CNN Money

Money Essentials

Banking: Alternatives to traditional banks

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Checking and savings accounts are not the exclusive domain of banks. They are also offered by some non-bank businesses. Here are three of the most common:

Credit unions

Credit unions operate much like banks, and deposits in member credit unions are federally insured up to $250,000 by the National Credit Union Share Insurance Fund.

The key difference is this: Credit unions are nonprofit, member-owned cooperatives whose members share something in common, such as a labor union, college alumni association, employer, or community. Members' immediate family may also be allowed to join.

Since credit unions return profits to their members, interest rates for savings and checking accounts at credit unions tend to be higher than at commercial banks, while fees and minimums tend to be lower. But a credit union may offer fewer services than a bank and they may have more restricted access to ATMs.

To learn whether you are eligible to join a credit union, or to locate a credit union near you, visit the Credit Union National Association or call 800-356-9655.

Money market mutual funds

Mutual fund companies offer money market accounts that tend to have higher yields than those on banks' money market deposit accounts (MMDAs). Mutual fund company accounts, however, are not typically insured against loss by the FDIC, whereas MMDAs are.

Nevertheless, mutual fund companies make it a practice to kick in extra dollars whenever necessary to make sure that they maintain a constant price of $1 per share, so in practice your chance of losing money is slim.

Mutual fund money market accounts require a minimum opening deposit -- typically $500 to $5,000 -- and may require that you maintain a minimum balance. Many also let you write checks on the account, though there may be a minimum check-writing amount (typically $100 to $500) and/or a limit to the number of checks you can write per month or per year.

Cash management accounts

A cash management account works like a combination bank/brokerage account, consolidating your investments with your day-to-day cash flow.

Cash-management accounts (CMAs) are offered by brokerages for affluent customers who had discretionary income to invest but also wanted a liquid, bank-like account that earned higher interest than a traditional bank account.

In a CMA, your cash earns money market rates, and you get checking and credit card privileges, an ATM debit card, and often a line of credit or a margin account. If you overdraw your account, the interest you're charged on the loan is likely to be lower than that on a bank overdraft. In many instances, too, the interest may be characterized as margin interest, which can be tax-deductible.

The fee for a CMA typically ranges from $50 to $180 a year, though it may be waived if you have $50,000 to $100,000 or more in your account. In addition, you may pay fees if you make trades through your account or consult with an investment adviser at your brokerage or who is affiliated with a subsidiary of your bank. Cash up to $250,000 in a brokerage CMA is protected by the Securities Investor Protection Corp.

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