Transition Age Youth Resource: Opening a Bank Account and Managing Credit

Opening a bank account can be an excellent way to learn financial responsibility and money management. While minors cannot open bank accounts on their own (although there is an option for youth in foster care in Los Angeles County, described below), they can do so with the assistance of a parent or guardian. Some banks offer student accounts specifically tailored for young adults who are attending college or university. These accounts often come with special benefits such as waived account fees, higher interest rates on savings, and discounts on financial services, like credit cards.

Here is a step-by-step guide to help you through the process of opening a bank account:

Step 1: Choose the Right Type of Account for You

There are several types of bank accounts , including savings accounts, checking accounts, and joint accounts. Each type serves different purposes:

- **Checking account:** Used for daily or monthly transactions like rent, groceries, clothing or other purchases by check or debit card.
- **Savings account:** Ideal for saving money and earning interest.
- **Joint account:** Shared with a parent or guardian, offering oversight and control over the funds.

Generally, banks may not open accounts for youth under 18 without a joint account holder. Youth in foster care in Los Angeles County as young as 13 can open their own checking and savings accounts – without an adult co-owner –

through the Youth Access Banking Program available in LA County – COUNTY OF LOS ANGELES. For more information on the program, call (888) 445-1234 or email afriend@auditor.lacounty.gov. To apply for a bank account through the Youth Access Banking Program, visit scefcu.org/youthaccessapp/.

Step 2: Research Banks and Their Offerings

Not all banks offer accounts for youth, and the rules and charges for accounts at different banks can be very different. Consider the following when researching bank accounts:

- **Minimum balance requirements:** Some banks may require a minimum deposit to open the account.
- **Fees:** Look for accounts with low or no monthly maintenance fees.
- **Interest rates:** Compare the interest rates offered on checking and savings accounts to maximize your earnings.
- **Accessibility:** Ensure the bank has a branch or ATM near your location.
- **Online and mobile banking:** Check if the bank offers user-friendly digital banking options.

Step 3: Gather Required Documents

To open a bank account, you will need to provide certain documents. Common requirements include:

- **Identification:** Your government-issued IDs such as a passport or birth certificate, and, if you are under 18 and opening a joint account a government-issued ID for the parent or guardian.
- **Social Security Number**: Your Social Security number (or equivalent identification number).
- **Proof of Address:** Banks may require proof of your current address. Acceptable documents may include a utility bill, lease agreement, or official mail addressed to you, or those documents showing the address of the parent or guardian, if you are opening a joint account.

Step 4: Visit the Bank

Once you have chosen a bank and gathered the necessary documents, visit the branch (with your guardian, if you are opening a joint account). Some banks may allow you to apply online. The account opening process typically involves:

- Meeting with a bank representative (make an appointment to streamline the process).
- Completing the account application form.

- Providing the required identification and documents.
- Making an initial deposit.

If you are opening a joint account, when you sign your parent or guardian will need to co-sign the account, agreeing to help oversee and co-manage the account.

Step 5: Understand Account Management and Saving

After the account is opened, it is important that you manage the account responsibly including understanding how to deposit and withdraw money from the account, reviewing the monthly account statements and tracking transactions, setting savings goals and a budget, and not overspending your available funds.

- **Depositing and withdrawing money:** You can deposit checks and cash at any branch of your bank by visiting a teller (in person) or using an ATM, and some banks allow you to deposit checks online through their bank app. You can withdraw money in person or using an ATM. Generally, there is no fee to use the bank's own ATM to withdraw money. Other banks' ATMs may charge a fee for withdrawing money at their ATM.
- **Understanding account statements and tracking transactions:** Your bank will provide you with monthly account statements (by email and/or US mail) showing your balance and all transactions (deposits and debits). It is important to review your account statements each month. You'll review all the transactions listed on the statement to be sure they are correct and there are no withdrawals you did not make or errors. You'll also check your account balance, so you know how much is in your account and that you are maintaining the minimum deposit amount to prevent overdrafts. Also, keep an eye on monthly maintenance fees charged by the bank that can affect your account balance. Take advantage of online and mobile banking features to manage your account conveniently. These tools allow you to check your balance, transfer funds, pay bills, and deposit checks from your smartphone or computer.
- **Avoiding overdraft fees**: Most banks require a minimum deposit amount and will not let you "overdraft" your account balance – meaning you can't spend more than you have in your account. Banks will charge you a fee (generally $15-$40 each time) if you overdraft your account balance. For example, if you have $1,000 in your account and you write a check or withdraw $1,500 to pay your rent, you would be charged an overdraft fee by the bank, and the bank may not pay the check. You may also be charged an overdraft fee by your landlord or a late fee because the rent was not paid by the due date. You can set up account alerts to notify you when your balance is low. You also can consider linking your checking account to a savings account, to allow payments to be made from your savings as overdraft protection.

- **Budgeting:** It's important to budget your money: understanding how much you earn or receive (your income) and spend (your expenses). You may want to complete a worksheet like this Budget Worksheet to help you pay your bills and save for goals or emergencies. Your budget should include any income and all expenses, like rent, renter's insurance, utilities, internet and phone, groceries and personal care supplies, eating out/food delivery, transportation (public transportation, rideshares, insurance, parking, gas, registration and maintenance if you have a car), clothing and shoes, entertainment (subscriptions like Netflix or YouTube, movies, concerts), gym memberships, haircuts and other personal expenses, school-related expenses (books, supplies, uniforms), savings for goals and emergencies, and any other expenses.
- **Setting savings goals**: You may want to set savings goals to help you purchase a special event outfit, buy a computer or car, save for school, or achieve another goal. Establish your goal budget and how much you can save toward that goal. Figure out how long it will take to fund your savings to achieve your goal. For example, you want to purchase a $500 computer, and you can save $50 per month toward that goal. It would take you 10 months to save the money to buy the computer. You may also want to set a savings goal for emergencies like a flat tire if you own a car. Experts recommend having three to nine months of living expenses set aside in an emergency fund. One way to start an emergency fund is to start putting away small amounts of money every month until you reach your emergency savings goal.

Understanding and Managing Credit

Understanding and managing credit responsibly is an important aspect of achieving financial independence. Understanding how to handle credit can help you build a solid credit history, which can help you achieve goals such as buying a car, renting an apartment, or purchasing a home. This information will provide you with the knowledge and tools you need to manage your credit wisely and build a strong financial foundation.

Understanding Credit

Credit is the ability to borrow money or access goods and services with the understanding that you will repay the borrowed amount later. Credit can come in various forms, including credit cards, loans, and lines of credit. Your creditworthiness is determined by your credit history, which is recorded in your credit report and summarized by your credit score.

- **Credit Report and Credit Reporting Agencies:** Your credit report is a detailed record of your credit history, including information about your credit accounts, payment history, and any outstanding debts. It is used by lenders, landlords, and other entities to assess your creditworthiness. There are three credit reporting agencies (also known as credit bureaus) that collect information relevant to your credit and financial history in the United States. The three credit reporting agencies are TransUnion, Equifax, and Experian.
- **Credit Score:** Your credit score is a numerical representation of your creditworthiness, typically ranging from 300 to 850. It is calculated based on the information in your credit report and helps lenders determine the risk of lending money to you. A higher credit score indicates better creditworthiness. It can help you be more likely to be approved for a credit card or a loan and also result in you being charged lower interest rates.

Building and Managing Credit

As a young adult, you likely have little to no credit history, so you may wish to start building credit responsibly as soon as possible. Here are some steps to help you get started:

- **Apply for a Credit Card:** One of the most common ways to build credit is by using a credit card. Look for credit cards designed for students or individuals with limited credit history. Be sure to compare different options and choose a card with low fees, and low interest rates, and a payment schedule that you understand.
- **Manage Credit Responsibly:** Building credit is only the first step; managing it responsibly is crucial to maintaining a good credit score. Here are some tips to help you manage your credit effectively:
    - **Pay Your Bills on Time:** Your payment history is one of the most significant factors affecting your credit score.
        - Always pay your bills on time, including credit card bills, loan payments, and utility bills.
        - Setting up automatic payments or reminders can help ensure you never miss a due date.
        - Paying the full amount of the bill by the due date will also avoid charges for interest.

Understand Interest Charges: When you use a credit card or purchase something using credit (like a car or furniture), you are borrowing money from the credit card company or the car or furniture financing company or bank.

Interest rates can vary from 5%-40% and are calculated on each individual's financial history. The higher the interest rate, the more you will pay for whatever you are purchasing. A higher interest rate increases your monthly payment.

- For credit card purchases, if you don't pay back the full amount you borrowed by the due date, the credit card company or bank will charge you interest on the remaining balance. This interest is usually expressed as an Annual Percentage Rate (APR). The APR is the yearly interest rate you'll be charged if you don't pay off your balance in full.
- Interest on credit card purchases typically accrues, or adds up, daily, meaning any amount you didn't pay off is subject to the interest rate, adding to the total amount you owe until you pay off the remaining balance and any added interest. Each month you don't pay off the balance, the amount you owe increases. For example, if you use a credit card to buy shoes for $100, and you pay $50 when you pay your credit card bill, you will be charged interest on the remaining $50. If your credit card has a 25% interest rate, the interest on the remaining $50 is $12.50, meaning you will have paid $112.50 for the shoes – if you pay it off in full the next month. If you don't, you'll keep being charged interest for your purchase.
    - Keep in mind that any additional purchases will also be subject to the interest rate because you are carrying a balance on the account, making each purchase more expensive, until you pay off the credit card account in full.
    - You can stop the interest from accruing by paying off the bill before the next due date.

- **Understand Your Credit Limit, and Keep Your Credit Utilization Low**
    - Your credit limit is the maximum amount you are allowed to charge on your credit card account. If you make a purchase that exceeds this limit, your card may be declined, or you might incur fees. Credit utilization is the ratio of your credit card balances to your credit limits. Aim to keep your credit utilization below 30% to maintain a healthy credit score. If possible, pay off your credit card balances in full each month to avoid accruing interest.
- **Monitor Your Credit Score**
    - Regularly review your credit report to ensure that all the information is accurate and up to date. You are entitled to a free credit report from each of the three major credit bureaus (Equifax, Experian, and TransUnion) once a year.

- Dispute any errors you find to prevent them from negatively affecting your credit score.
- More information on checking your credit report is available in the resource document "Checking Your Credit Report and Addressing Identity Theft."

- **Avoid Opening Too Many Accounts**
  - Opening too many credit card accounts in a short period can negatively impact your credit score. Each time you apply for credit, an inquiry is made on your credit report, which can temporarily lower your score. Be selective and strategic about the credit accounts you open.

Using Credit Wisely

In addition to managing your credit responsibly, it's essential to use credit wisely to avoid falling into debt. Here are some strategies to help you use credit effectively:

- Create a Budget: A budget is a financial plan that helps you track your income and expenses. Creating a budget can help you manage your spending, ensure you can pay your bills on time, and avoid relying on credit to cover your expenses.
- Use Credit for Planned Purchases: Rather than using credit for impulse purchases, use it for planned and necessary expenses. This approach can help you avoid overspending and ensure you can pay off your balances in full each month.
- Build an Emergency Fund: An emergency fund is a savings account set aside for unexpected expenses, such as medical bills or car repairs. Having an emergency fund can help you avoid using credit for emergencies and accumulating debt.

How to Ask for Help If You Need Assistance Opening a Bank Account or Understanding Credit

Ask your social worker, probation officer, or other supportive adults (members of your CFT, your attorney, mentors, CASA, teachers, coaches, school counselors, etc.) what they can do assist you in achieving your financial goals, including opening a bank account or understanding credit.