

## How to choose the right bank account

This guide to choosing the right bank account is for you if you're trying to decide what type of account best fits your needs or you want to know which features of an account you should compare. It can also help if you're thinking of switching your bank account.

### Choose the type of account that suits your needs

Most people use a current account with a bank or building society to manage their day-to-day money.

It allows you to:

- pay bills by Direct Debit or standing order
- receive automated payments such as salary, wages or benefits
- access to an overdraft, although this will need to be authorised by the bank
- pay for things with a debit card and withdraw money from cashpoint machines.

To help you manage your money you can:

- make use of the secure bank app, to check and make payments
- set up text alerts, to warn you of a low balance.

If you've dipped into your overdraft in the past make sure you check fees and charges for going overdrawn. Read our guide to find out more information on [current accounts](#)

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### Packaged accounts

Some current accounts offer extra features for which they charge a fee (often between £10 and £15 a month).

These are known as packaged accounts.

Extras include:

- Special offers (e.g preferential interest rates on overdrafts).
- Car breakdown cover.
- Insurance cover (e.g travel or mobile phone insurance).
- Extra services.

### Fee-free basic bank accounts

A fee-free basic bank account may be worth considering if you can't open a standard current account, possibly because your credit rating is low or because you've not got a credit history. Once you've had one for a while a bank may offer you a current account.

A basic bank account doesn't have an overdraft facility but does allow you to:

- pay bills by Direct Debit or standing order
- receive payments such as salary, wages or benefits.

### **Jam jar accounts**

These accounts are sometimes called budgeting accounts or rent accounts and are designed to help you budget.

They let you divide your money into different 'pots' or 'jars'.

You decide how much money goes into each pot by working out how much you need for your bills and how much is left over for spending or saving.

They also allow you to:

- pay bills by Direct Debit or standing order
- receive payments such as salary, wages or benefits.

One disadvantage of these accounts is that they charge a monthly fee. You'll also often have to go through a Credit Union or housing association, but they may pay for the fees for you.

A jam jar account might be right for you if:

- you want an account that helps you to budget
- you want to avoid charges for refused Direct Debits
- you rent a council or housing association property – in which case your landlord might pay the monthly fee for you.

### **Bank accounts for students and graduates**

Most banks offer a specific student account, usually with an interest-free overdraft up to an agreed amount.

Banks often offer attractive accounts to graduates to try to secure them as long-term customers.

### **Bank accounts for prisoners or people with convictions**

If you're in prison or have a conviction, you may be able to get a basic bank account. Banks don't have access to criminal records, but they do have systems to detect applications from people who have a record of fraud or related illegal activities.

All banks and building societies can reject applications from people who have a record of fraud.

They can also reject you if you're an undischarged bankrupt, which is when you're still going through the process of becoming bankrupt.

Find out more about banking if you're in prison or have a conviction on [theInformationHub website](#)

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### **Is it worth switching your bank account?**

If you're unhappy with the service you are getting from your current bank or building society, it's easy to change.

Your new bank will do the work for you and there's no need to deal with your old bank.

It takes just seven working days to switch your account under the Current Account Switch Service, almost all banks and building societies offer this.

You choose the date you want to switch, and agree this with your new bank.

They will arrange to move all your incoming and outgoing payments to your new account.

It's backed by a guarantee that means you'll be refunded any interest and charges on your old and new accounts if anything goes wrong.

Find everything you need to know about switching bank account on the [Current Account Switch Service website](#)

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## **How to manage your bank account**

One of the first steps to taking control of your money is learning the best way to manage your bank account. There are many types of account and bank card, so it's up to you to pick the ones that best suit your lifestyle. We've pulled together a list of guides that explain how to manage your bank account and make the most of your finances.

### **Types of bank accounts**

The main ones are:

- **Current accounts.** The most popular type of account and a great option for managing your day-to-day spending. Every current account has different features, so make sure you pick the best one for you.

- Basic bank accounts. If you don't have access to a standard bank account, a fee-free basic bank account can make it much easier to manage your money. These accounts don't have an overdraft facility, so you won't be able to get into debt by spending more than you have.
- Credit union current accounts. A good option if you're struggling to get an account with a bank, or you would prefer to bank with a not-for-profit-organisation.
- Joint accounts. Designed to share with your partner or housemate. Before setting it up, make sure you've discussed exactly how you'll use your joint account p.
- Packaged accounts. This type of account charges a monthly fee and comes 'packaged' with benefits such as travel insurance or low overdraft rates. The benefits aren't always great value for money, so make sure you weigh up your options before signing up.

### **Savings accounts**

If you want to put away some money, you might be interested in savings accounts.

### **Types of bank cards**

Bank accounts usually come with bank cards, which let you withdraw money and pay for clothes, food and other items in shops.

The main types are:

- Debit cards. The first-choice payment card for people who don't want to pay on credit.
- Credit cards. These let you buy things on credit. You can spend up to a pre-set limit, which might be a few hundred or several thousand pounds. If you pass a credit check, you might be able to get a card from a bank or a credit-card provider.
- Prepaid cards. These cards work like pay-as-you-go phones – you can only spend what you put in. However, because they often charge a fee, you might be better off with a basic bank account (see Types of bank account above).

### **Making payments into your bank account**

There are lots of ways you can put money into your bank account.

- Some of the most common include:
- Over the counter
- Online
- In-branch deposit machines
- By post

### **Paying bills, friends and online shopping**

To make payments from your bank account, a few options are available.

- Direct Debits and standing orders. A great way to automate bill payments from your bank account. Particularly handy for regular monthly payments, such as energy bills.
- Phone and online bank transfers. A fast and easy way to make one off payments.
- Banker's drafts and cheques. A useful way to send money or pay one-off bills. Write the details of your payment in your chequebook and give the cheque to the person you're paying, or send it by post.
- E-payments. Use technology such as PayPal or Apple Pay to shop or send money online. It reduces the risk of fraud as you don't need to share your bank card details, but you will need to open a free account with an e-payment service provider.

### **Do you need an overdraft?**

Overdrafts should only be used for short-term borrowing or emergencies. Unfortunately, it's all too easy to treat an overdraft as your spending limit rather than as a last resort.

### **What does it cost to run a bank account?**

If you do it right, running a bank account shouldn't cost you much – it might even be free.

The key to avoiding fees, or paying as little as possible, is matching your bank account to your needs.

For example, if you regularly go into your overdraft, pick an account that doesn't charge high fees for this.

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## **Current accounts**

A current account is great for managing your day-to-day money. You can receive regular payments like wages, benefits, tax credits or pensions into your account. You can also set up payments out of your account in whatever way you find convenient.

### **What you can do with a current account**

With a current account you can:

- pay for things with a debit card
- write cheques to pay bills and people
- receive payments directly into your account
- set up Direct Debits and standing orders to pay your bills
- transfer money via a telephone or online banking
- withdraw cash over the counter or from a cashpoint machine
- check your balance using telephone or internet banking, at a cash machine or over the counter

- apply for an overdraft. This will allow you to spend more than you have in your account – but you'll be charged for it
- pay cheques into your account. The money usually clears on the next working day (Monday to Friday, not including public holidays) but can take longer if the cheque is paid in after any advertised cut-off time.

You can access most current accounts through a high street branch, online, using mobile banking or over the phone.

### **Who can get a current account?**

- **Over 16** - you need to be over 16 to open a current account, although for some banks the minimum age is 18. If your child is under 18 it might be possible to open a current account with a parent's help. If your child can't open a current account you might want to look at savings accounts for children. Some banks offer accounts you can access from the age of seven.
- **Minimum monthly payment** – some banks might ask you to pay a minimum amount into your account every month. This could be your wages, benefits or a pension.
- **Good credit history** - because many current accounts allow you to have an overdraft, you might need to pass a credit check when you open the account.
- **Proof of identity and address** - all banks or building societies will ask for proof of your identity and address before you can open a bank account.

### **How much does a current account cost?**

As long as you have money in your account, you don't usually have to pay for current account services. Some current accounts do charge a monthly fee for additional features.

### **Overdrafts and current accounts**

An overdraft is a way of borrowing money from the bank through your current account. This means you can spend more than you have in your account.

Banks will usually charge you interest for lending you this money.

The interest is often at a higher rate than a personal loan. However, some offer interest-free overdrafts. But this depends on your agreement with the bank – you should contact your bank to find out.

### **Charges for refused Direct Debits and standing orders**

If there's not enough money in your account to cover a standing order or Direct Debit, it might be refused. If this happens, you'll usually have to pay a charge.

It can be as much as £25 for each refused payment.

### **Monthly Maximum Charges**

Current accounts now have a Monthly Maximum Charge (MMC) in place, which is the maximum amount you'd pay each month in fees, charges and interest. The amount varies depending on the bank or building society, and which current account you have.

Make sure you check what the MMC is with your current account so you know how much your overdraft is costing you.

### **Cash machines (ATMs)**

In the UK, taking money out of a cash machine with your debit card is usually free.

There are some exceptions:

- Some cash machines – especially ones inside small shops, on garage forecourts and in nightclubs, but other places as well – can charge up to £5 each time you withdraw money. They'll tell you about the charges on screen before you take out the cash so you can decide if you want to go ahead or not.
- Using a credit card to take out cash comes with a charge, and you pay interest from the moment you withdraw the money. If you have a card with an interest-free period, it will only apply to purchases. You'll still pay a fee if you take out cash.
- Some prepaid cards charge you a fee to withdraw money from cashpoint machines.

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## **Choosing a bank account for your benefit payments**

To receive Universal Credit and other benefits, you'll need a bank or building society current account, or an account with an alternative provider like a credit union. The account must allow you to both make and receive automated payments. Here we explain the options available and the pros and cons of each one.

### **Which accounts can receive benefit payments?**

You will need an account that can receive automated payments.

The options are:

- current account
- basic bank account
- prepaid card.

If you're unable to open any of these accounts, contact the office responsible for paying your benefit to find out how you can get your benefit paid to you.

If you're renting from a social landlord, check whether they recommend a particular account – if so, you don't have to use it, but some landlords will pay you an incentive if you do.

### Setting up payments for rent and other bills

Ideally your account should also allow you to make automated payments out of the account, such as Direct Debits or standing orders, for bills like rent, gas and electricity.

Only these accounts allow you to make outgoing automated payments:

- current account
- basic bank account.

Some prepaid cards do not allow you to make outgoing automated payments.

### What does each account offer?

Services and features	Current account	Basic bank account	Prepaid card
Accepts Universal Credit and other benefit payments	Yes	Yes	Yes
Accepts other forms of income, such as wages from work	Yes	Yes	Yes
Allows Direct Debits and standing orders	Yes	Yes	Not always (check with the provider)
Overdraft facility	Yes	No	No
Cash card with PIN for cash machine	Yes	Yes	Yes, although you might be charged
Debit card	Yes	Sometimes	Most prepaid cards can be used in all the same places as a debit card
Cheque book	Yes	No	No
Credit checks needed when you open the account	Yes	No	No
Fees and charges	Fees and interest on overdrafts. Charges for refused Direct Debits	No fees	Charges vary. Can include fees for set-up, to top-up, & for withdrawing cash

### Current accounts

Most people use a current account to manage their day-to-day money. This is because a current account doesn't have any of the restrictions of a prepaid card.

Current accounts are offered by banks, building societies and some credit unions.

### **Bank and building society current accounts**

- They have all the features you might need, such as automated payments, cash cards, debit cards, Direct Debits and cheques.
- You can access most current accounts through a high street branch, online, using mobile banking or over the phone.
- You can get regular statements to help you keep track of your money.
- Some accounts charge high fees and interest if you go overdrawn, and most have bank charges if there's not enough in your account to cover a Direct Debit or standing order.

### **Credit union current accounts**

If you're having trouble getting accepted for a current account with a bank or building society, you might want to try a credit union.

You won't need to pass a credit check to get a credit union current account, because these accounts don't usually offer overdrafts.

Credit union current accounts usually charge an administration fee of £5 to £10 a month, especially if they offer budgeting advice.

### **Fee-free basic bank accounts**

If you don't have access to a standard bank account, a fee-free basic bank account can make it much easier to manage your money.

These accounts don't have an overdraft facility, so you won't be able to get into debt by spending more than you have.

### **Prepaid cards**

It's possible to have your benefits transferred onto a prepaid card. But there are a few things you need to be aware of before going ahead.

- Prepaid cards come with a variety of charges. You will need to check with the provider before you buy.
- Having all your money on one card doesn't allow you to keep your money for bills separate from your money for spending.
- Not all prepaid cards allow you to set up automated bill payments for your rent, gas or electricity. This can mean having to withdraw large sums of cash each time a bill needs to be paid.

However, they do have some advantages:

- You can't get into debt as there's no overdraft facility on a prepaid card.
- It's possible to make one-off electronic bill payments with some prepaid cards, giving you control over when the payment is made.

One way of using a prepaid card is to operate it alongside a bank account. You leave enough money to cover your rent and other bills in your account and load all of your spending money onto the prepaid card. This gives you control over how much you spend and means you avoid bank charges and penalties on your account for returned standing orders or Direct Debits.

### **Joint or single account?**

If you're married or living together, you'll get a single Universal Credit payment for your household. You'll be asked to nominate which bank account you want to have your money paid into and this can be:

- a joint account in both of your names
- a single account in either your name or your partner's name.

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## **Bank fees at a glance**

Running your bank or building society account doesn't have to cost much. In fact, if you don't go overdrawn and use your cards carefully, you might pay nothing at all. But you can rack up high charges very quickly if you take out money you haven't got in your account or go over your overdraft limit.

### **Overdraft interest and charges**

It's possible to take out more money than you have in your account, and this is known as an overdraft. There's usually a cost for using your overdraft in the form of interest.

Overdraft costs can mount up quickly, so think carefully before using them.

Banks and building societies are charging between 15% and 40% APR (annual percentage rate).

You should compare the overdraft interest of your bank against others in the market to make sure you're getting the best deal.

Some banks are offering the lowest interest rates to customers with the best credit scores.

### **Transaction fees if your overdraft is unauthorised**

If you go over your authorised overdraft limit, you might be charged for every cash withdrawal or cheque or card payment you make. This is true even if the bank doesn't allow the payment to go through. However, if the bank does charge a fee for rejecting a payment, its fee must be in proportion to its costs.

### **Charges for refused Direct Debits and standing orders**

If there's not enough money in your account to cover a Direct Debit or standing order, the bank can refuse to make the payment and charge you.

Most current accounts charge for refused payments. 'Jam jar' accounts, which help you organise your money into different pots, don't charge penalties in this way, but normally charge a monthly fee instead. Read our guide on Jam Jar accounts for more information.

To make sure you don't get taken by surprise by Direct Debit payments, keep an eye on your account and make a note of when payments are going out. Then make sure there's enough money in your account the day before. You could also try using an app like the one below that helps you avoid rejected payments and penalties.

### **Monthly Maximum Charges**

Current accounts now have a Monthly Maximum Charge (MMC) in place, which is the maximum amount you'd pay each month in fees, charges and interest on unarranged overdrafts. It doesn't affect authorised overdrafts, and the amount varies depending on the bank or building society, and which current account you have.

Make sure you check what the MMC is with your current account so you know how much your overdraft is costing you.

### **Cash machine (ATM) fees**

In the UK, taking money out of a cash machine with your debit card is usually free.

However, there are some exceptions:

- Some convenience cash machines – especially ones inside small shops, on garage forecourts and in nightclubs – can charge up to £5 each time you withdraw money from them. They'll tell you about the charges on screen before you take out the cash so that you can decide if you want to go ahead or not.
- Using a credit card to take out cash comes with a charge – typically around £3 - and you pay interest from the date you take out the money. Interest-free periods only apply to card purchases.
- Some prepaid cards charge you a fee to take out money from cashpoint machines.

### **Foreign transaction fees**

Banks charge fees of up to 3% for most foreign transactions, such as using your debit card to:

- take out cash from cash machines
- buy things while you're abroad

These fees are usually called 'load fees' or 'non-sterling transaction fees'.

Some banks might also add an extra fee – which may be called a 'non-sterling purchase fee'. These are often flat fees of between £1 and £3, which are applied to every transaction. Some banks only apply these extra fees if you're taking cash out from a cash machine. So you can reduce these fees by limiting the number of times you use a cash machine abroad.

Charges for using cards abroad vary, so it's worth checking your bank's charges before you leave the UK.

### **Same-day bank transfer fees**

Most same-day bank transfers are free using the Faster Payment Service (FPS). But all banks cap the amount you can transfer each day using the Faster Payments system. The lowest limits are around £10,000. If you're making a large transfer – as part of a house purchase, for example – you may need to move larger amounts at short notice.

Some banks are able to temporarily raise their Faster Payments limit to facilitate larger transactions free of charge. But others will use the CHAPS payment system, and will charge you a fee of between £15 and £55 for the transfer.

[Check your bank's faster payments limits on the Faster Payments website](#)

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### **Fees for one-off items**

Each bank has a list of fees it charges for one-off items, such as:

- stopping a cheque
- getting a banker's draft
- ordering duplicate statements
- getting copies of paid cheques
- requesting a reference from the bank
- special presentation of a cheque (finding out quickly if the cheque will be paid).

These are usually between £3 and £30 – it varies from bank to bank. But it's worth checking what these fees are before you open an account.

Banks have to publish a full list of their fees – and you should be able to find it on their website.

### **Will your bank's fees ever change?**

The fees can change, but your bank must give you notice.

Your bank or building society will tell you about their fees when you open your account.

If there's any change to the fees or terms and conditions of running your current or payment account, they have to tell you well in advance – usually two months.

This notice period does not apply to all saving accounts or overdraft changes.

### **What to do if there's a problem**

If you have a problem with fees and charges, talk to your bank:

- if you think the bank has got it wrong. Give them a chance to put it right before you complain.
- if you think the bank has charged you correctly but you don't think you should pay. It's still worth asking them to waive the charge. If you are not satisfied with their response, you can make a formal complaint:
- make a note of everyone you speak to and what they say. Also make a note of the dates and times of all your calls
- put your complaint in writing. Mark your letter as a 'complaint' and make it clear what you are complaining about and what you would like done
- state your account number and sort code. Also provide any letters, papers or statements that explain the problem.

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## **Overdrafts explained**

When you go into your overdraft, you're getting into debt. An overdraft should be for short-term borrowing or emergencies only. It's important you manage an overdraft like any other debt to make sure the costs don't get out of hand. This guide looks at how overdrafts work, how to stop going over your limit and how to avoid bank charges.

### **How does an overdraft work?**

An overdraft lets you borrow money through your current account by taking out more money than you have in the account. There's usually a charge for this.

You can ask your bank for an overdraft – or they might just give you one – but don't forget that an overdraft is a type of loan. If you need to borrow money, there might be cheaper ways to do it. It's important to always find the cheapest way to borrow.

### **Types of overdraft**

Authorised overdrafts: are arranged in advance, so they're also known as 'arranged' overdrafts. You agree a limit with your bank, and can spend money up to that limit. Your bank will charge you interest, and sometimes other fees on top.

Unauthorised overdrafts: these are also known as 'unplanned' or 'unarranged' overdrafts and happen when you spend more than you have in your bank account without agreeing it in advance. This includes going over the limit of an authorised overdraft.

### **Recent overdraft changes**

Major changes affecting your overdraft were introduced in April 2020. Banks used to charge higher fees for unauthorised overdrafts, but from April 2020 they won't be able to.

Interest on all overdrafts will be charged at a single annual interest rate (APR), making it easier to compare charges between accounts.

Interest rates from banks and building societies on their overdrafts range from 19% to 40%.

If you're worried, unsure or think you'll be worse off because of these changes, then:

1. Speak to your bank or building society as soon as possible. They can help explain your overdraft and, if you'll be worse off, consider how it can help you during this change.
2. If you feel vulnerable for any reason, explain your circumstances and your provider is obliged to take this into consideration.
3. If these changes mean you'll struggle to pay bills or fall into debt, or you are already in debt, you should find help as soon as possible

### **Do you need an overdraft?**

Overdrafts can be useful for some people. They can help you avoid fees for bounced or returned payments. These happen when you try to make a payment but your account doesn't have enough money in it.

But overdrafts should only be used for emergencies or as a short-term option.

If you're using your overdraft a lot, read our tips below on how to avoid doing this. They could help you save money. If you find you're constantly in your overdraft and don't have the money to pay it down quickly, it may be cheaper to borrow using a personal loan or 0% credit card.

The Financial Conduct Authority (FCA) found that many people underestimate how much they use their overdrafts. If you're using your overdraft more than you think, it could be costing you more than you realise.

### **Can I switch banks if I'm overdrawn?**

Yes, you can switch using the [Current Account Switch Service](#)

### **If you think you've been charged unfairly**

If you've been charged fees you think are unfair, or if you're really struggling to pay, you might be able to get them back.

Don't go to a claims management firm though – it's easy and just as effective to do it yourself, and you won't have to pay someone else.

### **Beware – your bank overdraft could be taken away**

One reason that an overdraft isn't safe for long-term borrowing is that it's not guaranteed.

The bank could take it away at any time and leave you without any money.

However, if your bank cancels your overdraft with no warning and you are charged as a result, you might have grounds to complain.

If you complain to your bank and you aren't satisfied with the outcome, you can take your complaint to the Financial Ombudsman Service.

[Read more about complaining on the Financial Ombudsman Service website](#)