A 5-Step Plan for Changing Banks

In light of increased fees at some of the nation's largest financial institutions many people are considering switching banks. As consumers, we do an increasing amount of our personal banking with debit cards, and many of us have an elaborate system of direct deposits and automated payments in place. So if your savings margin is thin, switching banks requires some forethought and planning to ensure that you are not placing yourself at risk of an overdraft while you migrate your account. Here is a five-step process to consider on how to handle a bank swap.

1. Find the right bank or credit union for you. The financial institution that works best for your brother may not be the best one for you, so do your own research. It comes down to a matrix of three things for each customer: services, fees and locations.

Ask yourself: How do I use my bank? Do I use a debit card and ATMs? Do I prefer mobile banking and online transactions, or do I prefer paper checks and statements? Is international access important to me? If you're moving a checking and savings account together, compare the interest rate earned on the savings account with the service charges on the checking account.

2. Open a new account, but leave the old one open. Create overlap between the accounts to make sure bills get paid while the new account starts to build a capital reserve. It may be useful to create an inventory or calendar of all the automatic credits and debits to the account to plan when to start moving the money. Leave a statement cycle's worth of overlap in the old account.

3. Shift your direct deposits to the new account. The next move is to redirect any direct deposits, like your paycheck, into your new account. This requires speaking to your employer's payroll department — or whichever part of the organization handles your checks — and giving them your new account information. Wait a pay cycle before taking the next step.

4. Move all the automatic payments. Contact the organizations doing direct billing and advise them of your new bank account. This could also be an opportunity to reschedule payments so that they are evenly spread through out the month, rather than in the first half. Another strategy for credit-card holders is to use a dedicated credit card to pay monthly bills, then pay that sum in full from the checking account.

5. Write a letter to the old bank to close the account. Emptying your old account of all the money doesn't close it automatically. Even worse, you could get maintenance fees on that zero-balance account, which could land you with overdraft fees. So, write an old-fashioned letter to your ex-bank specifying the date the account is to be officially shut down.