

PERSONAL FINANCE

Who Needs a High-Yield Checking Account?

By Marcie Geffner
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A high-yield checking account can be a fine financial tool for people who have cash on hand, want to earn more than a zero return and can meet the other requirements of these accounts.

That's according to Chris DesBarres, co-owner of Help Unlimited, a daily money management service in Winston-Salem, N.C., who says an account that allows check writing and earns interest can be appropriate for just about anyone.

"There's no reason to leave money on the table," he says.

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Interest rates on these accounts typically range from 0.01% to 1% or higher, with 0.25% being fairly common, based on an informal survey using Bankrate's online rate search feature. Annual percentage yields, or APYs, can be as high as 6%, though figures in the 2% to 3% range are more common, according to Bankrate's 2011 High-Yield Checking Survey.

Consumers should remember that the APY is higher than the nominal rate due to the effect of compounding, which means a bit more interest is earned each period and is added to the principal.

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Minimum Balance or No Branches

The downside is that high-yielding checking accounts typically have strict requirements or other drawbacks compared to basic checking accounts that don't earn interest.

Based on Bankrate's 2011 High-Yield Checking Survey, accounts that offer high APY generally require a bigger minimum balance – commonly \$10,000 to \$25,000, though the range extends from \$500 to \$50,000 -- or the use of other banking services.

Accounts offered by online banks have fewer rules but lack the convenience of neighborhood branches. Instead, the account management typically must be performed through a website, telephone call, mobile device or traditional ATM. Fees for other-bank ATM transactions may be refunded, DesBarres says.

The ability to meet the minimum balance requirement is a key determinant of whether someone should have a high-yield checking account, DesBarres says. Beyond that, this type of account is most appropriate for people who can and should keep more cash on hand to meet daily expenses or who want to avoid riskier investments. Seniors living on a fixed income would be one example of a group for whom these accounts might make sense, he says.

"It's an appropriate vehicle for folks who have cash on hand, want to be earning a little something and are able to meet the requirements," DesBarres says.

More Needs, More Products

A large part of the appeal is getting an interest rate that's more than zero, even if it's still not very attractive, says Justin Krane, president of Krane Financial Solutions, a financial planning firm in Los Angeles.

"People feel taken advantage of," Krane says. "The banks are paying them nothing, and it's time for them to take more control of their finances. A simple way to do that is through getting a better rate."

Kathryn Black, a senior vice president who manages high-value deposits at Wells Fargo in Charlotte, N.C., says high-yield checking accounts that require an extensive banking relationship are appropriate for "mass-affluent consumers," typically people who have complex financial needs, established credit and other assets, such as stocks or real estate. These customers can consolidate their financial lives at one institution and get perks such as a bonus interest rate on a checking account.

Todd Sandler, head of product strategy at ING Direct in Wilmington, Del., says people who "want low fees and are self-directed and comfortable banking online" can benefit from an online checking account that pays interest.

CD Ladder Might be Better

There are also other situations in which a high-yield checking account might not be a good option. DesBarres cites two: young people, whose long-term savings should be invested more aggressively to overcome the effect of inflation, and seniors who spend more than they can afford or are at risk of exploitation or undue influence. Those older folks might be better off with a ladder of certificates of deposit, or CDs, with varying maturities. A ladder can raise the overall rate of return while still ensuring that regular sums become liquid as needed, DesBarres says.

"If there are takers in their lives, we will often suggest they move (cash) into something like a CD where nobody can get to it. It's safe and the senior can say, 'I'm sorry, but I just don't have any money to give you.'" DesBarres says.

A high-yield checking account also might not be the best choice for people who want to more actively manage their money in search of higher returns, Krane says. For them, a basic free checking account linked to a savings or investment account that earns a higher return can do a better job than an interest-bearing checking account. This approach also offers more flexibility than being locked into a package of services with one financial institution.

"You don't want to get stuck at a bank where they're charging you \$10, \$20 or \$30 a month to have a checking account," Krane says.

'High-Interest' Account

Consumers who want to open a high-yield checking account should be aware that not all institutions use this term. In fact, Black and Sandler seem downright uncomfortable about the interest-rate issue, preferring instead to talk about other banking products or account benefits.

Krane says the term "high-yield" can be misleading since it's more often associated with junk bonds than with checking accounts. "High-interest would be a better term (because) there is no investment component," he says.

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