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PEAK FINANCIAL ACTIVITY 3b:
READ: Checking Accounts and How they Work

There are a lot of people who do not use checking accounts. They are referred to by the banking industry as "the Unbanked."

There are also people who mishandle their checking accounts. Overdrawn accounts incur a fee, and there are millions of such accounts. Fees for overdrawn accounts represent a multimillion-dollar source of income for banks.

And there are millions of people who never have a problem with overdrawing their bank accounts.

It's important to know how a bank account works. This Course will help you learn the basic facts of a checking account, how it works, how it is used, and how it can help or a hinder your credit.

How a Checking Account Works

A checking account has become a customary tool people use to manage their day-to-day needs. A customary form of payment is called a check.

If you open a checking account, you are the **Account Holder**. The Account Holder puts money in the account by making **Deposits**. The bank keeps track of how much money is deposited. The deposits may be in the form of cash, a paycheck, proceeds from a loan, tax refund check, etc.

When the account holder authorizes taking money out of the account, it is called a **Withdrawal**.

Money can be withdrawn using a variety of methods. If you show up at the bank in person and ask for a withdrawal, the teller will ask you to fill out a **Counter Check**. This keeps track of the transaction and proves that the bank gave you the amount you requested.

A **Personal Check** is a "monetary bill of exchange." Others accept your personal check as a cash payment. The account holder writes a check, payable to a **Payee**. A properly completed check authorizes a bank to withdraw money from the checking account. You don't have to be present for the bank to pay the check.

A check will show the date it was written, the Payee name, the amount (written in numbers and written in long hand), the bank, the specific account, and it must be signed by the Account Holder, the Issuer. A check does not prove that payment was made until the check is **cashed or canceled** by the bank. A check that has not been cashed only proves someone wrote the check.

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Until the check is presented to the bank, the check is an **Outstanding** check. The bank has no way of knowing how many outstanding checks an account holder might have.

When a valid check is presented to the bank, the check is **Paid** to the Payee. The bank may give cash or electronically move cash from the Issuer's account into the Payee's account.

A canceled check proves the money was paid as the terms defined on the front of the check.

In the 1980's, as a convenience, banks introduced the **ATM, or Automated Transaction Machine**. You see ATMs everywhere. To use an ATM, you must have a bank issued **Debit Card**. You present your Debit Card when transacting most small purchases. A Debit Card can be used to pay for just about anything. The Debit Card Transaction instantly captures the amount of the purchase from your checking account

Another form of payment that is popular is **Online bill payment** services. The account holder can request that the bank send money to a specific company. The account holder can authorize a company to take money from the account. And, yes, the banks generate fees from online banking.

If the Issuer authorizes withdrawals that exceed the balance, the account becomes overdrawn. The bank will either refuse a check if it exceeds the available balance or it will pay the check by issuing a temporary loan to the account holder. This means the account will have a negative balance. Either way, expect a fee to be charged by the bank for handling the problem.

If an account remains overdrawn for a long period of time, expect to see bad check references show up on your credit report.

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