

PART
I

**FIRST PERSPECTIVES ON
MONEY**

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CHAPTER 1

How Do I Choose a Bank? Does It Really Matter?

Just like you or I have a home, so does our money. It's known as a bank, and is among the fundamental institutions of modern society. Our money waits there, ready to be spent, and often builds up interest in the meanwhile. Checking account funds can be accessed in a variety of convenient ways, including automatic debits and check writing. You can also use your automated teller machine (ATM) card to make a purchase or to withdraw cash from a machine. Being inside a bank is also a sensory experience. There are bundles of money all over the place, safe-deposit boxes where valuables can be stored, and convenient coin-counting machines. Many banks also have associates standing by to assist you in borrowing money on short notice to purchase a home, a car, an education, or another item that you either can't afford to pay for up front or don't desire to for some reason.

These are some of the qualities I think of when picturing a bank. However, not all banks are the same. Whereas most generate revenue through variations of the same few processes, each bank generally has its own culture that can differ quite widely from the next. Understanding some of these similarities and differences can teach you what to look for when doing your own banking and make you a wiser consumer overall. We'll discuss some of these issues.

What Makes a Bank Good?

People generally look for banks that are close to their homes or offices. You probably wouldn't want to keep your money somewhere that it became difficult to access. Hours of operation may be important to you as well. If you do business with one of those banks that close at 2:00 P.M. on weekdays and that don't open at all on the weekends, banking becomes extremely inconvenient. That's certainly not necessary anymore. Competition has improved these kinds of problems, and now many banks are open until 7:00 P.M. on weekdays, most banks have Saturday hours, and some are open on Sundays as well.

You may notice that most banks are open, airy, and luxurious. Due to the sensitivity people feel about their money, it's crucial that banks carefully consider the message given by their atmosphere. A bank that is cluttered, dark, and disorganized probably wouldn't appeal to a very desirable clientele. I find this analogous to my own firm's office in New York City. Because we handle personal finances, our offices must exude prosperity. Our location is quite expensive, conveniently located in the heart of Fifth Avenue shopping and a short skip from Central Park. Could we practice financial planning from elsewhere? Sure, but image is important, especially in finance and banking.

A bank can achieve a competitive edge by offering exceptional features to its customers. For example, some banks offer free checking without any minimum-balance requirements if you establish direct deposit. Direct deposit, for those who aren't familiar with it, refers to some form of payment that gets automatically deposited into your bank account, usually once or twice a month. Banks like direct deposit because it provides stability of cash flow, which can be used to improve record keeping and ultimately make the lending process more reliable.

Online banking has become the bank feature of choice in the twenty-first century. Why leave your home or office if you don't have to? You can monitor transactions online, view monthly statements, transfer money from savings to checking, pay bills using various payment links, or even stop a check. The only thing you can't do is request a bundle of cash to eject itself from your screen. Often visiting a bank's web site will fill you in about online capabilities.

Some banks offer insurance and investment products in addition to their other accounts and services. Unless you're dealing specifically with an arm of the bank that offers comprehensive financial planning

services, the bank will not be your best bet for these products. Most banks work strictly on commission, which can lead to recommendations that aren't always in the best interests of the client.

Banks earn money from fees they charge for personal banking. If you're a very attentive consumer, you will ask for a copy of your bank's fee schedule either when you first open your account or soon afterward. This way you can see how your bank's fees stack up against others' fees. You can probably even find these fee schedules on the bank's web site. The most common fees I've found are for wire transfers, stop payments, insufficient funds, and official checks. Banks sometimes have service charges as well, which are different from fees. An example is a monthly maintenance expense, which covers operational costs such as printing and sending monthly statements.

Because some people park money at the bank for several months or years, the interest rates earned on different types of accounts are an important variable. A popular activity in the blogosphere is comparing various online bank accounts to determine which ones are currently offering the highest rates. Ken, over at www.bankdealsblog.com, has dedicated the majority of his site to locating these deals, but discusses other offers and sign-up bonuses as well. Many consumers chase these deals by moving their money around to whichever bank is currently offering the best rate. I've found that some of these opportunities are valuable, but reading the fine print concerning fees and minimum balance requirements is crucial.

For all that the aforementioned factors are objective and can be used to figure out which bank is *technically* the best, the bottom line is how you *feel* as the consumer. Corporate bank chains would drown out most local banks if customers thought without emotion and focused only on features. Some people don't like the often rude and sterile chain banking experience in which small account holders take a backseat to wealthy clients and businesses. Many of those small banks still know your name and value your business.

What Makes a Bank *Bad*?

In my experience, what makes or breaks a bank is the quality of service coming from its employees. This ties into the preceding paragraph but becomes a bigger issue when the service aspect is negative, as opposed to "corporate neutral," as I like to call it. A friend of mine recently closed his checking account, only to discover that it had not been properly closed. As a result, an accidental charge of \$25

was debited from his empty account to pay for his monthly Internet service. Because the account had a zero balance, the \$25 charge triggered a \$30 overdraft fee. What should have been a closed account quickly turned into a \$55 negative balance, a major argument with the bank teller, a possible credit issue, and a giant headache. There are lots of ways these problems can happen. Upon finding what you believe to be a reputable bank, try to develop a relationship with at least a few tellers and customer service representatives. This way, you have somebody who may actually care when you have a problem. I've found that these little personal relationships can go a long way.

When you open an account, whether checking, savings, or money market, you must ask about the minimum balance requirements. Whereas the offer of a 5 percent interest rate for a savings account may lure you into a bank, the offer will lose most of its appeal when you discover it only applies to each dollar over \$15,000. For every dollar below, you may be getting only 1 percent interest. This was my first experience with a savings account, and I felt it was unfair. I shopped around until I found a bank that would pay me more than 1 percent, even if I was depositing only a few thousand dollars. In some cases, there will be no minimum balance requirement, but until your account reaches a certain level, a \$20 or \$30 monthly service charge may apply. This is more or less the same thing as getting a worse interest rate since the fee will erase the marginal benefit of the higher interest rate. Again, you can usually compare these requirements online to find the bank that best meets your needs. A few web sites are listed at the end of this chapter that have already compiled the majority of this research for you.

Similar to how low fees can give banks an edge, high fees can drive away customers. The first time you get smacked with a \$30 fee for an overdrawn check, or pay \$25 because your father wired you money, it may leave a bad taste in your mouth. Regardless of how much money you have, nobody likes to feel taken advantage of. Ask for a fee schedule and zero in on the fees that apply to you.



Note: Most banks understand that fees can alienate clients. If you get hit with a fee for the first time, ask the bank to remove it as a courtesy. Many banks will do this for you once, and if they don't, it may be a signal to move your money.

More Banking Tips

For some people, finding a bank with an international presence may be an important factor. If you travel abroad often, and your bank has multiple branches overseas, this could improve the efficiency of money transfers, currency conversion, and borrowing funds for real estate and business transactions.

I've also noticed recently many banks incorporating credit card services into their product lineup. This is smart business. It conveniently allows the consumer to view credit card and personal banking information on the same screen. It also allows the user to process transactions between accounts. This concept of integrating bank services has become more widespread as banks look to improve branding and customer loyalty. Why not consolidate the majority of your banking needs in the same place if it's advantageous to do so?

One of the more important things to remember is that different banks work with different personalities. If you run your own business and desire interaction between your accounts, a more corporate culture will probably appeal to you. However, if you're retired and usually stick to simple and predictable transactions, the smaller bank may be preferred. Take a walk around your current bank and try to observe the culture. That may sound silly, but give it a try. Once you're comfortable with a bank, create a friendly relationship with the various tellers and service representatives. You may be surprised how much this goodwill can improve your banking experience.

For More Information

When it comes to almost any type of personal banking, especially interest rates and lending questions, www.bankrate.com is the authority. Bankrate.com's motto—"Comprehensive. Objective. Free"—is right on target about what the site provides. I'll mention this web site throughout the book in chapters where it is useful.

We've already mentioned www.bankdealsblog.com, which is my favorite reference for comparing bank deals, but several other personal finance bloggers are covering this topic as well. Flexo, over at www.consumerismcommentary.com, keeps fairly steady updates on competitive bank offers as they are publicized. You can also visit www.mymoneyblog.com for some banking comparisons. In fact, this is an excellent stop for any reader who is new to the financial blogosphere. Certain features on this blog (such as the net worth

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tracker) will allow the reader to feel embedded in the financial journey of the blogger. This can help the reader make better sense of the posts and see how the blogger includes reader input in his or her financial life.

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www.bankrate.com

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