

How Does a Checking Account Work?

By Sharon Fabian

A checking account is one of the many different accounts that banks offer. A checking account usually pays no interest, or very little, so it's not the best place to put your hard-earned savings. What it does offer is convenience. A checking account is useful for money that you will be spending soon. Many people use a checking account to pay their everyday bills.

With a checking account, you can deposit money in the bank. Then when you are ready to spend some of it, to pay your electric bill for example, you write a check. You send the check to the electric company. When the electric company cashes the check, the bank takes money out of your account and gives it to them.

What bank should you choose for your checking account? That's up to you, but there are a few things you might want to consider. One thing is the bank's location; does the bank have a branch at a convenient location near your home or work? Another thing is the bank's schedule; is it open at hours when you will be able to get there? You also might want to consider whether the bank has an online banking option or even online bill paying. And it's a good idea to find out whether the bank offers a free checking account or whether there will be fees to pay.

There are also online banks that have advantages and disadvantages of their own. An advantage of some online banks is that they might pay a small amount of interest on a checking account. A disadvantage is that there is no one you can visit in person to talk to about your account.

Once you have an account, you will need to make deposits and write checks. You might also have direct deposits made to your account. And you might use a debit card or online banking to spend your money.

You will probably use a check ledger to keep track of the money in your account. The ledger is the little account book that comes with your checks. Every time you put money into your account, you write the amount in your ledger and add it to your previous total. Every time you spend money from the account, you write in the amount and subtract.

It is important to keep a good record of the money in your account. This way you will always know how much money you have left to spend. It will also help to prevent you from bouncing a check. Bouncing a check means writing a check for more money than you have in the bank. In this case, the bank can't cash the check, so people say that it "bounces" back.

Some checking accounts come with a feature known as overdraft protection. Overdraft protection is like a small loan that is attached to your checking account, but you only borrow the money when you actually need it. If you have overdraft protection and accidentally write a check for more money than you have in your account, that amount of money is loaned into your account so that your check can be cashed. But if you choose to have overdraft protection, be careful because banks may charge high fees for this service.

Debit cards are another extra that come with many checking accounts, and they have pros and cons, too. They are convenient and easy to use, and if you have a debit card, you may rarely need to carry cash. However, it can be difficult to keep track of your spending with a debit card. If you don't keep your check ledger up to date with every debit card purchase, it is easy to overspend. Also, debit cards can be stolen.

Whichever kind of checking account you choose, one good thing to do is to take a careful look at your account each month. Look over the monthly statement that the bank provides. Check to be sure that it matches your own records.



Name _____



Date _____

A checking account can be a very useful tool. It can help you pay your bills and manage your finances. A checking account is also a responsibility, and knowing how a checking account works is the first step toward managing your account well.

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Questions

- _____ 1. You can open a checking account by _____.
- A. going to a bank
 - B. going to an online bank
 - C. both A and B
 - D. neither A nor B
- _____ 2. Checking accounts are especially useful for money that you want to _____.
- A. use to pay bills
 - B. save for one or two years
 - C. save for many years
 - D. spend at fast food restaurants
- _____ 3. You can take money out of your checking account to pay a bill by _____.
- A. writing a check
 - B. using a debit card
 - C. using online banking
 - D. all of the above
- _____ 4. All checking accounts are free.
- A. true
 - B. false
- _____ 5. Checking accounts never pay interest.
- A. false
 - B. true
- _____ 6. A *ledger* is _____.
- A. a type of debit card
 - B. an account book
 - C. another name for a check
 - D. a bank official
7. Explain one advantage and one disadvantage of having overdraft protection on your checking account.
