

# Know Your Checking Account

An overdraft occurs when you spend more money than you have available in your checking account, resulting in a negative balance. Most financial institutions offer overdraft protection, but relying on this service without fully understanding how it works can create a cycle of overdraft and NSF (non-sufficient funds) fees that's hard to break out of.

## Overdraft scenarios

### *Account balance ignorance*

It's easy to overdraw your checking account if you're unaware of your account balance. Be mindful by reading your monthly statements, by checking your account balance regularly, and by tracking your expenses with a checkbook register or with a budgeting app.

### *Hold on*

When you make certain purchases like paying for gas at the pump, a hold can be placed on your debit card. This means that a larger portion of your available debit balance is "frozen" until the transaction goes through. If you're already close to overdrawing your account, a hold can trigger a negative account balance without your realizing it.

### *Processing limitations*

Even if you're hyper-vigilant about your account balances and expenses, the time and order in which transactions are processed can sometimes wreak havoc on your account balance. Be aware of

your financial institution's holding periods so that you don't end up spending money you don't have.

## **Overdraft protection vs. opting out**

Let's say that you're buying a brand-new gadget at the store. Your last paycheck hasn't cleared, so you're unaware that your current available balance is only \$150. The gadget costs \$160. You pull out your debit card and...

### **With overdraft protection**

- The transaction goes through
- Depending on how your financial institution handles overdraft situations funds are transferred from your savings account to cover the transaction
- OR your account then becomes overdrawn, resulting in a negative balance
  
- *Benefit*
- You avoid the inconvenient situation of having your card declined
- 
- *Consider*
- You may be charged an overdraft fee
- You may be charged an NSF (non-sufficient funds) fee for having a negative balance
- You may also be charged a recurring fee until your balance is positive
- If you frequently overdraw your account, you may be able to pay a monthly fee to reduce your total fee costs

## **Without overdraft protection**

- Your card gets declined and the transaction does not go through

### *Benefit*

- You avoid a negative balance and any potential NSF (non-sufficient funds) fees that go along with it

### *Consider*

- Having your card declined can be inconvenient and embarrassing
- In emergency situations, it can be extremely troubling

## **Did you know?**

According to Regulation E, consumers have the ability to opt out of overdraft protection for any debit card or ATM transaction.

## **How to stay ahead of the fees**

### *Set up alerts*

Most financial institutions will allow you to set up alerts that will inform you of your balance. You can receive a daily text message or email with your balance. In addition, you can usually set up an alert for a specific account balance. For example, you may want to receive a text message when your account balance reaches \$200, so that you receive sufficient notice to add more funds or curtail your spending.

## *Find a better way to borrow*

Sometimes, you just need to borrow money until the next paycheck arrives. Although the best advice is to build an emergency fund so that you are not dependent upon borrowing, this isn't always possible. In order to protect yourself from the high costs of short-term borrowing, consider taking out a credit card with a low interest rate for emergencies. Credit unions usually charge the lowest interest rates on credit cards. These products will not offer rewards, but they tend to offer lower interest rates that can be useful if you need a short-term loan. Keep in mind that having a credit card does not give you a license to spend money you do not have—it should be used in an emergency situation for items that you need, not items that you want and cannot afford.

## *Balance your checkbook*

Balancing your checkbook gives you power—the power of knowing exactly how much money is available to you. Whether you use a checkbook register, a spreadsheet on your computer or an app on your mobile device, balancing your checkbook is a good habit to form.

*Sources: CreditCards.com, Forbes*