

Secrets to
Smart Banking



*What the banks
don't tell you.*



By paying attention to your bank accounts you can easily save more of your hard earned income and make your savings work harder for you. What can you do to become a smart bank shopper? Here are some tips.

WHY BANKS?

First, remember banks are in the business to provide three basic services; to facilitate financial transactions, to provide a place to store funds for future use, and to lend you money when you need it. These same services can be provided without a bank if need be, but most of us simply do not think of the alternatives to banks.

Look Into Credit Unions

These non-profit Cooperatives are owned by the members who use them. They often are a source of higher interest for your savings and lower loan rates than most banks. Banks are so afraid of these institutions that they are constantly trying to get legislation passed to make Credit Unions less competitive.

Borrow From A Non-Bank

Perhaps the seller will carry some financing on the item you wish to purchase. Perhaps a family member or friend would be willing to loan you the money. You can often provide a decent interest rate to a non-bank lender at 2-5% less than what a bank may charge. Standard loan agreements are readily available at your local library or bookstore.

Shop And Negotiate

Almost all banks will negotiate a loan rate and fees, but most of us are reluctant to deal with banks or cross out clauses in their loan documents. Always shop three lenders for the best rate and tell them you are doing so.

Leverage Your Relationship

Banks often give special treatment to customers that are worth more to them. Ask your bank what breaks they will give you if you consolidate your accounts with them. You can often get your credit card interest rate reduced 1-5% by consolidating your card debt.

GET THE MOST FROM BANK PRODUCTS

Understand FDIC insurance

One of the key selling points of banks is FDIC insurance. FDIC stands for Federal Deposit Insurance Corporation and is funded by premiums paid by the banks.

■ If your bank becomes insolvent, your deposit balances are insured and repaid to you from the FDIC.

■ If the insurance must be used your biggest problems will be the timing required to receive your funds and the loss of interest on your funds until the date of insurance payment. So it is a good idea to have emergency reserves in a separate bank if insolvency is a concern.

■ In addition, your deposits are insured up to \$100,000 per bank NOT per account. If you have deposits that exceed the \$100,000 limit in one bank, consider moving the excess to another bank if you want the deposits insured by the FDIC.

Bank Savings Accounts Are A Bad Bet


Money Market Mutual Funds almost always provide a better rate of return without much more risk. While Money Market Mutual Funds are not FDIC insured, the accounts have been in existence since the early 70's with virtually no losses.

Never Buy The Bank's Checks

Instead, buy them from a direct mail check printer. In fact, many of the bank's check suppliers also have a direct mail business selling checks directly to consumers at a lower price.

Avoid The Overdraft Checking Trap

Overdraft checking is attached to your checking account and "kicks in" as an instant loan when your checking



balance hits zero. There are many versions of this account and it is a nice way to avoid embarrassing overdrafts and fees on your checking account. However, this account is a large profit center for banks because it provides a nice rate of interest and most people do not pay the loan back immediately.

- Look for a bank or credit union that will shift funds from a savings account instead. The foregone savings account interest revenue is always cheaper than the interest you'll pay on the loan.

- Make sure you pay the overdraft loan back immediately.

Use Debit Cards Wisely

A Debit card looks like a Credit card, but the funds come directly out of an underlying checking account. This plastic card has the Visa or Mastercard logo on it so merchants will accept the card anywhere Visa or Mastercard is accepted. Banks love this product because it takes an expense (processing a check) and turns it into revenue (the Retailer pays a fee for the Debit transaction). Many users of debit cards fail to make the entry into their checking account, so the banks collect more overdraft fees. In addition, if the card is lost or stolen your checking account must be closed and you may be liable for up to \$500 in losses.

Borrow When You Don't Need It

Ironically, banks want to lend money to you when your financial condition is at its best, but they don't want to lend when you are in dire need of the funds. To solve this problem the best time to apply for credit is when you need it the least. So expand the credit limit on your credit card of choice when your payment history and income is at its best. Or if you have equity built into your home look into establishing a home equity line. Unlike a loan, the home equity line allows you to create a loan when you need one not unlike a credit card. So you can establish the Home Equity Line when times are great without establishing a debt until you need it. Better still, the interest you pay on the line is often tax deductible.

LOWER YOUR BANK FEES

Understand The Calculations

The push for additional profitability at most banks is now focused on generating fee income. Understanding what your bank charges and when can help you save money on fees. For instance:

■ Many banks charge fees when an account balance dips below a certain level. It is important to know the dollar amount and how it is determined. Do they use the average balance over the month (best case) or do they “get you” if your balance dips below the minimum on one day (worst case)?

■ Even closing an account can cause fees. Banks often charge \$10 - \$50 when you close an account. If it is a checking account you can often avoid the fee by waiting until all checks clear, calling the bank to verify the balance and then writing a check to yourself to close the account.

■ When opening a checking account ask the bank about their overdraft procedures. If you overdraw by 50¢ will they return the check? Will they call you or send you a notice? What is the overdraft fee? What “free” overdraft services do they provide?

Work On Lower Fees

You should always be able to find a checking account that is truly free. But beware, free is often only free if you use the account the way the bank wants you to use the account. If you receive a fee, call and try to get the bank to waive some or all of the fee. They will often do so.

Avoid ATM Fees

Many banks are now charging fees for using ATM machines. This \$1.00 to \$2.00 fee is charged every time you withdraw your funds. Imagine, you give the bank \$1 for the privilege of receiving your own money while saving them teller wages. To avoid this, find a bank that does not charge ATM fees for withdrawals from their ATM network.

Find No Fee Credit and Debit Cards

Visa and Mastercard are owned by the banks that distribute the cards. A Visa card is a Visa card, whether it's issued by Citicorp or by the local bank. The only things that change are the billing cycle, interest rate, and fee structure. So find a credit card that requires no annual fee and charges a low interest rate. But read the fine print. Credit card companies are notorious fee chargers and often change interest rates.

Fees Generating Fees

Ask if your bank's fees generate fees. Common culprits of this fee generating device are large auto leasing companies like GE Capital. For example, say your payment, per the bank, is received (processed) a day late but you thought you mailed it on time, so you dispute and do not pay the late fee. Your next statement would show the unpaid late fee generating another late fee. This despite the fact that your actual payment history is timely and accurate. Read the fine print on all loan agreements and cross out this language or write in the contract that the bank may not charge late fees on late fees. Or ask the auto dealer for an alternative leasing company that does not use this practice.

The Privacy Issue

With the deregulation of the banking industry, many large banks now have business interests beyond banking. It was recently discovered that banks were using your private financial information to sell you other products and services without your knowledge or consent. Recent legislation requires banks to disclose to you whether they are keeping your information private or sharing it among affiliated and non-affiliated parties to sell you products and service. Make sure you review your bank's "Privacy Policy." It is now your "legal" right to "opt out" of allowing them to share your information if you choose to do so.

Banks provide a vital service for each of us, but you can save tremendous amounts of time and money by actively managing your financial relationship with them.

This publication provides only summary information regarding the subject matter. Please call with any questions on how this information may impact your situation.