



Snapshots™

STARTING OUT: BANKING

WHEN YOU ARE STARTING OUT IN THE WORKING WORLD, IT'S VERY IMPORTANT TO HAVE A REASONABLE BUDGET THAT YOU CAN STICK TO. PART OF THIS PROCESS INVOLVES SETTING UP AN EFFICIENT BANKING ROUTINE SO THAT YOU'RE PAYING YOUR BILLS ON TIME AND NOT PAYING MORE FEES THAN NECESSARY. HAVING A STRAIGHTFORWARD AND EASY-TO-UNDERSTAND BANKING ARRANGEMENT WILL GO A LONG WAY TO ENSURING THAT YOU MEET YOUR FINANCIAL GOALS WITH THE LEAST AMOUNT OF EFFORT.

Pre-Authorized Payments

In your parents' day, they probably had to spend quite a bit of time ensuring that cheques for monthly expenses such as mortgage, heat, electricity, and telephone were prepared and mailed on time. Nowadays, most of these regular expenses can be structured so that the payments are automatically debited from your chequing account at pre-arranged times. You will receive monthly statements that will help you track your expenses and match them to your budget.

Overdraft Protection

You may find yourself in the embarrassing (and expensive) position where you have spent more money than you have in your account—such as when a cheque 'bounces'. Most banks will offer overdraft protection when you apply for an account to help you deal with this situation. Usually overdraft protection will be in the \$250 to \$5,000 range so that if you are in a negative cash position, that shortfall will be covered by the bank through a temporary loan. Generally, you will be charged a \$5 monthly fee when the overdraft protection is used. As well, you will have to pay interest on the shortfall until it is repaid—and the interest rate can be in the 20% range. Most financial institutions will require that an account is in a positive position at least once a month in order to provide overdraft protection.

Important Note

Overdraft protection can be very useful for temporary shortfalls, and it is nice to know it is there. However, many people have fallen into the overdraft trap where they are using overdraft on a regular and ongoing basis and paying off the minimum shortfall for one month only to go into overdraft the next month. This is not only a poor way to manage your financial affairs, but it also results in substantial interest costs. A proper budget that is realistic and that you follow closely can help you avoid this situation. While overdraft protection does provide peace of mind, ideally it should never be used.

Using Multiple Accounts

Depending on your financial situation and objectives, it may make sense to have several bank accounts. Chequing accounts are designed to deal with multiple deposits and withdrawals and are an ideal choice for when you have ongoing, regular expenses such as rent and telephone expenses. The downside is that chequing accounts pay little in interest on the money in the account. Savings accounts, on the other hand, are designed for just that—savings—and pay a higher amount of interest, which helps your money to grow. However, they will charge you fees if you make too many withdrawals from the account each month. If you are planning an annual vacation and want to set aside money for that, a savings account is a good choice. Not only will you be able to keep the money separate, you will also earn more interest on the balance. You should speak to your bank representative about the types of account options available and the sort of features and limitations on each.

Online Banking

In the modern, computerized world, online (or telephone) banking is widely available. It is an accessible and convenient way to do your banking that minimizes the amount of actual visits you need to make to a branch. Your financial institution can help you set up your online access and give you the details of the various banking and investing features available to you.

Links

The Financial Consumer Agency of Canada has several useful online tools, including a Savings Account Selector to help you choose the right savings account for your needs, as well as a Banking Package Selector for help in finding a chequing account.

[Savings account selector](#)

[Banking package selector](#)

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