# Starting Your First Bank Accounts?

# or

# Want To Know All of Your Banking Options?

## Here Is How To Sort Through It:

Ask or email abechler@Springfieldrescuemission.org for a copy!

# Choose A Bank

| Type | Examples | Purpose | Benefits | Disadvantages |
| --- | --- | --- | --- | --- |
| **Investment Banks** | Goldman Sachs, Morgan Stanley, JPMorgan | Investing money for medium/large Businesses | Great investments, aids in securing capital | Charge higher fees Not good for every day banking needs |
| **Commercial Banks** | Chase, Wells Fargo, Bank of America, Citibank | Provide financial services for businesses; managing money, payments, and payroll | Easy to use and navigate business financial tools | Higher fees, impersonal banking, lower savings interest rates, less flexible loan structures |
| **National Banks** | U.S., 1st National, PNC, TD, Santander | Regulated, Nation-wide government banking source for citizens | Stability, regulated, large nation-wide networks and ATM access | Impersonal banking and customer service, higher fees, lower interest rates, slower issue resolution |
| **Regional Banks** | M&T, KeyCorp, Citizens Bank, Fifth Third (5/3) | Focus on the regional economic needs and growth through small to mid-size loans | Better interest rates, lower fees, longer-term financial relations | More impacted by area economic downturn especially in real estate, less products /ATM's/Access |
| **Credit Unions** | Pioneer Valley, Greater Springfield, Freedom, Polish National, Navy Federal | Provide affordable financial services to its members through collaboration rather than outside shareholders | Fewer fees, lower loan rates, higher savings yields, not-for-profit | Less nationwide convenience, less technology, fewer offerings, lower credit limits |
| **Community Banks** | **PeoplesBank*, Monson Savings*, Baycoast*,** Westfield, Country, KeyBank, Florence, | Assist in local economic growth and reinvesting money back into the community and provide for individuals/small business/farming | Invest back into community, lower fees, more flexible, relational banking | Limited products, lower limits, small networks, fewer ATM's |
| **Online Banks** | Ally Bank, SoFi, Discover, Chime | Convenient, 24/7, easily transferable money services for individuals | Account monitoring, accessible, convenient | Security, internet needed, non-personal banking, limited financial advice |

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# Open A Checking Account

## What You Will Need

**<u>Contact Information</u>**

This technological day in age, this information could almost be placed under the next section *Identification* as you are almost always required to have:

1. Physical Phone
2. Phone Number
3. Email

You need a phone number to establish an email. This will also be important for "verification" also known as "Two-Factor Authentication;" which most banks require in order to use their online/mobile-app banking features. More about this later.

**<u>Identification</u>**

You will need **<u>TWO (2)</u>** forms of identification; this can be:

1. Driver's License
2. State ID
3. Military ID
4. Passport
5. Social Security Card

Note: <u>you will need your Social Security ***Number*** no matter what</u>

**<u>Proof of Address</u>**

*Usually* only asked for *if* different than your ID/Driver's License

It is good to have this information available just in case; this can be:

1. Bills (Cellphone, Internet, Utility, Lease, Mortgage, Credit Card, Insurance)
2. Tax Forms (Excise/Property Tax, W-2's, Insurance)
3. Valid Driver's License
4. Posted Mail with name of applicant
5. Lease Agreement
6. Insurance Card
7. Voter Registration Card
8. School Enrollment Papers

Try organizing this info into a physical folder for a seamless experience at the bank, DMV, Social Security Office, and other places where your identification needs verification.

Make sure you do not bring junk-mail! This can be credit card offers, commercial ads, magazines, local service flyers, or anything that does not have your actual name spelled out.

**<u>Opening Deposit</u>**

There is only one reason you are wanting to open a bank account, you're expecting money! The Bank thinks about this too, so they may ask for money to deposit into your account right away.

This can range anywhere from $25 to $100+

Think about this: which bank(s) from the previous page may be more understanding of your situation if you are waiting on a deposit of money such as a settlement, Social Security, or better yet – your first paycheck?

Answer: Community Banks! However, Online Banks are a good alternative that *sometimes* ask for only $0 to $25 for an opening deposit.

Some banks require a minimum balance to remain in your account, a certain amount of transactions to occur, a specific amount to be deposited into it, or some other stipulation to know you are using the account and this is how they make money! Always ***<u>KNOW & CHECK</u>*** your institutions and accounts policies.

**<u>Online Banking</u>**

Do not be confused, this section is in regards to accessing your bank account information using a computer or mobile phone-app *<u>NOT</u>* about Online Banks – banks that do not have physical locations as described under *Chose A Bank*.

In this age, to not use mobile banking is to choose to make your life harder. Besides two-factor authentication, these apps use biometrics and other hard-to-steal ways to access your account for your protection.

Once you access your account online, banks usually offer a plethora of services now at your fingertips; you no longer have to call-in to just check your balance, you can see what you have spent money on (some banks will break it down for you!), move money, pay bills, get quotes, and more! This is extremely helpful as you open a savings account which we will talk about in the next section, if you use multiple banks, or are beginning to establish credit.

Regarding the "Verification" or "Two-Factor Authentication," while logging into your bank's app or while using the computer, you will receive a text or email (typically they ask which you prefer) from your bank with a code to put in to verify it is <u>you</u> who is trying to access the account; it is for your safety! Do not worry about memorizing this number or saving it, it is almost always a one (1) – time only code and expires after five to ten minutes.

# Open A Savings Account

Once you open a checking account, you can open a savings account. The easiest way to do this is to open one with the same bank that you opened up your checking with. If you can afford it, try doing this at the same time when opening your checking. There are a handful of benefits to this.

Just like checking accounts, but even more so since it is a savings account, banks may want you to make an initial deposit of some amount. Again, because this is a savings account, it will typically have to be larger than your checking.

The key difference though is that savings accounts *are not* meant to be used frequently like checking accounts are. With this understanding, we can imagine that a lot of the “rules” of the account will be opposite of checking accounts; higher minimum balances, transaction restrictions, transfer restrictions, maintenance fees, and paper statement fees.

Here’s the truth: savings accounts do not have the best Annual Percentage Yield (APY) and are not going to make you rich. What is important though, is that you have money stored away *and* that you have fairly quick-access to it. In banking this is called *liquidity*; how quickly you can make the money you have turn into cash.

Most people have at least two savings accounts and other, longer term, savings accounts. How much should you save to? The average American is three (3) paychecks away from being homeless. Save enough to cover rent for *at least* three months. Have car payments, phone bills, etc.? Save enough to pay those bills too for several months.

# Open A Long-Term Savings Account

Why do banks have all these different types of accounts? Think about it in terms of your personal individual finances and your streams of income. Part-time, full-time, and multiple jobs, all provide different incomes. Depending on your financial situations, you may need to go up or down the ladder from having par-time, full-time, or multiple jobs. The ultimate objective *financially* is to be able to live off of income you have saved along the way leading to a step before “part-time” called *retirement*.

In the same way, financial institutions want you to store your money with them so they can work there way to retirement, or self-sufficiency, which allows them to work towards there objectives depending on the type of bank they are as talked about under *Chose A Bank*.

Think of these different savings as your “just-in-case” accounts; if you fail to plan then you are planning to fail. You do not want to live in the “what if” which leads to anxiety, especially around money. The anxiety of “what if” is far more paralyzing than overcoming the distrust you have in banks for one reason or another. What if you need repairs made on your car from something that happens today? What if lay-offs come your way? What if you get a ticket? What if you get another unexpected bill? Ease your mind and save for the unexpected.

Longer term savings accounts go by many names: high-yield savings, money market, performance savings, rewards savings, and cash management accounts. These have higher APY's, but again are subject to more restrictions. Regular savings are around 2% and these savings are around 4%. That to say, you will still not become rich off the interest accrued on this type of account. The benefit to this type of account is that your money is still more liquid than if it were to be in an investing account, which we will talk about next. To set up this type of account can also be good for separating emergency money from short-term-goal money (1-3 years)

Health Savings Accounts (HSA) can be a beneficial account to have as an intermediary between emergency expenses and a short-term investment account. Instead of having a specific savings or investing account for if or when you experience a medical need, you can have a Health Savings Account. Because this account has a specific focus and you are only allowed to spend it on qualified items, you are able to receive higher interest rates on the account. This is similar to the idea of a Credit Union that sometimes have requirements like having been in the military, live in a certain area, or belong to a certain association in order to pass on savings to the consumer – you. A HSA is pretty much as it sounds – a savings account geared towards your health. Many products at drug stores such as CVS or Walgreens will accept this as payment <u>if the products you are purchasing qualify.</u> How will you know if it does? It will usually be clear on the price tag on the shelf, or you can always ask. You can also look on Amazon where it will tell you if an item is HSA eligible. Now for medical services such as emergency room, dentist, or mental health appointments, *most* will accept it as well. <u>Always</u> check with your HSA Account provider for what is eligible, otherwise you may face a 20% penalty for withdrawing money before the age of 65. The company for this account will most likely be Fidelity Bank, as it is often through employer funded programs that these accounts are created and deposited in from automatically. Fidelity Bank is like a *commercial bank* as described in the *Chose A Bank* section.

# Open An Investment Account

*After* you have saved an appropriate amount for <u>your</u> financial situation and have got into a routine of paying your bills, saving, not over-drafting – that is to have more money go out of your account than was in it –, not frequently transferring money from savings to checking, and generally spending your money, you can think about an investment account.

Just like a *savings* account, *investment* accounts are <u>NOT</u> meant to be frequently used. Of course, this again means more restrictions in regards to accessing it. A savings account is for your emergency expenses and short-term goals. There are short-term investment options that we will cover which may help you grow your money for your 1-3 year or even approaching a little over 5 year goals. Mostly though, investment accounts are for mid to long-term goals depending on the type of account (see next section about 401(k)'s and IRA's). This is a period of typically 5 to 10 years.

There a lot of different types of investment banks out there. Some well-known ones are on the *Chose A Bank* page. But, investment banks also have more local/regional options as well. Building relationship with your bank, and better yet – your banker – can lead to a life-time of financial ease when you are ready to make big purchases. Look for investment banks that label/advertise being a ***fiduciary***. *Fiduciary* means that the agency and investor is legally bound to doing what is in <u>*YOUR*</u> best interest, not what is going to make them the most money. This allows protection, control, and usually means a more personal banking experience as they want to be more hands on to know and meet your financial needs.

**<u>Short-Term Investment Accounts</u>**

When we talk about short-term investments, what we are trying to do is make more money, on our money, for our short-term goals, that is better than a savings account. In return, we are willing to follow certain, strict, guidelines set by the bank you are working with.

Some examples of what you might be saving for in your long-term saving or short-term investment accounts are: a ring, wedding ceremony, business start-up, car down payment, medical/dental procedures not covered by HSA or if you do not have one, and

It is important to always seek expert help in this area and avoid turning/listening to social media for advice. A lot of these videos are get-rich-quick schemes, are to good to be true, or are much harder than what the creator portrays. Remember, they are called *influencers* for a reason. They can and will influence you – positively or negatively.

That being said, there are two (2) types of short-term investing: personal and professional. Examples of personal short-term investing options include Acorns, Robinhood, Coinbase, Webull, Stash, and Betterment. This means you generally get to invest "as you will" though you can set up a more structured investment system. No one but by your own research, are making the decision to invest (or not) in a company. This is <u>a lot</u> of work and it is commonly said "you will never beat business." This means businesses that do this as their work, with people educated, certified, and paid to do it, will always do better *in the long run* than the common person.

Professional investing is when someone who has studied and/or has been in the field for some time and is certified assists you in navigating how to invest your money, doing it for you, in order to accomplish the goals you all set together. They create a plan to get you to that goal with the resources ($) you provide. This can be a great professional relationship to build and they can typically assist you in other types of investments and even insurance plans in the future.

**Long-Term Investment Accounts**

Immediately think 5-10 years down the road and larger sums of money. At this juncture, you need to have an advisor and start creating plans with them. Their specialization will help you navigate the complexity of the system to gain maximized return on investment.

Examples of purposes for a long-term investment accounts include: down-payment on a house, major car additions, investing in children's future, major home renovations, education, and growing wealth.

The good part about this account is that, as we all well-know, life can be unexpected and change in an instant. Long-term investing allows your objective of your account to change with your life circumstances. It backs up your short-term investing account, which backs up your savings, and so on. If one takes a hit, another can fill the void. Even better if you have several of the relatively-same type of account that takes the hit, as then you will not even need to move money from one place to another planning wise. Now do not confuse this section with retirement or far future planning out more than 10 years which we will talk about in the following section.

# Open A Retirement Account (401(k)'s & IRA's)

These are going to be your longest, most profitable, investment options. As such, there are far more restrictions to these type of accounts. If you fail to plan, you are planning to fail. This is evermore true in regards to retirement and financial wealth building. Invest <u>now</u> in your future and you will see the fruits of your labor when you get there. You may even thank yourself.

401(k)'s and IRA's are unique in that you are unable to withdraw them until 55 under certain circumstances. Typically though, the age to begin withdraws is 59 ½. If you are close, at, or older than that, there may be certain guidelines to withdrawing; like having to have the account and be making contributions to it for five years before hand. Nonetheless, these type of accounts are best at growing your money with the potential to make thousands off of what you put in!

**<u>401(k) Accounts</u>**

Usually set up by your employer (but with growth in banking, may be able to start your own), these accounts allow for more savings throughout the year into this high-yield account. For individuals below 50, you are able to contribute up to $23,500 or $31,000 if you are above this age. The key difference between the 401(k) and Roth IRA is its tax situation. Picture it this way: 401(k)'s, because they are set up by employers, come right out of your paycheck. This means a *larger* sum of money is able to be invested *initially.* Since it comes right out of your check though, means it was never taxed by the government as income tax. So then, you must pay taxes on it as you withdraw money. The benefit to this though? A lot of employers will match an amount or % per paycheck. Make sure you know all the benefits of the company you are working for, this could be free money waiting for you!

**<u>Roth IRA Accounts</u>**

There is in fact just IRA Accounts but the most common and user-friendly is the *Roth* IRA. Roth IRA money is money you have acquired through work, savings, etc. and are deciding to invest it in the long term account. This is known as post-tax funding, meaning the money you are investing has been taxed already by the government typically through income tax. You are not able to contribute as much per year ($7,000 under 50, $8,000 over 50), and employers do not typically contribute to this type of account, as it would max out fairly quickly. What is great about this type of account though, is that as you withdraw, you do not have to pay taxes on it, since it was post-tax to begin with. Additionally, you are able to withdraw your *contribution* amount whenever, without penalty. Meaning that if you put in $10,000, you can forever take out that $10,00 early. But, say that money has grown after several years of being invested and your account sits at $12,000. Well then, you are able to still take $10k back, you just have to leave the $2k in growth. The earlier you start investing (so the longer you are investing) the more time your money has to grow, so it is highly encouraged to only make withdraws at the appropriate time and set forth by you and your financial advisors.