

THE WALL STREET JOURNAL.

New Checking Has High Yields -- And Strings

By JANE KIM
February 9, 2008; Page B1

The Federal Reserve's rate cuts are sending yields on certificates of deposit and money-market accounts lower, leaving savers with few places to park their cash.

But community banks and credit unions are pushing a new product called "reward checking accounts" with yields as high as 6% for customers who use their debit cards heavily and meet other requirements.

By contrast, average yields on high-yield online savings accounts and money-market accounts have dropped to a range of 4.25% to 4.5% after the latest rate cuts from over 5% last month, according to Greg McBride, a senior financial analyst at Bankrate.com. Average rates on bank CDs range from 2.65% to 2.93% for six-month and five-year CDs, respectively.

While some banks require customers to visit a branch to open an account or, in the case of credit unions, meet certain membership requirements, a handful of banks, including Iowa's State Bank of Toledo and Bank of Fayetteville, of Fayetteville, Ark., are offering the reward checking accounts nationwide. Last month, Southern Community Bank & Trust, owned by Southern Community Financial Corp., of Winston-Salem, N.C., launched a free checking account -- available to consumers in any state -- paying 6% on deposits of as much as \$25,000.

The accounts, which are insured by the Federal Deposit Insurance Corp. or its credit-union equivalent, come with a few strings. In order to earn the high yields, customers must get their bank statements delivered to them electronically, have at least one direct deposit or automatic debit in the account each month and use their debit cards at least 10 times a month. There are usually no monthly fees or minimum-balances requirements and many banks will also offer refunds of automated-teller-machine fees charged by other banks.

"It's sort of a game that banks are playing with their customers, but it's a pretty fair game overall," says Jim Bruene, publisher of Online Banking Report. "Most of what customers

are being asked to do is relatively reasonable and can be good for tracking their finances."

The banks say they're able to pay the higher rates because they don't have to mail paper statements or process paper checks and also earn fees from debit-card transactions. BancVue Ltd., an Austin, Texas, company that provides reward checking accounts for roughly 400 banks and credit unions, says the accounts are on average twice as profitable to those financial institutions as a free checking account.

So are these accounts right for you? If you're a frequent debit-card user, pay most of your bills online and rarely visit a bank branch, they are worth investigating.

There are catches. If you fail to meet one of the requirements, then you earn a paltry interest rate, typically less than 1%, on your entire balance (you'll get another chance to earn the higher yield the following month). Some banks also cap the amount of deposits that savers can earn the higher rates on, often at \$25,000.