

# Selecting a lower-risk account

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## Finding and choosing a checking or prepaid account that puts you in control

It's important to shop around to find financial products and services that meet your needs. If you are new to banking, need to stay within a fixed budget, or simply want to limit costly or unexpected fees, it may be especially important to find an account that gives you the control you need and helps prevent you from overspending or racking up fees.

Banks and credit unions provide safe places to keep your money. Transaction account products, such as checking accounts and prepaid accounts, allow you to store money, make payments and purchases, and send money to others. Prepaid accounts are also available through a number of non-bank providers as well.

However, many of these products come with fees or features that can make them expensive. This can be risky if you don't monitor your payments and account balance regularly or anticipate delays in the time it takes to make the funds available from your deposits. Also, it can be difficult to successfully manage your account and keep costs under control if you are unable to keep enough money in your account. Before you select a checking or prepaid account, you should understand the features you need to conduct your day-to-day financial transactions, and how much you will pay for those features.

It's important to understand overdraft and the risks you may be taking on. Overdrafts occur when the total of your payments and withdrawals exceed your account balance. Your bank or credit union will usually charge you a fee, often as high as \$35 or more, each time you overdraw your account. The financial institution will automatically take out of your account both the fee and the amount that you overdrafted when your next deposit arrives. Sometimes your bank or credit union will charge an additional fee if your account balance stays negative for a certain number of days.

If you can't pay the overdraft, there could be negative repercussions. You could lose your account. You could also be reported to a checking account reporting company, and the negative information could remain on your report for up to seven years under the federal Fair Credit Reporting Act. This means that you may have a difficult time opening a new bank account for several years after such an event. This is because many banks and credit unions use information from these reporting companies—and specifically, incidents of unpaid balances and account closures—to evaluate new account applicants. If you have been denied an account because of a negative report, the CFPB has more information on the steps you should take in part 3 of this guide: [Consumer Guide to Checking Account Denials](#).

Here are some steps you can take to identify and select a checking account that works for you:

## Know your options

### Know what products are offered

A number of banks and credit unions today offer products, such as some checking accounts or prepaid accounts, that do not authorize you to spend money beyond what you have in your account. Such products are designed to help consumers manage their spending and avoid overdrafts. (Prepaid accounts are available through a number of non-bank providers as well.) These lower-risk products can help you manage your spending and avoid overdrafts and overdraft fees. This will reduce the likelihood that you will lose your account privileges because of unpaid overdrafts.

**TIP:** Some banks may not offer these lower-risk products, or may not market them prominently. Therefore, it's important to shop around. Ask whether the bank or credit union offers an account designed to help you spend only the money that you have and to minimize fees.

### Don't be discouraged if a bank or credit union denies you for an account

If you've have trouble managing an account in the past, look for an account that is designed to help you manage spending and avoid overdrafting. Some banks may be more likely to offer you a product that is considered less risky for both the consumer and the bank, such as a checkless checking account or a prepaid account. These products may be good options for you to consider if you have had trouble with a prior checking account, have negative information on your credit or checking account report, or if you want to avoid the risk of spending more than you have in your account check around at multiple banks and credit unions.

## Know what product features you need and any tradeoffs

Some products that are designed to help you manage spending and avoid overdrawing your account may also have limited features, such as no check-writing and no online bill payment capabilities.

Decide which features are most important to you. You may pay a monthly fee for these products, although you can anticipate and budget for those fees.

**TIP:** Product design and pricing for both checking accounts and prepaid accounts can vary greatly between providers, so it's important to shop around and to ask questions about both features and price.

## Ask questions

There are a number of important considerations when selecting an account, which will depend on your particular needs and financial situation. Below is a list of suggested questions to ask when considering a lower-risk account. These are intended to help you better understand your account choices and to help you decide between products or product features:

1. Consider how important it is that you have an account that won't allow you to spend more than what you have. You might consider the following questions:
  - Have I overdrawn an account in the past?
  - Have I had an account closed in the past?
  - Is my income sometimes inconsistent and unpredictable?
  - Can I maintain a sufficient balance in my account?
  - Do I want to avoid unplanned overdrafts or fees?

2. Ask questions about whether the product offered exposes you to the risk of overdrawing your account:
  - How does the account help me avoid overdrawing my account?
  - Can I transfer funds (for example, by linking an account to savings) to avoid or reduce the costs of overdrafts?
3. Consider the costs associated with maintaining the account, including:
  - What are the fees? How much would it cost for:
    - monthly account maintenance,
    - going below the minimum balance,
    - making purchases,
    - account inactivity,
    - making a deposit,
    - overdrafting, or
    - having a check or bill payment returned for insufficient funds?

**TIP:** A fee that you pay every month may still be cheaper in the long run than piling up overdraft fees.

- Can I waive the monthly fee with direct deposit or another way?
  - What types of ATM fees can I expect and are there ways to reduce these? Where can I use an ATM without a fee?
4. Consider the types of features you need and whether the product you are considering meets these needs.
    - Do I need to pay anyone, such as a contractor or landlord, via check?
    - Do I need to pay any bills online?
    - When will the funds I deposit become available?

There are other questions to consider when selecting an account, including those pertaining to other product's features and requirements, protections for your money, and convenience and accessibility.

[CFPB's Newcomer's Guide to Managing Money series](#) includes additional assistance in shopping for an account.

The CFPB has additional resources to help you decide what types of financial products and services are right for you. This guide is part of a three-part series on checking accounts, which addresses choosing an account, [managing your account to keep it](#), and [getting back into the banking system if you have had difficulty with an account](#).