Introduction to Online Banking

What interest rates does your current bank pay? Are you leaving significantly more money in your checking account than you need to pay the monthly bills? Do you know where the best interest rates are for a money market account? Have you checked out the possibilities of online banking? Do you know where to find a list of local ATMs that won't charge you any fees? Do you know the difference between APY and APR?

"Hey, hey, wait a second," you're saying. "I just innocently clicked over to this area to find out a little bit about my bank. I didn't expect the Spanish Inquisition." Well, as others more comedically talented than ourselves have pointed out before, nobody *expects* the Spanish Inquisition. But perhaps it's time that you put *yourself* through the third degree. What's going on in the banking industry today shows that most consumers are not giving their banking behavior much, if any, inquiry -- and the consequences are significant. Just as brokers, credit card companies, the mutual fund industry, and car dealers have been preying on consumers who don't know the rules of the game, banks are counting on their customers not doing even the least little bit of homework before opening an account.

Consider these facts:

- More than $1 trillion is currently in low (or no) interest checking and savings accounts.
- ATMs currently charge fees as high as $5 for a single transaction. Banks make more than $2 billion annually on ATM fees alone.
- There is virtually no use at all today for the inappropriately named "savings" account, yet it remains one of the most popular ways for Americans to store their money.

Here we've made a big deal for a long time about how mutual funds underperform the market's indexed returns. Over the last 30 years, the average managed equity mutual fund has trailed an S&P index fund's returns by about 2% per year -- and that *really* bugs us. But, right now, the majority of money put into checking and savings accounts is seeing a return that is closer to *3% less* than what is regularly available from equally insured and convenient accounts.

There are some good reasons that it is much, much more expensive to bank with the PhirstCitiBancs whose commercials you regularly see on nationally televised sports games. After all, there's a *lot* of marble that has to be hewn out of Italy, flown over on the Concorde, and kept clean in those cavernous downtown branches where they shoot those lovely commercials. Those powerful CEOs of the biggest banks also need (*need,* we're telling you!) some very extravagant corporate jets. And don't forget the cost of having a football stadium or sports arena named after a bank. If you like seeing a stadium on ESPN's SportsCenter and being able to point at the screen and say, "Hey, my checking account fees helped name that place!" -- by all means, keep banking there and skip the tedious chore of wading through the rest of our banking info. (We hope you'll stick around, though. We've kept this area as short and sweet as possible.)

The games and tactics banks use to keep their customers in the dark about their options are the same ones the Wise men of Wall Street and other financial industries have been using to keep customers in the dark. Here are some signs that banks are deep in the Wisdom racket:

- The use of jargon to keep the customer confused.
- Offering high introductory interest rates and then quietly lowering them.
- Hiding the fees and costs in the small print.
- Loudly proclaiming the value of expensive "personalized service."

As you peruse this section on banking, keep in mind that your ultimate goal with banks should be to obtain the services and convenience you need, with the lowest costs and the highest interest rates available. If you're ready to bank online, you'll almost certainly find that the lowest costs and the highest interest rates are available there.

If you aren't yet ready to give online banking a shot, and even if you are, the first thing you need to do is identify your banking behavior and set some easy goals for yourself.

Now, on to the question... do you really need to switch banks?

How did you pick your current bank? Maybe it was the one that had the most ATMs in your immediate area. Or maybe it was the one that advertised the highest interest rates for a checking account when, several years ago, you were shopping around. Or maybe you just picked the one that had the coolest display of marble, red carpet, and polished brass in its lobby.

While there are many ways that banks have seduced people into placing their savings in one place rather than another, in all likelihood the top three reasons you're with a particular bank are location, location, and location. If you're like most people, your bank is pretty close to your home, or your office, or the train station, or some combination of those. You're banking where it was convenient to walk in, sit down, and start an account -- even though there's a good chance that you seldom, if ever, actually walk into your bank to talk to a teller anymore.

But, if you're banking with an establishment that has a large number of locations that you can walk into, you are, most assuredly, paying quite a bit to maintain all those locations. That payment takes two forms -- lower interest rates paid by the bank on the money that you keep there and ever-multiplying fees on almost all of your banking activity.

Ask yourself, really, how often do you need to go into a bank these days? With newfangled inventions like the telephone, direct deposit, the U.S. mail system, and even, dare we say, the Internet, you don't need to be particularly close to a bricks-and-mortar branch of any bank if you know how to find the account that fits your needs and keeps costs low. Right now, at this very moment, there are scores of banks that are no further away than your computer keyboard or your telephone. Keep in mind as you read on that virtually all of those banks will have rates and fee structures that are an improvement on the majority of bank accounts maintained today.

How Much Is Enough?

People out there haven't just been casual about where they bank. Many have also been extremely casual about leaving large sums in the wrong accounts -- and passing up on hundreds, and occasionally thousands, of dollars of interest in the process. You'll need to identify how much money you need to keep in typical banking accounts. The answer to this question should be, "Not much at all." Money that is left in typical banking accounts (that is, savings and checking accounts) is earning very, very little in the way of interest. The average interest paid on checking and savings accounts does not even rise to the level of the rate of inflation, yet Americans today have more than a trillion dollars in such accounts.

If you leave significantly more money in your checking account than you need to pay the monthly bills and avoid a service charge for maintaining a minimal balance, then you're leaving too much money in that account. Furthermore, though many national banks require you to maintain a balance of about $1,500 to get interest on your checking account without paying monthly fees, with a little research you can open an account with as little as $500 and be paid interest.

Are we advocating that you get all of the money beyond your immediate needs into the stock market? Hey, we're not idiots. The stock market, though a wonderful vehicle for *long-term* savings, is in no way insured, and can be a great place to see money disappear over the short term.

There most certainly is money that you'll want to keep liquid for purchases in the near future -- money that you aren't going to use to pay this month's bills, but that is there for a rainy day, the occasional binge shopping expedition, and just as a security blanket to allow you to sleep at night. It's just that this money, if left in typical savings and checking accounts, will not return to you even half the level of interest that you can secure through equally insured accounts. The best account for you might be from an out-of-state bank, an Internet-based bank, or perhaps through your discount brokerage account.

Before explaining what these accounts are, though, the first step in a personal finance decision is to know thyself. And the only way you're going to truly get to know yourself in this instance is to start gathering up your old bank records and create a checklist of banking needs.

We don't want to accuse you of anything, but in all likelihood, your bank is sending you a detailed record of each month's activities, and you're not looking very carefully at what's inside the envelope. So, step one in figuring out how to improve your banking is to get all those monthly statements together. With records in hand, you can see what types of fees you're being charged, what your average account balance is, and what your typical low balance figure is. Since virtually all checking and/or savings accounts are going to inflict low balance fees on you, you need to know how much money you'll be able to keep in an account to know which account is right for you.

Try using this checklist to see just how much you've spent over the last three months, and just where the money is going:

Item	Month #1	Month #2	Month #3	TOTAL
ATM surcharges				

"Foreign" ATM fees				
Other ATM fees				
Overdraft				
Monthly maintenance fees				
Check printing				
Deposit/other slips				
Call center charges				
Debit card fees				
Low-balance penalty				
Per-check charges				
Return check/NSF fees				
Money orders fee				
Traveler's checks				
Other bank fees				
Totals				

Compute your fees. This will give you a real idea of where your money has been going, and what you need to change in either yourself or your bank to keep your money in your own pocket.

Checklist of Features That You're Looking For

If you're looking to upgrade your bank, you may not need all the services that banks are capable of offering, but there are a lot that you do normally use. Given the wide range of choices available, you need to write down what a bank account must offer you before you get seduced by various introductory rates.

Here's a brief list of some services you may be looking for in your bank.

• High-Interest Checking Accounts
• ATMs
• Money Market Accounts
• Brokerage Services
• Convenience
• Express Checking Accounts
• Other Insurance Products
• Loan Products
• Online Bill Payment
• Debit and Credit Cards
• CDs
• Mortgage Loans
• Overdraft Protection
• FDIC Insured
• Credit Cards
• Telephone Banking

• Direct Deposit

• Personalized Checks

Action Items!

1. Review these choices and determine your banking habits.
2. Set goals for keeping your fees to a minimum.
3. Resolve to discover the highest interest rates paid for the dollars that you aren't committing to the market.

Repeat the following to yourself over and over and over again until you have it completely memorized:

"There's no such thing as free checking. There's no such thing as free checking. There's no such thing as free checking. There's..."

Okay. You probably had that memorized after the very first try, but we just wanted to make sure. The maxim that there is no such thing as free checking is a lesser-known subspecies of the more popular and well understood catchphrase, "There's no such thing as a free lunch." When you hear "free checking," start thinking to yourself, "What's the catch?" While there are many fine checking accounts that can be used for free, they typically are accompanied by lower interest rates than an account that doesn't advertise itself as being "free."

The opportunity cost of putting money into an account that does not have the highest interest rate makes these accounts not quite free. Even though the payment you make doesn't necessarily take the form of actual charges, by accruing less interest than you otherwise could get for your savings, there is a real cost for this "free" service. Put another way, the nation's banks (which are very profitable institutions) aren't exactly going broke by offering lots of free services. They're making a big pile of pretty pennies from all the services they claim are provided for free.

Furthermore, "free checking" accounts typically (though not always) come with strings attached in the form of numerous mysterious fees. Come to think of it, all checking accounts come with strings and hidden fees attached, and the number of strings has been growing at an explosive rate over the last few years as banks have been dreaming up even more fees to inflict on their customers.

At the same time, the largest national banks are offering interest rates on their checking accounts that are about one-quarter the rate that can be found at smaller regional banks or through Internet-based banks. According to a recent report published by bankrate.com, *none* of the 50 largest banks in the country make it onto the list of the best checking accounts. Between the nasty fees and the missed interest, the worst checking accounts in the country cost someone who maintains a monthly balance of $1,500 a month around $300 a year. If you read through our piece on gathering your records and made a study of where in the world all those fees are coming from, you should know exactly where you stand with your bank.

Learn the Interest Rate Environment

Even though in the Wise world of banking there are dozens of different names, there are really only about three different types of checking accounts:

- An account that pays no interest and charges relatively lower fees, which might be called something like "economy checking."
- "Basic checking" accounts for low-income earners, which also won't pay interest, but charge lower fees and require a lower monthly balance.
- An account that pays very low interest (called "High Interest," "Super Interest," "Checking Plus," "Success Checking" or any number of other misnomers), charges higher fees for your mistakes, and requires a higher opening balance and higher monthly balances.

Any one of these might be called "free checking," (since the term "free checking" has no precise meaning), but here's something to keep in mind when deciding which account might be right for you: depending on the account balance you maintain and the interest rate offered, you may be better off in a no-interest account. According to a recent survey, the average amount that an account holder needs to maintain to avoid fees on an interest-bearing checking account is greater than $2,000 a month, and the average monthly service charge assessed on an interest-bearing account is almost $10 per month. Keeping $2,000 a month in an account that pays about 1% interest a year (earning $20) while paying $10 per month in fees (losing $120) means a net loss of $100 a year. You can do a lot better than the average consumer out there is doing.

Customers who keep an average of $5,000 or so in their checking accounts get better deals from their banks, but they really shouldn't be maintaining that much money in a checking account in the first place. The opportunity cost of leaving thousands of dollars in an account that pays virtually no interest is really quite high. You should keep about as much in your checking account as you need to pay the monthly bills and avoid a minimum balance charge -- the rest should be kept in a higher-interest account such as a savings account, a CD, or a money-market fund. You can then transfer money from the higher-interest accounts to your checking account as needed, keeping in mind the limits and fees that apply to making transfers.

Go out and find the best interest rates available for your checking account dollars. A smaller local bank or credit union will likely have checking accounts with interest rates double that of the big national banks. Internet-based banks have rates that are closer to three or four times the rates offered by the national Goliaths, and we'll look at them later.

Questions To Ask Before You Open An Account

Here's a checklist of questions to keep in mind when you're either sitting down with a bank employee to discuss opening an account or surfing the Web to determine whether an ad you've clicked on has really brought you to a site where you might want to do business.

- What is the interest rate on the account? If the account does not pay any interest, what is the difference between the fees charged on the interest account and the non-interest choice?
- What is the minimum deposit necessary to open the account? What is the minimum balance necessary to avoid a fee once the account is open?
- What is the per-check charge? What is the charge for ordering new checks?
- What is the charge for a bounced check?
- Are canceled checks returned with the monthly statements? If not, what are the charges for having a canceled check returned?

Other Ways to Keep Your Costs Low

- Use direct deposit. If you do, your bank might give you free checking. Remember, of course, that "free checking" is seldom really free.
- Order your checks direct. While some banks will charge about $25 for an order of 200 checks, you can get the same thing for one-quarter of the price by ordering direct from the printer. Check out www.currentchecks.com or www.checksinthemail.com.
- Think about online bill paying. You'll save money on the stamps.

Earlier, we pointed out that you're best off only keeping enough in your checking account to pay the monthly bills and avoid low-balance fees. Beyond that, you should aim to get the best rate of interest available for your intermediate-term savings, and that means putting some of your extra cash somewhere other than a checking account. (As you've probably heard us preach elsewhere on this site, we like individual stocks for money that you're socking away for at least five years.)

Millions of Americans today are going about this the wrong way, and settling for very low yields on their savings. Today there is more money deposited in savings accounts yielding 2% than there is in certificates of deposit (CDs) yielding an average of closer to 5%. Nearly $1.5 trillion is tied up in accounts that aren't paying any more than 2%. That needs to change, and, as usual, the best way to beat the system is to learn more about it.

There are essentially three types of savings accounts:

Passbooks. Do people still use these? Apparently some do. If you're a late Generation Xer or older, you probably remember a type of account where the bank gave you a little book to record your transactions. By law, these accounts paid 5% interest until 1986, when deregulation allowed banks to set the rates. Guess what? The banks set them lower, and today they've drifted all the way down to about 2%, maybe less if you're banking with one of the big national banks.

Statement savings. You can tell this account from a passbook account only by the fact that there's no passbook -- there's a statement sent monthly in the mail. The interest rate for statement savings accounts is about 2%.

Money Market Accounts (MMA). Money market accounts are savings accounts offered by banks and credit unions that pay out a slightly higher rate on your money -- about 2.5% on average. (You will be able to find MMAs with roughly double that rate of return by doing a little research. Check Bank Rate Monitor for the most recent national rates as part of your research.) MMAs may require a higher minimum balance, but you can make as many deposits as you like for free and you can write up to three checks per month. Plus, they're insured by the Federal Deposit Insurance Corporation (FDIC -- Ask about dollar limits on the insurance to make sure your money is protected).

Money Market Funds (MMF). Money market funds are a type of mutual fund. Though not government insured, they are very secure since regulations require these funds be invested in high-quality, short-term investments like short-term loans to corporations or government agencies and U.S. Treasuries. Currently, money market funds can snare you nearly 5%. Again, shop around for the best rates.

Certificates of Deposit (CDs). Going beyond the above accounts, if you have money that can stand to be tied up for anywhere from three months to six years, certificates of deposit will offer even higher rates -- currently slightly higher than a 5% APY. Of course, if you're putting money into CDs, remember that the longer the term, the higher the interest rate you'll get -- but you also can't touch that money for the length of the CD term. There is a penalty for early withdrawal of funds, so be careful about the CD you choose. If you're likely to be dipping into some of that money to fix the house, take a vacation, or buy holiday presents, don't put too much into a long-term CD. Like savings, checking, and money market accounts, CDs are FDIC insured for up to $100,000.

Know How Interest Rates Are Calculated

When advertising interest rates on any of these types of accounts, banks may use two different numbers: Annual Percentage Yield (APY) and Annual Percentage Rate (APR). APY is used for savings and CD accounts, while APR is used for loan accounts such as credit cards.

A *rate* is simply what an account earns before any interest is added. More important than the rate is the *yield*. A bank might quote rates that are compounded daily, weekly, monthly, quarterly, or yearly, and each will produce a different yield -- the more frequently the rate is compounded (the adding of interest to interest), the higher the yield. The yield is what the account actually pays you in one year, after all the interest is added to the original amount deposited. Over the course of a year, interest that's compounded yearly could produce a lower yield than a lower rate that's compounded daily, and so the APY is the number you need to know to truly compare one bank's offering with another's.

The rate, or APR, will always be a lower number than the APY, which is why credit card companies advertise the APR applicable to credit card balances.

Always remember to get the APY for CDs, money market accounts, or savings accounts rather than the APR so that you're comparing apples to apples.

It's Not Just the Interest Rate

If you've got a checking account set up somewhere, and you wish to have that account be local (either because you want to have a local branch you can walk into, or you enjoy being able to use its large local distribution of ATMs), you should still consider moving your intermediate-term savings into an out-of-state bank (if necessary) for the very best rates on CDs or money market accounts. If you're limiting your savings to what your big local bank is offering, you're almost surely passing up about an extra 2% earnings on your savings.

Why is it that a small bank you've never heard of halfway across the country can offer much better rates than that gigantic ThirdUnion that just swallowed up half the banks in your area? It's because the tiny thrifts and savings banks don't have to maintain so many branches, pay so many employees, and buy so much commercial time that they can afford to make their customers' money actually work for them.

But keep your eyes on the fees -- always. If you're setting up any accounts out-of-state, in-state, or in cyberspace, keep in mind that the highest interest rates may very well be accompanied by some extra fees. Make sure that when you're shopping around you get the fee disclosure forms from all the banks you're considering. Again, get your past bank statements and compare your behavior to the fees that each bank charges.

There will, of course, be numerous other questions that you will want answered before finally deciding which bank gives you the best bang for your buck, but the best account is very likely not at the bank that has the most commercials or the one that has just swallowed up your old bank. Although these large regional, super-regional, or national banks might have the most ATMs in the area, and that might lead you to believe that is what's most important, have you really been keeping an eye on what's going on with ATMs lately? And what you're using them for? If not, it's about time you did.

A Brief History of the Automated Teller Machine (ATM)

When ATMs first appeared about 20 years ago, not many people used them. Banks had to resort to promotional gimmicks to get anyone to try these newfangled and frightening machines. All transactions were free. Historians now refer to those early days as "The Golden Age of ATMs."

Sigh. With all the fees attached to them today, ATMs, although more plentiful, exist more as a profit center for banks than as a service to their customers.

How Did We Get Here?

One of the primary reasons you probably have a banking account is so that you have something to take out of all those friendly ATMs that are now on every street corner. And banks are quite happy about that. Banks discourage their customers from making transactions with a live teller (sometimes by charging as much as $8 for a face-to-face encounter), because that involves paying somebody to smile at you while they're helping you out. It costs banks about 27 cents to have a deposit or withdrawal processed at an ATM machine, but about $1.07 to handle the same transaction by a live teller.

But there's another reason that banks love to have people go to ATMs -- the fees that can be charged. Today, U.S. banks are taking in a pretty penny in fees every year, as people are not paying very close attention to the fees associated with using the ATMs. After all, it's just a dollar here, a dollar there, right? Wrong.

The Center for Responsive Law estimates that banks today make more than $2 billion on ATM transactions. That total is going up rapidly, as banks have seen fit to continually raise the amounts they charge customers for the privilege of using the ATMs. Furthermore, nowadays it isn't just your bank that's socking you with a fee -- if you aren't using one of your own bank's actual ATMs, the other bank is probably hitting you up as well.

There isn't too much you need to know about ATMs except how to avoid incurring fees when you use them. (You also need to remember to wait for your card to come back out after you've been given the money. But, really, you already knew that.) To avoid fees, simply bank at an institution that doesn't charge you when you use your ATM card at a foreign institution, and learn where the free foreign ATMs are.

The most likely banking institutions to offer totally free ATM transactions with a checking or savings account are credit unions, smaller local banks, and Internet-based banks.

Which Machines Are the Mean Ones?

Yes, some ATMs are your friends, and some are your enemies. ATMs come in basically three flavors:

- **Proprietary:** The ones your bank owns. It is a rare bank indeed that charges its own customers to use its ATMs, but it's far from unheard of. Approximately 10% of all banks now charge their own customers for using the ATM. The ones that do charge tend to have a fee of around $1.

- **Non-Proprietary:** All the machines that belong to somebody other than your bank. These will charge you about $1 to $1.50 to make your transaction, and they'll post that they're imposing a fee either on the "welcome" screen or else with a sticker on the machine itself. But wait, there's more! Your own bank is probably charging you a similar fee for not using its own network. Find out how much your bank charges for this, but generally expect to be out about $3 between the fee from the ATM you're using and your own bank's fee.

- **National ATM**: The bank is hooked up to a regional or national network, such as Cirrus, Plus, NYCE, Interlink, or others. When you use these out-of-town networks, expect that the fee will be no less than $1.50, and possibly as high as $3. Then add the fee that your bank is charging you.

Hey, every ATM dispenses cash in the same way -- they all provide the same service. What you really need to know is which machines won't charge you, and whether your bank charges you. If you often find yourself using non-proprietary or national ATMs, then you'd better figure out just how much your bank is charging you per year and decide whether you aren't better off banking with an establishment that doesn't hit you with charges.

More and more, free ATMs are cropping up at convenience stores as a way to lure people in. (But don't assume that the machine is free -- make sure by reading the "welcome" screen and any stickers on the machine.) Here is a list of Web links to research free ATMs in your area:

www.surchargefreeatm.com/
Illinois, California, Florida, Iowa, Kansas, North Carolina, Virginia, and Wisconsin

www.co-opnetwork.org
Arizona, California, Colorado, Florida, Idaho, Maryland, North Carolina, New Hampshire, Nevada, Ohio, Oregon, Texas, Utah, Virginia, Washington, and Wisconsin

www.know-where.com/intercept/
Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Texas

More links to free ATMs.

Knowing where the free ATMs are is especially important if you have opened or are thinking of opening an account with an Internet bank -- because those Internet-based banks won't have proprietary ATMs.

Exploring all the alternatives to traditional banks should certainly not pass Go without first finding out what their local credit unions have to offer. For many, a credit union will provide better service with noticeably better rates and fees than any national behemoth bank, or even their friendlier smaller-scale local banks.

According to the Credit Union National Association (CUNA), a credit union "is a cooperative financial institution, owned and controlled by the people who use its services. These people are members. Credit unions serve groups that share something in common, such as where they work, live, or go to church. Credit unions are not-for-profit, and exist to provide a safe, convenient place for members to save money and to get loans at reasonable rates." Essentially, credit unions are collectives of people brought together to loan each other money at fair rates. Pretty simple, actually.

The purpose of any business is largely to serve its owners. In the case of a bank, owners are outside shareholders, and the purpose of a bank is ultimately to serve those owners by making profits from its customers. Thus, at banks, fees are high, and interest rates on deposits are kept low.

With credit unions, the members/depositors/owners are all one and the same. Credit unions are run not-for-profit, and thus are able to deliver substantially higher rates than banks for the same deposits. According to Bank Rate Monitor, the average yield on a money market account is about 1.5% higher at a credit union than the national bank average. Additionally, the end of the year sees some credit unions rewarding its members with cash bonuses if financial targets have been met.

Because credit unions exist to serve their members best rather than to make the biggest profit, the service at a credit union is generally considered superior to that given by banks. Credit unions are known for providing better financial guidance and better financial education to their members than banks are to their customers. The employees of a credit union have their fellow members' interests at heart, and (from what we hear on our message boards) most credit union members love the personalized service they receive.

How to Find a Credit Union That You Are Eligible to Join

Today there are more than 72 million credit union members, so it isn't that hard for most Americans to find some union or another that will welcome them as a member.

Traditionally, the way to find a credit union you are eligible to join (remember, some are set up for church groups or specific employers) is to start asking around. You can ask your boss to set one up, or ask your family or neighbors if they know of a good one. Here we're of course kind of partial to doing our own research right on the old Internet.

What's the Downside?

With all this talk of how wonderful credit unions are, and how much more Foolish they are than the standard PhirstCitiBancs that have taken over the world, surely, you are saying, there must be some drawbacks. And, indeed, you would be right to say just that.

*No ATMs***:** The main drawback to a credit union is that they don't have the ubiquitous ATMs that make the big banks attractive. Credit unions typically have a pretty limited number of branches, and oftentimes that limit is just one. Or even none. However, to get around this, in most states credit unions have formed no-surcharge ATM networks among themselves, thereby multiplying the number of free machines available to all members. On the Internet there are plenty of lists of free ATMs available in your area, so for many this shouldn't be a problem.

Insurance May Not Apply: Although in most credit unions deposits up to $100,000 are insured by the National Credit Union Administration, an agency of the federal government, approximately 3% of credit unions are not insured. The $100,000 protection is essentially the same as that offered on bank deposits by the Federal Deposit Insurance Corporation. Obviously, make sure that any credit union you are considering becoming a member of is insured.

Checks Don't Come Back: Credit unions have special wacky names for things you're familiar with. A savings account is called a **share account** and the term for a checking account is a **share draft account**. Not really a big problem. What *might* be a problem, for some, though, is that at most credit unions, canceled checks are not returned to members. This isn't too big of a problem -- you just need to keep a carbon copy of the checks you write.

Range of Services: Many credit unions have a comparatively limited number of financial services available. While share accounts and share draft accounts are pretty ubiquitous, not all credit unions will have a full range of loan services and some of the more unique banking products offered. This is a problem that is quickly disappearing as credit unions are expanding their services. If you're thinking of joining a credit union, make sure it offers the full range of services that you think you'll be needing.

Credit Unions -- Now Online, Too

Frankly, these days, what isn't? Anyway CUNA provides a search program for online credit unions. Check it out, if you're looking for the best options.

Odds 'n Ends

The banking industry really, really hates credit unions, because of the threat credit unions present to the lower-service banks. Banks have mounted intensive lobbying efforts to get Congress to pass laws to make credit union operations taxable. Thankfully, these efforts have all failed.

If you're unsatisfied with your current bank for whatever reason, check out the competition that your local credit unions (or the online ones) are presenting.

As the Internet has changed the landscape of the brokerage industry, it has also led to some changes in the way that brokers function. In particular, once the cost of stock trades dropped to deep-discount levels, brokerages began to offer other services, possibly in an attempt to develop other revenue streams, but certainly as a way to attract customers. And customers, for their part, have begun to investigate whether their broker can now serve the functions that were previously carried out by their banker. Does it now make sense to dump your bank completely and rely exclusively on your broker?

Let's look first at some of the services offered by brokerages. You can write checks on your account and you can use a VISA debit card at any ATM. You have your securities (stock) accounts there, so there's a nice feeling of consolidation. Come tax time, assuming that your broker is online, you've already got all your securities information -- no more asking a brokerage's secretary to pull confirmation slips out of their files since you accidentally used yours to plug that radiator leak back in December.

Some brokerages also allow you to borrow against your holdings. This means that you can use your margin account as a loan -- the interest rate is usually lower than 10%, which beats the heck out of credit card interest rates. Important note: Before borrowing against your securities, you should know what you're doing, and you shouldn't do too much of it. If the value of your stocks plunges, and you've overextended yourself by borrowing too much, you might get the dreaded "margin call" -- meaning that you have to sell some stock (or deposit cash) in order to keep the requisite amount of cash in your account. For those who want to be able to invest for the long term want to avoid this situation at all costs. So if you do borrow from your margin account, do so judiciously. A good rule of thumb is that you should not borrow more than 10-15% of the value of your portfolio.

If the checking account offered is, in fact, a money market account, then you earn higher interest than you would at a bank. The brokers will be quick to tell you that you get free checks, unlimited cash withdrawals with your ATM/VISA check card, and that you incur no fees for purchases made with that card.

What's the catch? There are a few, and the first few are awfully similar to those we've already seen in relation to Internet banking:

1. ATM fees. They don't have networks, so you're going to have to pay the ATM's owner plus, possibly, a fee to your brokerage's banking sponsor. (That is, since the brokerage may not itself be a bank, it may partner with a bank to provide this service, and that bank may add a fee.) However, this is in the process of changing. Charles Schwab has just started an account that reimburses ATM charges. The catch? You've got to maintain a $100,000 minimum account balance. Watch for this minimum to come down as competition increases.
2. You can't just drop by a branch to deposit checks.
3. They may not accept a check written to you from someone else (i.e., not a paycheck or a Social Security payment).
4. They may or may not allow automatic bill paying. If they do, you may need to do it with a touch-tone telephone instead of through the Internet. And they may well charge something like $3 a month for this service.
5. They may not be set up to return your canceled checks to you. Instead, they may provide you with a checkbook with the old "press hard to make a carbon copy" technology. If you do need a copy of a canceled check, you can request one -- for a fee.
6. There may be fees for various services. For instance, you may be charged if your account balance -- combination of cash and securities -- falls below a certain level, and there is wide variation in just what that level is. In addition, there is a wide variation in the amount of your minimum investment. It may be $2,000 or $20,000 or higher, and there can be a great deal of disparity in terms of what you'll be charged if your account sinks below that level. In addition there may be an annual fee, an ATM usage fee (even for using the broker's "own" ATMs), fees for mutual fund transactions, and substantial variation in fees for trading shares. So you'll want to do some shopping when it comes time to choose a broker as banker.

In sum: If you like the idea of consolidating your investments with your daily checking needs, a cash management account from your discount broker could be a good solution. If you find the right discount broker with the right services and few fees, the convenience could be well worth it. You will probably, though, still need a local bank account to clear checks through, and also as a lifeline bank in case you need a certified or registered check.

Online banking is for you if it will save you time and/or money.

You're the ideal candidate for online banking if you a) are online already, b) have more than just a few bills to pay, and c) already use a personal finance program like Quicken or Microsoft Money. If one or two of these apply to you, then you're still a pretty good candidate.

But what, exactly, do we *mean* by online banking? There are three aspects to what is broadly called 'online banking,' otherwise known as PC banking, Internet banking, home banking, or electronic banking. First is the fact that you can shop for interest rates online (not just interest rates for your interest-bearing checking account, of course, but also for such things as home loans or car loans).

Then, beyond finding your best interest rate, there are concrete services offered online that can benefit you in tracking and managing your bank account: account viewing and online bill paying. The former indicates that you can access your account online to see your transaction history and account balance. The latter offers, in addition to that, the ability to pay your bills online and have your register updated and the data automatically imported into programs such as Quicken or MS Money.

There is also the distinction between banks that are wholly on the Internet and for which no special software is needed (such as Net.B@nk and Telebank) and the traditional banks that have added the option to bank from home via special software.

There are key advantages to banking online. First, you can do it from anywhere. From the office, from home, from your cousin Lester's place in New Jersey (if you can ever get his kids off the darned computer). You can also do it any time of day or night -- and at last fulfill those bizarre cravings you've had at 3:00 in the morning to check your account balance. The disadvantages have mostly to do with the effort that may be required to get set up.

Questions to Ask Yourself

Are you online already?
Umm... well... you're reading this, right? So it's a pretty fair guess that you are. This means you don't have to jump through any hoops in terms of getting a computer, figuring out what a modem is and whether or not you have one, getting an ISP or using AOL, etc. You already know all that. If your current bank has a website and the ability for you to view your account, you may be just an instructional phone call or a mouse click away from viewing your account online already.

How many bills do you pay each month?
If it's only two or three, then it may not be worth your while to get set up for online banking. If however, it's more like 20, then you're a prime candidate. Once we're talking paying rent and/or mortgage, the utility company, the garbage collector, your VISA bill, the local phone company, the long distance phone company (and possibly a separate cell phone), the cable company, one or two student loans, a car loan, the water bill, and the newspaper delivery -- well, think hard about doing your banking online. There is great joy in not having to write your account number by hand on so many checks, put stamps on so many envelopes, or write your return address over and over.

Banks offer these services for varying rates, but a reasonable rule of thumb at present is that you'll pay around $5 a month. If you send out 20 bills a month, you're saving over $6.00 in postage right there -- so you're already ahead. If, in addition, you're saving yourself time and getting that extra pleasure from not wasting energy in the humdrum of irritating tasks like licking envelopes, it's a no-brainer: you should be banking online.

Do you use Quicken or MS Money?
If you already use one of these programs, you're way ahead of the game. You already know most of what you need to know. In addition, your bank will (most likely) be able to update your register on your hard drive -- automatically -- each time you use it. This is, as the saying goes, way cool. You simplify and automate your bookkeeping and make tax time less painful. You pay your bills with a minimum of effort. You save money.

It's no-brainer #2, fer cryin' out loud.

Is your time important to you?
Well, all right, you caught us asking a leading question. Everyone's time is important. But we state it here because it's something to think about: an investment of time up front may pay handsome dividends down the road. (It's just like investing in stocks, right? You know, "time is money" and all that.) Even if you're not online and you don't use Quicken or MS Money, you may decide that taking the time now to get set up for the future will be worth it.

Traditional banks, aware of the convenience inherent in banking from home, have been beefing up their online offerings. Typically, these offerings come in two varieties: either you have personal finance software on your computer and use it to connect to your bank's Internet address, or, without any special banking software on your computer, you simply connect to the bank using whatever means you're already using to log on to the Net.

Let's first look at connecting with your bricks-and-mortar bank through the use of your personal finance program.

CheckFree
CheckFree is a program (and a company) that allows you to pay your bills online. As the name suggests (you're free of checks -- get it?), you no longer have to write out paper checks. You pay a monthly fee to the company (currently $9.95 per month for up to 20 payments), download the software from the CheckFree website, install it, and it walks you through getting set up.

You may have been using CheckFree already for several years, in which case you're familiar with it. But you may be surprised to discover that there is a better deal around, using -- guess what? -- CheckFree.

Read on.

Quicken and Microsoft Money
These popular programs allow you to track, check, and categorize your various accounts -- from checking accounts to credit card accounts to loans and investments. Using the data you enter into the program, you can also prepare budgets and generally get a much clearer picture of the state of your finances.

What's more, the programs are also capable of hooking you in to your online bank. The way Quicken does this, though, is through CheckFree. You may never see the CheckFree interface -- as a matter of fact, you generally don't -- but that's how your transactions are being transmitted. Because your financial information is being automatically updated and entered into your Quicken register, you've saved yourself a step, come tax time, of trying to import from one program (the CheckFree standalone) to another (the personal finance program).

Surprising, perhaps, is the fact that it's cheaper. Many banks now offer unlimited payees at $5 or $6 a month, as compared to the CheckFree standalone deal. You do da math!

Internet Banking
If you don't have Quicken or Microsoft Money and you want to remain with your current bank, they may well offer online banking. They will then function as an Internet bank for you, but you still have the convenience of a local bank branch. You can access your account information and pay your bills through the Internet. There is a charge for this, which is generally about the same that you'd pay to access your account with Quicken or MS Money -- around $6 a month.

The features offered are essentially the same, except that you don't have the convenience of automatically importing your financial data into your personal finance program.

Instead of using the online service provided by a bricks-and-mortar bank, you may choose to go with an Internet-only bank.

The two main reasons that you might choose to use such a service are 1) convenience (including free online bill paying) and the fact that you wouldn't have to change banks if you relocated, and 2) free services such as 100% free checking. For the latter, the bank may require that you have one direct deposit a month.

Since a bank's costs are substantially lower if it only needs to support a single online computer network (as opposed to bank branches, tellers, ATMs, etc.), it can pass those cost savings on to you. This may translate into lower fees -- or possibly even no fees -- for online banking services. At least one online bank, for instance, offers no-fee checking, unlimited check use, a VISA check/ATM card, and 24-hour Internet access to your account. All for no charge. Not bad, eh?

The interest rate paid by such an account can vary widely. Some will pay no interest at all; others may come with interest rates that are higher than so-called "high-interest" checking accounts at traditional banks. If the rate is nonexistent or very low, you may simply want to use this account as a stop-off before sending your money to your savings or brokerage account -- or for paying bills. You can, of course, set up recurring bill payments or money transfers to your other accounts so that your money isn't just sitting there languishing.

Online banks, being cyber-ready and technologically proficient, may give you more detailed information than a traditional bank. For instance, you can make a withdrawal from an ATM and, within an hour, you'll be able to see that withdrawal reflected when you visit the bank's website. Or, if you prefer, you can see your account balance as of the close of the last business day (as you would with a normal bank). When you see your online register and you're wondering about a particular transaction, you may be able to click on it to see an actual image of the check or details of your ATM or debit card transaction. If you have more than one account, you can transfer funds between accounts with the click of a mouse. In addition, you can likely import the data right into your favorite personal finance software program.

So, what are the drawbacks? Well, there is the little matter of the ATM fee. Since the Internet bank doesn't have any physical branches located near your home, you're going to be charged whatever fees the host bank wants to stick you with. (At this writing, very few banks don't charge ATM fees for third-party cards, though that may change.) As we explained earlier, you need to do your homework if you want to minimize ATM fees.

In addition to hunting down those low-priced or free ATMs in your area, there are a couple of other ways to reduce the bite of the fees. Many grocery stores will give you cash back if you use a debit card (a debit card, of course, is a card that draws money from your checking account -- your ATM card is a debit card.) Check with your local supermarket -- you may be able to get $50 cash back if you use your debit card to pay for your food. Supermarkets do this as a customer service, and also because they get paid right away with a debit card, as opposed to having to wait for the payment to arrive if you use a credit card. There are, as well, a number of Internet banks that will give you some sort of rebate per month for ATM fees. For instance, Compubank -- www.compubank.com -- gives four ATM rebates per month on its accounts.

Another inconvenience to this kind of banking is that, other than direct-deposits, you'll have to mail in your deposits. If you're frequently making cash deposits, this could become a significant pain in the neck. While it may not be a major obstacle, it should be factored into your time-versus-money decision.

There is potentially a larger drawback as well. Suppose your mortgage payment is due on the first of the month. When you paid the old-fashioned way, you put a check in the mail on, say, the 25th, figuring that it would get there a couple of days before it was due. The bank then deposited it, and your account was debited right around the first of the month. When you pay online, though, you may have to put in a check request as much as 10 full business days before your payment is due. And the bank may withdraw the money from your account the *day that request is received*. You're then losing about 10 days worth of interest on your mortgage payment every month. If this is the case with all of your monthly payments, you may be losing interest on thousands of dollars each month. Even though the interest you make on that money may not be much, it can easily offset any savings you gain from supposedly "free" Internet checking.

So if you're going to do Internet banking, be sure to ask about precisely when the money is withdrawn from your account.

Shopping for a Bank Online
One site that you may want to visit to compare banks' online performance is the Gomez Internet Banker Scorecard. This site, which is updated quarterly, allows users to rate online banks for overall score, ease of use, onsite resources, and overall cost.

Independent Bill-Paying Services
There's another service on the Internet that has recently emerged and deserves a mention. If you're a die-hard Netizen (that is, someone who uses the Net all the time -- but you knew that if you're a Netizen!) and you want to receive your bills via e-mail instead of regular mail, you can. Services such as Paytrust (http://www.paytrust.com) and PayMyBills (http://www.paymybills.com) do just that.

Instead of receiving a traditional paper bill at your house, you receive an e-mail telling you that a new bill is now available online. You then go online and review the bill (which has been scanned in by the service), select the payment date, and authorize the amount for payment. The cost for the service is currently $7.95 to $8.95 a month. This may be a bit more than you might pay for online banking, but it may be worth it if you need that flexibility. You'd no longer need to deal at all with opening envelopes -- no more messy paper cuts. And it may be especially interesting if you're planning to travel for a good length of time (but, of course, you'll be online!) and would otherwise have trouble responding to your mail.

Getting set up online is not difficult.

The Cyberwing of Your Traditional Bank
To set up an online bank account, you can call your bank and ask to speak to their PC experts. Typically you'll be asked for specific information to verify that you are the account holder, so be sure to remember your name. They'll also likely ask you things like your mother's maiden name, your address, and so forth.

If you're just going to be checking account balances or using their stand-alone Web software, then that's pretty much all the info your bank is going to need.

If, on the other hand, you don't yet have a personal finance software package, then you're going to have to choose one: either Quicken or Microsoft Money. These are both excellent programs that have become increasingly easy to use as the software companies have benefited from customer feedback. Quicken still has the lion's share of the market.

You'll need to set aside time to familiarize yourself with the program, but whichever you choose, the great likelihood is that, over the long term, you're going to save yourself a heck of a lot of time and hassle by using one of these programs. Even if you one day (for some reason) decide that you'd just like to use an Internet-only interface, you'll still have the benefit of a solid foundation in the same principles that underlie that software.

Your bank will also want to know which program you're using and whether you're using Windows or Macintosh.

You'll then need a PIN number (you'll either choose one or it will arrive in the mail) that will give you access to the bank's website. You may also need a customer number, which appears on your ATM card and is separate from the PIN number.

An Internet-Only Bank
Registration for new customers goes something like this (if we hum a few bars, feel free to join right in). First, you select the type of account you wish to open. Then, you complete an electronic application, which you print out. If you don't have a printer, the bank will print it for you. You then sign the form (yes, even in this age of electronic everything, you sometimes need a good old-fashioned signature to kick things off) and mail it in. Alternatively, you may be able to fill out all of the information online, but you'll have to a) send a check, and b) fill out a signature card so they have your signature on file.

When choosing an online bank, you will of course want to check out the bank's website. One of the first indications you'll have of their customer service is the ease with which you can figure out what to do next. Some will have tutorials that will walk you through the process. Go ahead and walk. If you can't figure it out from what's online, that's a pretty good bet the learning curve is too steep.

You might also want to click on the "contact us" button and see what you find. If it includes a phone number (and it should) then call the number. See how long you get put on hold. In short, do any of the common-sense things you might think of when getting involved with a company with which you expect to develop a business relationship.

And finally, is all this online hooey safe?

With all these viruses and computer hackers that I keep seeing cheesy movies made about, can I really feel comfortable leaving all of my financial information inside of my computer? CAN SOMEBODY, *ANYBODY*, PLEASE HELP ME?!?!?"

Okay -- we're not too crazy about the use of the ALL CAPS writing, but we certainly understand why the question is raised so frequently. Online security is -- and probably should be -- the top concern of consumers. Accordingly, online banks are pretty focused on it, too.

Most online banks will have a portion of their website devoted to explaining the measures that they employ to protect the security of your transactions. Many online banking systems employ the direct-modem connection, so those transactions are not even transmitted over the Internet. If you are making banking transactions that do take place over the Internet, make sure that your bank is using high-end encryption.

Encryption is the process developed by super-genius computer nerds to scramble data so that only the intended receiver can use it. The higher the number of bits in an algorithm, the more sophisticated the encryption. For example, a 128-bit algorithm is the encryption level used by AOL's Banking Center. 128-bit encryption methods are also the highest level of security currently allowed by U.S. law.

Is 128-bit encryption enough for you? Well, 128-bit standard is so powerful that the U.S. government currently does not allow the sale of it overseas. (Though Canadians are allowed to download it. But should we really trust our friends up north that much? Hmmm....) Stealing information that is encrypted at that level is virtually impossible -- even if it does seem awfully easy when you watch those movies about those genius basement-dwelling unemployed computer hackers. Just ignore the movies -- they aren't exactly accurate.

What you should pay attention to is whether or not the security measures are operating while you're making your transactions. Depending on what browser you use, you'll either see a closed padlock icon or a key icon to demonstrate that security is operating. When you see these, you'll know that your transaction is being encrypted -- and accordingly, you should feel quite safe about what you're doing.

Additionally, online banking services feature passwords and personal identification numbers (PINs) that you select. Your PIN needs to be given every time you make a transaction within your account, and you can change your PIN as often as you'd like.

While concerns about online security will always be there, rest assured that the banks themselves have a very, very high stake in making you feel comfortable about the level of security being used. While it may be true in this world that nothing is perfectly safe, online banking is certainly as close as offline banking in providing safety in your financial transactions.

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