Chapter 5
Banking

What You’ll Learn

▪ **Section 5.1**
  - Identify types of financial services.
  - Describe the various types of financial institutions.

▪ **Section 5.2**
  - Compare the costs and benefits of different savings plans.
  - Explain features of different savings plans.
  - Compare the costs and benefits of different types of checking accounts.
  - Explain how to use a checking account effectively.
Savings Account

• **Q:** I make only $75 a week at my part-time job and use most of it for movies, food, and CDs. Because I make so little, do I really need to put my money in a bank?

• **A:** Since you have a small amount of money to take care of, you may not need a bank. However, $75 a week is a large sum to spend on entertainment. You should open a savings account and try to save at least $10 a week. After three months you would have $130, and after a year you would have more than $500.

Go to [finance07.glencoe.com](http://finance07.glencoe.com) to complete the Standard & Poor’s Financial Focus activity.
Main Idea
Understanding the features of financial services and institutions will help you choose options that best meet your needs.

What might be the differences between commercial banks, savings and loans, and credit unions?
How to Manage Your Cash

Today, with more than 11,000 banks, 2,000 savings and loan associations, and 12,000 credit unions in the United States, you have a wide array of financial services from which to choose.

Your choice of financial services will depend on your:

- Daily cash needs
- Savings goals
Daily Cash Needs

Your daily cash needs may include:

- Buying lunch
- Going to the movies with friends
- Filling the car with gasoline
- Paying for other routine activities

Consider the pros and cons of each method you can use for your everyday cash needs.
Sources of Quick Cash

Regardless of how well you plan, you may sometimes need more cash than you have available. You have two options:

- Use your savings.
- Borrow the money.

Remember that either choice requires a trade-off. Although you will have immediate access to the funds you need, long-term financial goals may be delayed.
Section 5.1
Financial Services and Institutions

Types of Financial Services

In order to stay competitive in today’s marketplace, banks and other financial institutions have expanded the range of services that they offer.

These services can be divided into three main categories:

- Savings
- Payment services
- Borrowing
Section 5.1
Financial Services and Institutions

Savings
Safe storage of funds for future use is a basic need for everyone.
Some examples of time deposit funds include:
  - Money that you keep in any type of savings account
  - Certificates of deposit or CDs
Having a savings account is essential for any personal finance plan.
Payment Services

Transferring money from a personal account to businesses or individuals for payments is a basic function of day-to-day financial activity at a bank.

The most commonly used payment service is a checking account. Money that you place in a checking account is:

- Called a demand deposit
- Able to be withdrawn at any time, or on demand
Borrowing

Most people use credit at some time during their lives. If you need to borrow money, financial institutions allow you to:

- Borrow money for a short term by using a credit card or taking out a personal cash loan.
- Borrow money for a longer term by applying for a mortgage or auto loan.
Section 5.1
Financial Services and Institutions

Other Financial Services
Financial institutions may also offer a variety of services, such as:

- Insurance protection
- Stock, bond, and mutual fund investment accounts
- Income tax assistance
- Financial planning services
Electronic Banking Services

Your bank’s electronic services allow you to:

- Check the status of your account.
- Make a transaction from an ATM, by telephone, or online.
- Get up-to-date information with personal financial management software.

Security is the number one issue for online customers. The way to ensure online security is to:

- Use a security code, or password.
- Use a customer identification name or number.
CASH AT HAND Follow simple rules of ATM etiquette when using this banking convenience. If you are in line, stand at least a few feet away from the person who is using the machine. When you are at the machine, protect the screen as you enter your PIN and other information. *Why are these practices important?*
Direct Deposit

Many businesses offer their employees direct deposit. Instead of a paper paycheck, employees receive a printed statement that lists:

- Deductions
- Other information about their earnings

Direct deposit offers a save way to transfer funds and saves:

- Time
- Money
- Effort
Automatic Payments

With your authorization, your bank can withdraw the amount of your monthly payments or bills from your bank account.

In order to use automatic payments, you will need to:

- Make sure you always have enough money in your account for the payment.
- Arrange your payments according to when you receive your paycheck.
- Check your bank statements each month to make sure that the payments were made correctly.
Automated Teller Machines (ATMs)

A cash machine, or **automated teller machine (ATM)**, allows you to:

- Withdraw cash from an account
- Make deposits
- Transfer money from one account to another

To use an ATM for banking, you must apply for a **debit card** from your financial institution. Unlike a credit card, a debit card enables you to spend only the money that you have in your account.
ATM Fees

The fees that some financial institutions charge for the convenience of using an ATM can add up over time. You might consider these suggestions:

- Compare ATM fees before opening an account.
- Use your bank’s ATM machines to avoid the additional fees that other banks charge when you use their machines.
- Consider using traveler’s checks, credit cards, personal checks, and prepaid cash cards when you are away from home.
Plastic Payments

Although cash and checks are very common methods of paying for goods and services, various access cards are also available. These include:

- **Point-of-sale transactions**
- Store-value cards
- Electronic cash
Opportunity Costs of Financial Services

When you are making decisions about saving and spending:

- Try to find a balance between your short-term needs and your future financial security.
- Consider the opportunity costs, or trade-offs, of each choice you make as you select financial services.

Remember to consider the value of your time in addition to the money you are saving.
Types of Financial Institutions

After you have identified the services you want, you can choose from among many types of financial institutions.

You may select an institution that:

- Offers a wide range of services
- Specializes in certain services
- Provides the option of cyber-banking, or banking via the Internet
- Operates exclusively on the Internet
Federal Deposit Insurance Corporation

The Federal Deposit Insurance Corporation (FDIC):

- Protects deposits in banks
- Insures each account in a federally chartered bank up to $100,000 per account
- Administers the Savings Association Insurance Fund (SAIF) for savings and loan associations

All federally chartered banks must participate in the FDIC program.
Deposit Institutions

Most people use deposit-type institutions to handle their banking needs. These institutions include:

- Commercial banks
- Savings and loan associations
- Mutual savings banks
- Credit unions
Section 5.1
Financial Services and Institutions

Non-Deposit Institutions

Financial services are also available at institutions such as:

- Life insurance companies
- Investment companies
- Finance companies
- Mortgage companies
Comparing Financial Institutions

When you compare banks and other financial institutions, you should ask these questions to help choose the best one:

- Where can you get the highest rate of interest on your savings?
- Where can you obtain a checking account with low (or no) fees?
- Will you be able to borrow money from the institution when you need it?
- Does it have online banking services?
- Does it have convenient locations?
Main Idea
Recognizing the types of savings plans and payment methods that financial institutions offer can help you use money wisely.
Types of Savings Plans

To achieve your financial goals, you will need a savings program. Various types of savings programs include:

- Regular savings accounts
- Certificates of deposit
- Money market accounts
- U.S. Savings Bonds
Regular Savings Accounts

Regular savings accounts, traditionally called passbook accounts, are ideal if you plan to make frequent deposits and withdrawals. These accounts:

- Require little to no minimum balance
- Allow you to withdraw money on demand

The trade-off for this convenience is that the interest you earn will be low compared with other savings plans.
Certificates of Deposit

A certificate of deposit (CD) is a relatively low-risk way to invest your money. It offers a higher interest rate than a regular savings account pays, but you will have to accept three key limitations:

- You may have to leave your money on deposit for one month to five or more years.
- You probably will pay a penalty if you take the money out before the maturity date.
- Financial institutions require that you deposit a minimum amount to buy a certificate of deposit.
CD Investment Strategies

Here are some tips for investing in CDs:

- Find out where you can get the best rate.
- Consider the economy as you decide what maturity date to choose.
- Never let a financial institution “roll over” a CD.
- Consider when you will need the money.
- If you have enough funds to have several accounts, you might consider creating a CD portfolio, which includes CDs that mature at different times.
Money Market Accounts

The interest rates of a money market account float, or go up and down, as market rates change.

Although the interest rate of a money market account is usually higher than that of a regular savings account:

- A money market account also requires a higher minimum balance, typically $1,000.
- You may have to pay a penalty if your balance goes below the minimum amount.
U.S. Savings Bonds

Another savings option is purchasing a U.S. Savings Bond. The maturity date of a bond depends on:

- The date it was bought
- The interest rate the bond is earning

Your bond’s worth will depend on current interest rates and on the month and year in which the bond was issued.
Evaluating Savings Plans

Your selection of a savings plan will be influenced by several factors. You should consider:

- The rate of return
- Inflation
- Tax considerations
- Liquidity
- Restrictions
- Fees
Rate of Return
Earnings on savings can be measured by the rate of return, or yield.
Compounding can have a great impact on large amounts of money that are held in savings accounts for long periods.
The more frequently your balance is compounded, the greater your rate of return will be.
Section 5.2
Savings Plans and Payment Methods

Truth in Savings
According to the Truth in Savings law (Federal reserve Regulation DD), financial institutions have to inform you of the following information:

- Fees on deposit accounts
- Interest rate
- **Annual percentage yield (APY)**
- Terms and conditions of the savings plan

The APY helps you determine the amount you can expect to earn on your money.
Inflation

You should compare the rate of interest you earn on your savings with the rate of inflation. Usually, the interest rates offered on savings accounts increase if the rate of inflation increases. The biggest problem with inflation occurs if you are locked into a lower interest rate for a long period.
Tax Considerations

Like inflation, taxes reduce the interest earned on savings. You may want to look into:

- Tax-exempt saving plans
- Tax-deferred savings plans
Liquidity

Check the savings plans you are considering to
determine whether early withdrawal of funds will
cause them to:

- Charge a penalty
- Pay a lower rate of interest

If you are saving for long-term goals, a high
interest rate may be more important than
liquidity.
Restrictions and Fees
Be aware of any restrictions on savings plans, such as:

- A delay between the time when interest is earned and when it is actually paid into your account
- Fees for making deposits and withdrawals
- Service charges you may have to pay if your balance drops below a certain amount or if you do not use your account for a certain period
Types of Checking Accounts

Checking accounts can be divided into three main categories:

- Regular accounts
- Activity accounts
- Interest-earning accounts
Regular Checking Accounts

Regular checking accounts usually do not require a minimum balance. You may have to pay a monthly service charge, however, if:

- The account requires a minimum balance.
- Your account drops below that amount.

Some institutions will waive a service charge if you keep a certain balance in your savings account.
Activity Accounts

An activity account might be right for you if you:

- Write only a few checks each month
- Are unable to maintain a minimum balance

The financial institution may charge a fee for:

- Each check you write
- Each deposit

In addition, a monthly service fee will be charged.
Interest-Earning Checking Accounts

Interest-earning checking accounts are a combination of:

- Checking accounts
- Savings accounts

These accounts pay interest if you maintain a minimum balance.
Section 5.2
Savings Plans and Payment Methods

Evaluating Checking Accounts

How do you decide which type of checking account will meet your needs? You will need to weigh several factors:

- Restrictions
- Fees and charges
- Interest
- Special services
**Restrictions**

The most common restriction is the requirement that you keep a minimum balance. Other restrictions may include:

- The number of transactions allowed
- The number of checks you may write in a month
Fees and Charges

You may pay a monthly service charge as well as fees for:

- Check printing
- Overdrafts
- Stop-payment orders
Section 5.2
Savings Plans and Payment Methods

Interest
An interest-earning checking account will be affected by:

- Interest rates
- Frequency of compounding
- The way in which interest is calculated
Section 5.2
Savings Plans and Payment Methods

Special Services
Checking account services include:

- ATMs
- Banking by telephone and online

As a checking account customer, you may also receive **overdraft protection**.
Using a Checking Account

After you select the type of checking account that best fits your needs, you need to know how to use it effectively.
### Check Register

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**Keeping Track**

This sample check register shows how to keep track of checks as you write them.

**What other amounts should you record in your check register?**
Opening a Checking Account

Before you open a checking account, decide whether you want:

- An individual account
- A joint account

Personal joint accounts are usually “or” accounts, which means that only one of the owners needs to sign a check.
Writing Checks

Before writing a check, use your check register to record the:

- Date
- Number of the check
- Name of the party who will receive the payment
- Exact amount of the check

Be sure to keep a current balance of the money you have by deducting from or adding to your balance the amount of any check transaction.
Steps in Writing a Check

Follow these steps when you write a check:

- Write the current date.
- Write the name of the party who will receive the check.
- Record the amount of the payment in numerals.
- Write the amount in words.
- Sign the check.
- Make a note of the reason for the payment.
Stop-Payment Order

You may ask the bank to issue a stop-payment order if:

- A check is lost or stolen.
- You want to take back your payment for a business transaction.

Fees for this service can range from $10 to $20 or more.

stop-payment order
a request that a bank or other financial institution not cash a particular check
Section 5.2
Savings Plans and Payment Methods

Making Deposits
To add money to your checking account:

- Fill out a deposit ticket.
- **Endorse** the back of each check you want to deposit.

Here are some tips to follow when endorsing a check:

- Do not endorse a check until you are ready to cash or deposit it.
- Use a pen so that your signature cannot be erased.
- If depositing a check by mail, write “For deposit only” above your signature.
Section 5.2
Savings Plans and Payment Methods

Check Clearing
Check clearing is a system that ensures that the money you deposited in the account is available for withdrawal.
Check-clearing rules vary by bank, so ask your bank about its rules.
Money Toss

Empty the change from your pocket or wallet every night and throw it into a jar. At the end of each month, deposit all your “throwaway” money in your savings or checking account. That loose change can really add up.

*What type of bank account would be best for your loose change? Why?*
Keeping Track of a Checking Account

Each month your bank will send you a statement that shows your checking account activity for the month. Your bank statement will list:

- Deposits
- Checks you have written
- ATM withdrawals
- Debit card charges
- Interest earned
- Fees

The balance reported on the bank statement may be different from the balance in your check register.
Reconciliation

You can fill out a bank reconciliation form to determine your true balance. To balance, or reconcile, your account, follow these steps:

- Compare the checks you have written during the month with those that are listed on the bank statement as paid, or cleared.
- Determine whether any recent deposits are not on the bank statement.
- Subtract fees and charges listed on the statement from your checkbook balance.
- Add interest earned to your checkbook balance.
Other Payment Methods

You can make payments using methods other than writing a personal check. Some alternatives include:

- Certified checks
- Cashier’s checks
- Money orders
- Travelers check
- Prepaid travelers cards
Financial Institutions and Your Money

Banks make money by making loans. The amount of deposits held by a bank affects its ability to:

- Loan money
- Put money back into the economy to pay for goods and services

Banking your money benefits you as well as others in the economic system.
Key Term Review

- direct deposit
- automated teller machine (ATM)
- debit card
- point-of-sale transaction
- commercial bank
- savings and loan association (S&L)
- credit union
- certificate of deposit (CD)
- money market account
- rate of return

- compounding
- annual percentage yield (APY)
- overdraft protection
- stop-payment order
- endorsement
- bank reconciliation
Reviewing Key Concepts

1. Explain two advantages and two disadvantages of online banking.

At any time of the day, you can use a bank’s electronic services to:

- Check the status of your account.
- Make a transaction.

Security is the number one issue for online customers. You will need to be careful to ensure that you do not become a victim of identity theft.
Reviewing Key Concepts

2. Identify the services offered by the different financial institutions.

The three primary types of financial services are:

- Savings
- Payment services
- Borrowing
3. Explain why a large, nationally chartered bank may be the safest place to deposit your money.

The Federal Deposit Insurance Corporation (FDIC) protects deposits in federally chartered banks and insures each account up to $100,000 per account.
Reviewing Key Concepts

4. Discuss how you benefit when interest is compounded monthly as opposed to annually.

The more frequently your balance is compounded, the greater your rate of return will be.
Reviewing Key Concepts

5. Explain the circumstances under which a person should choose a regular checking account, activity checking account, or interest-earning checking account.

Regular checking accounts usually do not require a minimum balance.

An activity account might be right for you if you:

- Write only a few checks each month.
- Are unable to maintain a minimum balance.

Interest-earning accounts pay interest if you maintain a minimum balance. If your account balance goes below the limit:

- You may not earn any interest.
- You may have to pay a service charge.
Reviewing Key Concepts

6. List the steps to take to use a checking account effectively.

To use a checking account:

- Write checks carefully.
- Endorse checks you deposit.
- Reconcile your checkbook against bank statements.
Newsclip: Fuzzy Numbers

Banks offer many saving options to teenagers. A teen can open a savings/passbook account or CD (certificate of deposit).

Log On  Go to finance07.glencoe.com and open Chapter 5. Read about the different types of available savings options. Then answer this question: When is it the right time to save, and what types of savings accounts are available?