

BANKS: A User's Guide

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Contents

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Summary

Banks today are the supermarkets of “financial products. *Banks: A User's Guide* helps your students become wise consumers of banking services.

Learn:

- Some financial “facts of life” for anyone who spends money.
- How checking and savings accounts work—follow the flow of money from depositor to bank to borrower and back to the bank.
- How to match a savings account to your needs.
- Why “bouncing” a check is a crime.
- Why “overdraft protection” might not be such a great deal.
- How to avoid paying needless (and sometimes hidden) fees.
- How computer, digital images, and new banking laws impact your spending habits.
- How to write and endorse a check to protect yourself from fraud.
- How to use ATMs and safe deposit boxes.

Quiz Answers

- | | | | | |
|------|------|------|------|-------|
| 1. F | 2. F | 3. F | 4. F | 5. T |
| 6. F | 7. C | 8. B | 9. D | 10. D |

Safe Deposit

Think of a safety deposit box as your own personal mini bank vault. You can rent one of them for around \$20 a year and store important documents, such as passports and birth certificates, or precious valuables including jewels. You could also store cash in a safe deposit box, but it's usually a better idea to deposit the money in an insured savings account, to make the money grow.

Interest Basics

Earning interest

Rather than stash her cash in a safe deposit box, Olivia deposits \$1000 she has saved in a savings account. Her money is kept track of through a personal account. By depositing money in a savings account she can **earn** interest on that money.

Her savings account earns 4% interest. After 10 years her \$1000 has grown to nearly \$1500.

Paying interest

A borrower is a person who would like to borrow money from the bank. The bank does not lend out money out for free. A borrower **pays** interest in order to borrow money.

For example: Calvin goes to the bank for a loan so he can buy a car.

The bank loans Calvin some of the money that other people have deposited in the bank. Over an agreed-upon time of five years, he has to pay back the entire amount he borrowed, plus an additional percentage, called **interest**.

Interest is the price paid to borrow money. Each time Calvin pays some of the money back, he pays back part of the money he was loaned, and he also pays some interest.

Calvin paid 8% interest on his car loan. He borrowed \$15,000 to buy a car. At the end of five years, he'll have paid over \$18,000— the original \$15,000 plus \$3300 in interest.

Each time Calvin pays back part of his loan, the bank then gives other depositors part of the interest. The rest of the interest is profit for the bank.

Savings Accounts

Passbook savings accounts

These savings accounts don't pay you a lot of interest on the money you put into the account, but they are low-risk because they allow you to withdraw all your money at any time.

Money-market savings accounts

Money-market accounts pay slightly higher interest rates, but usually restrict how often (and how much of) your money you can take out.

CD/Certificate of Deposit

A CD earns the highest amount of interest possible on the money you put in the bank, but you must agree to hold your money in the bank for a fixed period of time without withdrawing it. The time period could be months or years.

Penalties

If you take your money out before the time period you've agreed to, you'll lose most or all of the interest you could have earned. This is called a **penalty**.

Checking Accounts

Checking accounts hold the money people use from day to day. Most checking accounts don't earn any interest, but you can demand your money back at any time. That's why the banking industry calls checking accounts **Demand Deposit Accounts**.

Except for a few special situations, you can only take out the amount of money you put in. Your money is kept separate from other people's money by placing it into a numbered **account**.

Checks

A check is a piece of paper that promises that "real" money exists in your bank.

A check is also a set of instructions. It tells your bank how much money to take out of your account and send to the bank of the person or business who received the check. Once the money gets to the receiving bank, it is placed into the account of the person to whom the check was written.

Your instructions are carried out when the payee signs or "endorses" the back of the check, and brings it to the bank.

Credits

All checking accounts work on the same basic principles. You deposit money into an account - this is called a **credit**. You then withdraw money as needed.

Debits

Withdrawals are also known as **debits**. You can withdraw your money in cash, by writing a check, or using a variety of other methods.

Register

A register is a booklet that comes with your checking account. When you write a check, or withdraw money from your account, you record it as a debit in the register. If you make a deposit in your checking account, you record it as a credit.

Check 21

A check is usually a piece of paper, but in 2004, a law known as Check 21 changed that. Since then, a bank can take a picture of a check, which legally becomes the same as the paper check itself. The picture can be sent electronically to the account-holder's bank, which speeds up the check-clearing process.

Bouncing checks

When you write a check, but don't actually have the money to pay for it in your account, this is called "bouncing a check". It's the same as stealing the item. When you bounce a check, that check goes through the recipient's bank, and is transferred to yours. Your bank refuses to honor the check, since there's no money in the account, and sends it back to the recipients' bank. That's where the bounce comes in. Bounced checks are also known as **overdrafts**.

The check will be stamped "NSF" for "Non Sufficient Funds" You may get a call from the store you wrote it to, asking for their money. You can also end up on a "bad check" list. Your bank will charge you a fee, usually between \$20 and \$30. Banks make over six billion dollars each year in overdraft fees. The person or store you wrote the check to may also be charged a fee, on average about \$7.

Balancing your account against the bank's version of your account is the best way to prevent bouncing a check.

Overdraft Protection

Since bouncing check can be both expensive and illegal, most banks offer **overdraft protection**. Imagine you write a check for a few dollars more than you have. Normally, that check would bounce. But, since you signed up for overdraft protection, when your bank receives the check, it gives you an automatic loan to cover the check. The bank will charge you a flat fee for the loan, around \$20.

EFT/eCheck: Electronic Funds Transfer

An eCheck is written on paper, recorded in your register, and handed to the merchant. They scan the check, and enter the amount on a keypad, then hand the check back to you. All the information needed to make the promise is transmitted to your bank electronically. Your bank checks to make sure you've got enough money in your account as the merchant knows right **then** whether to accept or decline your check.

ATM: Automated Teller Machines

These machines spit out cash and are nearly everywhere. They are an easy way to get cash from your checking account. When you open a checking account, your bank will ask you if you'd like an ATM card with a personal identification number, or PIN to use in the machines.

Keep your card in a safe place, and memorize your PIN. If you need to write it down, don't carry it with you. If you lose your card, let your bank know right away. Use ATMs that are in safe, well-lit locations.

If you withdraw cash from your bank's ATM, you will probably not have to pay a fee. If you use another bank's ATM, you will probably be charged a fee of one or two dollars. Your bank may also charge you a small fee of one or two dollars. To avoid fees, get cash from your own bank's ATM.

Keep your ATM receipts and mark them in your register - otherwise, you could lose track of how much money you have in your account, and end up bouncing a check.

Electronic Banking

Debit Cards

Debit cards act a little bit like checks, and a little bit like credit cards. Like credit cards, they are instant and electronic. But instead of using them to borrow money, they are used to instantly withdraw money from your checking account.

Debit cards can also be used like an ATM card to get cash from your checking account. Your bank might charge you a fee for use of a debit card. Check with your bank for details.

Online-Banking

You can use the bank's website to view your transactions, and if you've got more than one account at the same bank, you can transfer money between accounts.

Even though you usually use on-line banking from the privacy of your own home, you still have to think about security. Beware of emails asking you to enter your account number and password, no matter how real they look. If you've got any doubts about something online, just call your bank and ask them.

Bill-paying at your computer

One of the most common online services is bill paying. Instead of sending in a check every month to pay your bills, you just set up an electronic payment.

You can also use computer software to pay your bills automatically. Common software programs will also download an electronic statement from your bank, and allow you to reconcile your account.

Banks: A User's Guide Quiz

Please circle the correct answer:

1. A safe deposit box is a great place to store cash. True False
2. Banks lend out all the money they take in. True False
3. All banks charge interest. True False
4. A restrictive endorsement is something you write on the back of your check to ensure that someone else can cash your check. True False
5. Balancing your checking account is the best way to prevent bouncing a check. True False
6. A bank does not charge you fees for their services. True False
7. By depositing money in a savings account you can earn money through collecting on:
A. Debits
B. Credits
C. Interest
D. All of the above
8. The Federal Deposit Insurance Corporation (FDIC) guarantees deposits up to:
A. \$1,000,000
B. \$100,000
C. \$50,000
D. \$ 25,000
9. A Certificate of Deposit earns the highest amount of interest possible on the money you put in the bank, but you must agree to:
A. Put a certain amount of money into the bank.
B. Hold your money in the bank for a fixed period of time.
C. Pay a penalty if you withdraw your money early.
D. All of the above.
10. What it is called when someone doesn't pay back their loan?
A. Fraud
B. Bounce
C. Debit
D. Default