

# Student Bank Accounts

## *Why choose a student bank account?*

A student bank account is designed for those in higher education as it has all the features of a normal current account but often with the chance to use an interest-free overdraft.

Sometimes banks also offer other freebies such as rail cards, coach cards or NUS discount cards. However, don't choose your bank account based on freebie alone. Although that railcard may save you money in the short term, it is not as useful as some of the other features.

## *Opening an account*

Before opening an account, make sure that you shop around as often you are only able to have **one** student bank account. However, once you have opened one, you are often able to "switch it" to another bank but, be warned, you might not keep the same features. An online search or a quick visit to high street banks shows that the accounts vary. You could start your research here: <https://www.moneysavingexpert.com/students/student-bank-account/> or use <https://www.savethestudent.org/money>. Once you've decided which account you'd like to open, you can make an application. Sometimes the application is online and then taking information into branch, otherwise you could make an appointment and open it in-branch. You would need to have with you your passport or driving licence to prove your identity, a recent bill or bank statement to prove your address and your offer letter from UCAS or acceptance letter from your University to prove your student status.

## *What features will my Student Account have?*

Many student bank accounts come with an interest free overdraft (more about this later) but some also offer the chance to earn money (or interest) on the money you keep with them. The interest rate ranges anywhere between 0.1% up to 3% depending on who you chose to go with. Often you will need to have a minimum amount of money in the account in order to qualify but the interest is calculated on a daily basis to ensure you don't miss out when you are in credit. Some banks are also able to offer Student Credit cards alongside their bank accounts but your eligibility for these is not guaranteed and they should only be used in an emergency.

It is also important to check what happens when you are no longer a student. Some bank accounts let you keep your interest free overdraft for up to one year after you've graduated to let you pay it off without any charges. Others switch your account to a normal current account straight away which means you can incur charges if you are still overdrawn.

## *What is an overdraft facility?*

An overdraft facility enables the account holder to withdraw more money than is in the account. There is usually a charge for this. However, most student accounts come with a free overdraft facility. This means there is no charge if you are overdrawn within the agreed limits. The overdraft limit varies (usually between approximately £500 and £3,000). Sometimes there is a 'tiered' limit: e.g., the limit is £1,000 in the first year, £2,000 in the second year and £3,000 in the third year.

**Beware!** The advertised limit is not guaranteed. It is all dependent on your credit history (more about this later) and how well you manage your money. You will also have to ask the banks to increase your limit as you study. When looking for an overdraft account, remember to check how long you have to pay the overdraft off once you finish University. Make sure you choose the overdraft facility that best suits your needs.

### *Using the overdraft*

- Make sure that you know what the overdraft limit is and do not exceed the limit. If you do, it is likely that you will incur charges.
- Make sure you are using the account correctly to keep the features e.g. overdraft or interest – paying in enough money each month/term.
- Only use the overdraft for essentials such as accommodation payments, food or a train ticket home at the end of the semester. Do not use the overdraft facility to fund your social life or your new wardrobe!
- Use the overdraft facility to help you manage cash flow problems, e.g. you run out of funds in mid-December and need some money to tide you over until the next loan instalment in January.
- Keep a close eye on your spending and on your account balance if you are relying heavily on the overdraft facility.
- Be aware that it is not ‘free money’. You will need to ‘pay off’ the overdraft at some point (see the next section).
- Set up text alerts to let you know when you’re getting near the limit and use the online banking tools to keep track of where your money is going.

### *Paying off your overdraft*

We recommend earning as much as you can during the summer vacation between academic years. This will help to ensure that you don’t reach your overdraft limit. However, once you’ve left University, it’s important that you then pay off your overdraft as the balance usually has to be paid off a year or two after graduating. So, if you leave University with a £2,000 overdraft and 12 months to pay, you will need to be able to pay £167 per month – just to bring the account balance back to £0 and incur no charges. This can be a heavy burden in the first year after graduation which is why it’s essential that students manage their overdraft facility carefully. Students should aim to leave University with the smallest possible overdraft. If you are leaving University with a large overdraft debt, it might be worth looking at switching your account to a graduate account to ensure that you keep your interest free overdraft for as long as possible. Found out more information here

<http://www.moneysavingexpert.com/students/graduate-bank-accounts>

### *The overdraft as a resource*

Overdraft facilities are a useful resource if used carefully. They are far preferable to using pay-day loan companies or expensive credit cards. However, you will need to keep on top of your finances and make sure you are budgeting correctly. If you are struggling to manage your money please make an appointment to see us at the Student Money Advice Service.

### *How does my credit score affect my bank account?*

Whenever you open up a new bank account, they will run a check on your financial history and the other accounts you have. You can stay one step ahead of the game by getting a copy of your credit report and from this can work out how likely it is that you will get the maximum overdraft. Your credit score will also affect your finances after University such as eligibility for loans and credit cards.

There are three credit reference agencies in the UK – Experian, Equifax and Callcredit and each credit score site gets its information from a different agency so we recommend using different sites regularly.

Credit Expert\* <https://www.creditexpert.co.uk> are currently offering you to view your credit report for on a 30 day free trail (remember to cancel before the end date!). However, there are other sites we offer free credit reports for life e.g. Noddle\* & ClearScore\*.

### *Example of Student bank accounts in use*

The Student Money Advice Service often sees students in the following situations:

#### **Student Sam**

Sam started University without any savings to fall back on. He opened a student account with an overdraft limit of £1,500. He ran out of money towards the end of the first semester and used the overdraft to buy his train ticket home and some Christmas presents for his family. By the time the January instalment of his Loan arrived, his bank balance was -£150. When the January Loan instalment was paid, his account balance was fine for the second semester. But in March he paid a £320 deposit for a house for his second year. So, by the time the Easter holiday started, his bank balance was -£400. After the final Loan instalment was paid in April, his finances were back on track and he has organised a job for the summer which will stand him in good stead for the coming academic year.

Sam has used his overdraft to his advantage allowing him to overcome cash-flow problems throughout the year as needed.

*You might want to check out the following sites\*:*

<https://www.thestudentroom.co.uk/life/money/everything-you-need-to-know-about-student-bank-accounts>

<https://www.moneysavingexpert.com/students/student-bank-account/>

*Do you have any queries?*

**Appointments to see a Student Money Adviser:** Available through the SIZ - 01243 816222, [help@chi.ac.uk](mailto:help@chi.ac.uk)

**Email:** [stumoneyadv@chi.ac.uk](mailto:stumoneyadv@chi.ac.uk)

**Phone:** 01243 816038

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