of your bank or credit union. Their address and logo may be included.
8. The memo line where you can optionally write the purpose of the check or reference information that will aid the payee in identifying where the money is to be applied. An example is writing an invoice number. Another example could be "Happy birthday!"
9. Your signature formatted as on file with your checking account at your bank or credit union.
10. The routing number: a unique, nine-digit number that functions as an electronic address for your bank or credit union.
11. The checking account number.

I.M. Paying 1
123 Main Street
Mytown, ID 83999
(208) 123-4567

2 0001

3 DATE Sep 12, 2024

PAY TO THE ORDER OF U Owe Me, Inc. 4

5 \$ 1,010.23

One-thousand-ten and 23/100 6 DOLLARS

7 **Any Bank**

FOR Invoice #234 8

I.M. Paying 9

10 1234567890 11 1234567890 2 0000

How to write a check

Filling out a check correctly is important, as any errors or omissions can cause a check to be invalid. Keeping track of the checks you have written is not required; however, doing so will enable you to balance your bank account statements. When using You Need A Cash Plan, the program helps you balance your statements against your automated transaction register.

To write a check, enter the following information:

- (3) Today's date or the date when the check will be valid
- (4) Name of the payee
- (5) Numerical amount of the check (e.g. 1,010.23)
- (6) Amount of the check in words (e.g. one-thousand-ten and 23/100)
- (8) Purpose of the check, if needed
- (9) Your signature
- If you are using a manual check register, enter the check. If the check is drawn on the checking account you are managing with You Need A Cash Plan, enter the check in the program by:
 - Opening the *Sliders* menu,
 - Clicking on *Checking account*, and
 - In the *Checking Account* slider, clicking on the *Enter fee/Write a check* button.

Deposit accuracy

While deposits may seem trivial, how you deposit the income that you manage with You Need A Cash Plan is a key part of successfully planning how you will use your income.

Your cash plan will work only if *the amount of each paycheck deposit is never less than the expected amount*. A paycheck deposit can be more than the planned amount, but never less. The catch phrase for income is "plan low and deposit high."

Getting back cash when you deposit a paycheck by depositing less than the check amount is a habit that is best avoided. Accurately planning how you will use your money in You Need A Cash Plan is possible only when at least the amount you expect to receive is actually deposited as scheduled.

Direct deposit

The recommended way to avoid the cash back habit is to have your paychecks directly deposited. When you sign up for direct deposit, your money is electronically sent to your checking account on payday. You do nothing other than record the deposit in You Need A Cash Plan.

Direct deposit is a trusted technology that is dependable, quick, and very convenient. Having your paychecks directly deposited to your checking account:

- Means one less thing that you have to do;
- Removes the temptation to put some of your paycheck in your pocket;
- Avoids the inconvenience of getting paid when banks and credit unions are closed.

Auto Deposit

Auto Deposit is a You Need A Cash Plan feature that helps you remember and enter income receipts that are scheduled in your cash plan.

The *Auto Deposit* feature is turned on and off in the *Options* dialog box. With the *Auto Deposit* option turned on, the program will display the *Deposit* dialog box the first time the software is started each day for all scheduled income receipts that are due or past due. The *Auto Deposit* feature only displays deposits once for each expected receipt.

When the *Auto Deposit* option is turned off, the program continues to check for new income receipts, but does not display the *Deposit* dialog box. Because the *Auto Deposit* feature stays current whether it is turned on or off, you can switch the feature on and off at any time.

When *Auto Deposit* is turned off, you have to remember to enter expected deposits from income.

Entering fees and writing checks

Miscellaneous fees that are charged to your checking account, like the new checks you ordered, as well as the paper checks that you write, are entered in You Need A Cash Plan in the *Enter Fee/Write A Check* dialog box.

Transaction register

All of the money transactions that affect the balance in your checking account are recorded by You Need A Cash Plan in your transaction register. You need not keep track of these transactions using any other method.

Since it is only recording changes to your checking account balance, the balance in You Need A Cash Plan's transaction register is always zero. The available balance in your checking account is the sum of the balance in all program maintained ledgers.