

Chapter 4: Money and Banking

Chapter 4 will help you understand banks and their services and provide you with the skills needed to use and manage your debit and savings accounts.

Financial institutions provide services that allow people to manage their money. There are many types of financial institutions including:

- Banks;
- Credit unions;
- Check cashers; and
- Pawnshops.



Why Use a Bank?

A **bank** is a business where you can keep and invest your money. Banks provide many types of services such as savings, debit and checking accounts. Federal and state laws regulate these services. In addition, the Federal Deposit Insurance Corporation (FDIC) insures any money that you put in a bank so you can always be assured that your money is protected.

There are many reasons for using the services of a bank over other financial institutions, including:

- **Safety**—a bank is a safe place to keep your money because you don't have to worry about losing your money or having your money stolen;
- **Convenience**—a bank provides you with quick and easy access to your money when you need it; and
- **Cost**—using a bank is usually cheaper than using the services of other financial institutions. Most banks charge lower interest rates on loans and don't charge you fees for cashing checks.



A bank can also help you when you need a loan or other financial assistance to meet your long-term financial goals.

Banks and Credit Unions: What's the Difference?

Banks and credit unions are very similar. Both offer similar types of services (savings, debit and checking accounts, loans and investments). At the same time, there are differences related to the ownership of each institution and who can participate or conduct business in a bank and credit union. Banks are for-profit businesses. Anyone can participate or conduct business with a bank as long as they meet the requirements of that specific bank. In contrast, **credit unions** are nonprofit organizations established to serve the members of certain occupations and organizations. There are credit unions for teachers, military personnel, government employees and others. To participate in a credit union, you have to be a member of the organization the credit union serves.

Credit unions- serve members of certain organizations.

Avoid Check Cashers and Other High-Fee Institutions

Check casher- a business that will cash checks for a fee.

Pawnshop- a place that gives out small loans.

Collateral- a security or guarantee for the repayment of a loan.

A **check casher** is a business that will cash checks for a fee. On the other hand, a **pawnshop** is a place that gives out small loans—you give the pawnshop an item that serves as **collateral** on the loan. The amount of the loan is based on the value of the item, as estimated by the pawnshop. A pawnshop charges a fee for the loan and keeps the item until the loan and the fee are paid off.

How many check cashers and pawnshops are there in your neighborhood? These businesses tend to be everywhere and are open during later hours, making it easy for people to use their services. In addition to their location and hours of operation, check cashers and pawnshops make their services appealing because they don't require that people have an existing account or provide proof of identification, such as a driver's license, to use their services.

Many people who don't have bank accounts use check cashers to meet their financial needs. However, check cashers and pawnshops are **very expensive** and the costs of doing business with these businesses outweigh the benefits. The federal government does not regulate these

organizations and only half the states regulate them. Fees charged by check cashers can be very high. For example, check casher fees can be higher than 10% of the amount of the check being cashed; so if you have a \$300 check, you'll be charged \$30 when you cash that check. Similarly, when you use a pawnshop, you'll be typically charged at an interest rate of 5 to 6 percent for the loan.



In addition to the fees charged by these businesses, it's also important to consider the long-term consequences of not having an established relationship with a financial institution such as a bank or credit union. For instance, individuals who don't have a savings or checking account have a more difficult time saving towards a goal and obtaining loans for important purchases like an education, a car or a home.



Automated Teller Machine (ATM) - a machine used by banks to provide you with easy access to the cash in your account.

Services at a Bank or Credit Union

Banks and credit unions offer a variety of services, including savings, debit and checking accounts, and investments that allow you to grow your money over time. Savings accounts are typically used to put aside money to meet short- and long-term goals. Debit and checking accounts are used to meet immediate needs such as paying bills and purchasing groceries. In addition, when you open a savings or checking account, you're also provided access to other services such as direct deposit, money orders, telephone banking, **Automated Teller Machines (ATMs)**, debit cards and loans. Although many of these services are provided free of charge, you should understand what fees apply before using these services.

Services at Banks and Credit Unions and Applicable Fees

Services	Fees
Checking accounts—provide quick and easy access to funds to meet immediate needs such as writing checks, paying bills, and making purchases	Fees vary by the type of account and the account requirements.
Savings accounts—allow the account holder to put aside money to meet short and long-term goals and emergencies.	Fees may apply for savings accounts that require a minimum balance.
Direct deposit—some employers use this service to deposit employees' paychecks into a savings or debit/checking account. The employee decides the amount to be deposited into the account(s).	Free of charge
Money orders—some businesses require that customers use money orders to pay for services. When money orders are required, you cannot use a check or other payment method.	Small fee—usually around \$2.00 per money order.
Telephone banking—allows the account holder to call a toll-free number and check account balances, deposits, withdrawals, and to transfer money between two or more accounts.	Typically free of charge
ATM (Automated Teller Machine)—provides quick and easy access to cash.	Depends on the type of account (i.e., type of debit/checking or savings account). Some accounts provide their customers with free and unlimited access to the bank's ATM. When using another institution's ATM, the institution where the account resides may charge a fee and the institution whose ATM is being used will also charge a fee. This fee is charged each time another bank's ATM is used.
Debit cards—similar to credit cards but linked to a debit or checking account. All debit card transactions are automatically deducted from the account. The balance of the account is reduced by the amount of the transaction.	Typically free of charge but some banks and businesses may charge a fee for the use of a debit card.

What are Checking Accounts?

Checking accounts provide you with easy access to the funds in your account. A checking account can be used to pay your bills, deposit checks, write checks, and obtain cash when you need it, usually without paying a fee or penalty. Whether or not you'll pay a fee will depend on the type of checking account you choose.



A checking account provides you access to your money in an electronic format—it's an alternative to using checks. The amount in your account is your balance. Any purchases or transactions you make will be deducted or debited from your account balance. To use your debit account, the bank provides you with a card known as a **debit card** or check card that contains information that is electronically linked to your debit account.

When you use a check to pay for purchases, the money is taken out of your checking account. Unlike a debit card, the amount of the written check isn't immediately deducted from your checking account balance. The amount is deducted when the person you wrote the check to cashes or deposits the check. If you checked your account two or three days after you wrote the check (at an ATM, by telephone or by visiting your bank's website) you wouldn't likely see the transaction reflected in your account. But, you need to be aware of how much you spend and your account balance by keeping track of your checks and other banking transactions.

One thing to remember is that not every business will allow you to pay by check and you may be required to show proof of identification when you pay with a check. However, most checking accounts give you access to your funds in a number of ways—you can access your funds by writing a check, using an ATM card or using a debit card. Although ATM and debit cards are different and have different uses, some banks will issue a card that serves both as a debit and an ATM card.

Banks provide access to a variety of checking accounts, including:

- Checking accounts for people who do not write many checks;
- Checking accounts for people who prefer to use the ATM and not the bank's teller services;
- Checking accounts that require you to keep a minimum balance; and
- Interest-bearing checking accounts that allow you to earn interest on your balance.

These accounts may have different fees and charges associated with them. Before opening a checking account, it will be important for you to determine what your needs are (how many checks you'll need to write each month, how much money you can keep in your account each month, how you would prefer to access your account, etc.), what type of checking account will best meet your needs and what fees may apply. For example, if you're not able to maintain a large minimum balance in your account, you should try to get one with a low balance requirement. Your bank should provide you with information on the requirements for each type of account. Federal laws require that banks **disclose** or make this information available to you in writing.

Disclose- to provide or make information available.

Carefully review all materials and disclosure statements before choosing the checking account that is right for you.

Another important thing to know about checking accounts is that having a checking account will sometimes give you access to credit. Once you have a checking account, you may begin receiving credit offers in the mail—some of these offers will come from your bank. Before you accept one of these offers, make sure you understand your rights and responsibilities as a credit consumer. See "Additional Information: Credit" for resources on credit.

What's the Difference between a Debit and a Credit Card?

Debit card- a plastic card that looks like a credit card and is linked to your checking account.



Unlike a credit card, when you use your debit card, you're only able to spend the amount in your account and you won't be tempted to overspend money you don't have. A debit card is a plastic card with a credit card logo—

Visa or Mastercard—that can be used wherever Visa or Mastercard credit cards are accepted, such as gas stations, clothing stores, and grocery stores. Although debit cards look just like credit cards, you have a specific amount of money available to you based on your debit account balance, you don't pay interest on the money used and you pay for your purchases immediately (within a day or two) after the transaction is completed.

Personal Identification Number (PIN) - a combination of numbers that you select and use as a password to access your debit/checking account.

When you use a debit card, the money you spend is automatically (electronically) debited from your debit account and you have to authorize the transaction by signing a sale receipt or by providing your **Personal Identification Number (PIN)**. Some businesses will charge you a fee if you make purchases or pay for transactions using a debit card. Your bank may also set a limit on the total amount you can spend each day using your debit card.



What's the Difference between a Debit and an ATM Card?

Withdraw-
take cash out.

Like a debit card, an ATM card gives you access to the amount of money in your account. However, an ATM card only gives you access to your account at an ATM. You can use your ATM card at an ATM to **withdraw** or take out cash from your account. But, you can't use your ATM card to buy things at a store or to make other electronic purchases. When you use an ATM card, the money withdrawn from your account is automatically deducted on the day you make the withdrawal. Some banks limit the amount of money you can withdraw from their ATMs, such as \$250.00 per day. Depending on the type of account (type of checking or savings account), you may be charged a fee each time you use the ATM. Even if your bank doesn't charge a fee for using the ATM, you may be charged a fee if you use another bank's ATM. These fees can range from \$1 - \$2 and you'll be charged the fee each time you use the ATM. You should try to avoid these fees as much as possible. Carefully read the disclosure statement to determine how often you can use the ATM without being charged a fee.

What is a Savings Account?

A savings account is an account that allows you to put money aside to meet a short- and long-term goal or an emergency. The money in your savings account will always earn interest. Most banks don't require that you have a lot of money available in order to open a savings account. However, you'll need to know if the bank has other requirements related to the use of the savings account, such as a minimum balance or if there are fees for the account.



Having a savings account helps get you in the habit of saving. It's a good idea to put aside some of the money you earn to address unexpected expenses and emergencies. As a rule of thumb, you'll want to eventually save enough money so that if you lose your job, you can support yourself for a few months with the money in your savings account.

Your Bank: What You Need to Know

You'll want to be an informed banking customer. Therefore, you need to ask a few important questions of your bank—and any bank you do business with in the future—including the following:

- **Location of the financial institution**—where is the bank closest to my job or home and how do I get there?
- **Services offered**—what services does the bank offer and what fees or charges will I have to pay for the services?
- **ATM locations**—where are the bank's ATMs located?
- **Customer service**—how do I get help? Who do I call?

The next page has a list of other questions you can ask your bank representative before opening an account.

My Financial Institution¹

Name of My Bank Contact: _____

Questions	Answers
Name of My Bank	
Type of account	
How much money do I need to open an account?	
How much money do I have to keep in my account to avoid account fees?	
How many checks can I write before extra fees are charged?	
What are the fees for bounced checks?	
How many withdrawals can I make each month?	
Does this account pay interest?	
Does an ATM or debit card come with this account?	
Does this account come with a credit card?	
What are the fees I will have to pay?	
Will I be charged a fee for using this bank's ATM?	
Will I be charged a fee for using the ATM or debit card at another bank?	
What are the hours of the bank?	
Where are the bank's ATMs located?	
Is this bank insured?	

¹ Adapted from "Taking Control of Your Financial Future: Financial Education for Those Making Life Transitions" curriculum developed by Michigan State University, 2003.

How to Use Your Debit and Checking Account

To open a checking account, you'll need to visit a bank and complete an application form where you provide some basic information like your address, social security number, and phone number. You'll also need to provide some form of identification. The bank will use this information to determine your eligibility to open an account. Not all individuals who apply for a checking account are approved. Banks and credit unions regularly report information on individuals who mishandle their debit/checking and savings accounts (such as bounced checks) to consumer reporting agencies. This information is then made available to other financial institutions. These businesses are less likely to allow you to open a checking or savings account if your name has been reported to a consumer-reporting agency.

Once your application is approved, you'll need to deposit money into your account and you can use this money to make purchases by using your



debit card or checks. You can use your checking account to pay for purchases, to put aside money you've earned or received or to withdraw money from your account. These activities are called **banking transactions**. Every time you make a transaction using your debit/checking account, you'll need to keep a record of those transactions. Keeping a record will help you keep your account in good standing because you'll know how much money you have in your account and how much you can spend. Therefore, you'll not overspend, your checks won't bounce due to insufficient funds in your account and you won't have to pay additional fees. You'll learn more about how to make and record banking transactions below.

Banking transactions- any movement of money in or out of your bank account, such as depositing cash, writing checks, and making purchases with your debit card.

Making a Purchase

It's easy to make purchases with your debit card and/or checks. However, before making any purchase, you should follow these simple rules.

1. Make sure you have enough money in your account to cover your purchase. This will require that you keep track of your deposits, withdrawals and expenses.
2. Determine whether the business accepts the credit card logo on your debit card—Visa or Mastercard—and/or checks. Most merchants post signs or notices in their business that will let you know which of these are accepted.
3. Find out if there are restrictions to the amount you can purchase using your debit card or check. Some businesses will only allow you to purchase over a specific amount (\$10) with your debit card. You also need to know if your bank has set a limit on how much you can spend, such as \$100 per day.
4. If using a debit card, determine whether the business will charge a fee for the use of the debit card and determine the amount of the fee.
5. If using a debit card to shop on the Internet, make sure that your account information is protected and secure.
6. Keep copies of all of your purchase receipts and record your transactions in your debit/check register to keep track of how much you spend and how much is left in your account.

Writing a Check

When you write a check, you're telling your bank to use the money in your checking account to pay the business or person whose name appears on the check. On page 16 there is a sample check and its different parts. It's also important that you record or keep track of your written checks. This includes knowing:

- The date the check was written;
- The check number;
- Who the check was written to or for what purpose; and
- The amount of the check.

Register- a book you can use to record and keep track of your banking transactions.

You should keep this information in your debit/check **register** even if you keep a copy of your checks and you receive a bank statement at the end of the month. Having this information will help you keep track of your finances on a regular basis and will allow you to calculate the amount of money left in your checking account after you have paid your bills and other expenses. You'll learn more about recording your transactions later in this chapter.



Each time you write a check you should complete the following sections:

- **Date:** write the day you're writing the check (10/15/04);
- **Pay to the Order of:** write the name of the person or place you're writing the check to (Rental Properties Inc.);

- **\$ Amount:** write the amount the check is for in numbers. Don't leave a space between the numbers because someone can add more numbers in this space (150.00);
- **Dollars:** in words, write how much the check is for. Start at the left side and write any cents as a fraction. Draw a line through the extra space (one hundred and fifty and 00/100 -----);
- **Signature:** sign your name just as you signed the signature card to open the account. Don't sign any check until you're ready to use it or while its blank because someone else could use the check; and
- **Memo:** write what the check payment is for (rent payment).

Finally, once you've written your check, don't forget to record the transaction by entering the information in your debit/check register.

The diagram shows a check form with the following fields and labels:

- Check Number:** 101 (indicated by an arrow from the top right)
- Your Name, Your Address, Your Phone Number:** (top left)
- Date:** _____ (top right)
- Pay to the Order of _____ \$ _____ Dollars:** (middle)
- BANK USA, City, State, Zip Code:** (bottom left)
- Memo _____:** (bottom middle)
- Routing Number:** 00035082 (indicated by an arrow from the bottom left)
- Account Number:** 1005472468 (indicated by an arrow from the bottom middle)
- Your Signature:** _____ (indicated by an arrow from the bottom right)

Depositing Money

Teller- a bank employee that is responsible for processing your banking transactions.

Endorse- to sign your name on the back of a check in order to deposit the check into your account.

You can deposit or add money into your debit/checking account by visiting a **teller** (the person who will process your transactions) at your bank or by using an ATM. When depositing money in your debit/checking account, you'll need to use a deposit slip. Deposit slips are included with your checks and are also available at your bank. If using an ATM, you're not required to use a deposit slip (there are deposit envelopes at the ATM).

To complete a deposit slip, you need to include the following information:

- The **date** of the deposit;
- The **total of all the cash** you're depositing;
- A **list of each check** being deposited (separately); and
- The **total being deposited**.

You can also withdraw a portion of your deposit in cash at the same time. This amount needs to be subtracted from the total being deposited. If you're including any checks with your deposit slip, you should also sign or **endorse** the back of the check(s) before completing your deposit.

Practice using the following deposit slip to deposit \$175.46 into your savings account!

CASH	CURRENCY		2
	COINS		3
LIST CHECKS SINGLY			4
			5
			6
TOTAL FROM OTHER SIDE			7
TOTAL			8
LESS CASH RECEIVED			9
NET DEPOSIT			

32221
1610

Your First Bank Anytown, USA

1 DATE _____

SIGN HERE IN TELLER'S PRESENCE FOR CASH RECEIVED

:9124 6027 486586519 30937 3620000 108

Routing Number- a number located on the bottom left-hand corner of a check.

Your employer can also deposit money in your account through direct deposit or electronic benefits transfer (EBT). Direct deposit or EBT is an electronic transaction that allows employers to deposit an employee's check into one or multiple accounts. If your employer offers direct deposit, you'll have the opportunity to decide whether you want your paycheck to be deposited into your account. **We highly recommend this because it will save you time and effort.** You can also ask your employer to deposit portions of your check into two accounts. For example, you can choose to have \$50 deposited in your savings account and the remainder deposited in your debit/checking account. You'll need to provide your employer with a **Routing Number** for the account. You can obtain the routing number by contacting your bank or if using a checking account, your routing number is the number located on the bottom left-hand corner of your check (see the sample check on page 16). You can also do this by writing VOID on one of your checks and giving the check to your employer.

Managing Your Accounts

To effectively manage your account, you need to keep track of your transactions and regularly review your account statement.

Recording Your Transactions

To maintain your account in good standing, it's critical that you keep a record of all of your transactions. This includes all purchases, withdrawals, deposits, and any fees you might have incurred, such as a fee for using another bank's ATM and interest earned on your account. You should get into the habit of recording your transactions every day because it's easy to lose track of your receipts and to forget last minute trips to the ATM. To record your transactions, you'll use a debit/check register.

Debit/Check Register

Your debit/check register is a book you receive when you open a checking account to record all of your transactions. The information entered into the debit/check register should include:

- Check number if the transaction was paid by check;
- Type of transaction (purchases, deposits, cash withdrawals);
- Date each transaction took place;
- Description of the transaction;
- Applicable fees or interest credit; and
- Dollar amount of each transaction.

Using this information (subtracting withdrawals or purchases and adding deposits) you'll be able to determine how much money you have in your account. Below is a sample debit/check register.

Just as you record transactions for your checking/debit account, you also need to record your savings deposits and withdrawals by using a savings register.

Type of Transaction	Date	Transaction Description/ Payee Name	Debit (-)	Fee	Deposit/ Credit (+)	Balance
						\$150.00
Check #105	10/4/03	Electric bill	\$24.20			\$125.80
Debit	10/5/03	Purchased groceries	\$82.15			\$ 43.65
Debit	10/10/03	Deposited check			\$60.00	\$103.65
Debit	10/15/03	Monthly service fee		\$2.50		\$101.15
ATM	10/18/03	ATM withdrawal	\$40.00			\$ 61.15
ATM	10/18/03	ATM usage fee	\$2.00			\$ 59.15
Check #106	11/1/03	Telephone bill	\$30.45			\$ 28.70
Deposit	11/1/03	Deposited check			\$75.00	\$103.70

Understanding Your Account Statement

Every month you'll receive an account statement from your bank. The statement will list all of the transactions in your account during that month or reporting period. The account statement gives you another way to track the status of your account. You should review your account statement immediately upon receiving it. When reviewing the statement, compare the listed transactions against those listed in your debit/check register. If you've forgotten to include a transaction in your debit/check register, use this opportunity to correct your register so that the balance reflected in the register and your account statement are the same. If there are transactions that you believe are incorrect, contact your bank to address the problem.

Another way in which you can track your banking transactions and verify the amount of money in your account, is by using the bank's

toll-free (800) 24-hour hotline—you'll receive this information from your bank when you open your account and the number also will be listed on the back of your debit and ATM card. Most banks offer this service free of charge and you can call the number any day of the week, including weekends, and anytime of the day. When you call the hotline, you can access information on the balance in your account as well as information about the most recent deposits, withdrawals, and checks cashed.

If you're planning to use your debit card or write a check to make a purchase, you should first check the balance on your account. If you do this by calling the toll-free number, you need to remember that the balance on your account may not include any recent purchases or checks that haven't been cashed. Therefore, you should always write down all of your transactions in your debit/check register and use this information to figure out your account balance. This simple step will prevent you from overdrawing your account.

Internet Banking

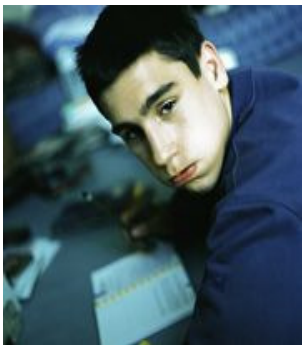
You can use the Internet to check the balance on your accounts, transfer money between accounts, and view checks that you have written.

Another benefit of using the financial services of banks and credit unions is that you can conduct many of your banking transactions via the Internet. Most banks and credit unions provide this service free of charge. You can use the Internet to check the balance on your savings, debit and checking accounts, transfer money between accounts, obtain your account history (withdrawals, purchases and deposits) and view checks you've written (to whom and for how much). You can also use Internet banking to pay your bills, but there is typically a fee associated with this service.

Identity Theft

Although Internet banking is a very convenient, fast and easy to use service, it can also be a risky service because information is being sent (transferred) electronically and can be accessed and used by someone who does not have the right or authority to use the information. For instance, one of the greatest concerns about Internet banking is that individuals may experience "identity theft". Identity theft occurs when someone gets your account information and uses that information to make purchases. Another type of identity theft takes place when someone obtains your identifying information (name, Social Security Number and other information) and uses that information to open accounts and make transactions using your name. Since you need to use your account number and other information to access your financial accounts via the Internet, you can experience identity theft.

To minimize the risk of being a victim of identity theft, try to protect any document that has important information about you. For example, you should never carry your Social Security card in your purse/wallet but should keep it in a safe place. You should never leave your checkbook where someone can find it and use your checks or write down your account number. Other steps you can take to protect yourself and your information include:



- When creating passwords and PINs, **don't use numbers that can be easily identified**, such as your address or date of birth;
- **Memorize all your passwords** and PINs and don't carry them in your purse or wallet; keep them in a safe place at home.
- When conducting Internet banking, **use computers with security protections**; and

- When shopping online, buy things from companies that provide transaction security protection and have clear privacy and security policies.

Other steps include reviewing your account statement every month and obtaining a copy of your credit report once a year to verify that accounts have not been opened under your name.

Protecting Your Debit/ATM Cards

In addition to protecting your account information when using the Internet, you also need to protect your debit and ATM cards to avoid theft and access to your debit/checking account. You can protect your cards and your account in the following ways:

- Don't leave your purse or wallet where it can be stolen;
- Never share your PIN with anyone, including your closest friends;
- Don't leave receipts or other documents with your account number where someone else might pick them up. You should tear all receipts and any documentation that contains your account number before putting it in the trash;
- Don't leave your checkbook where someone can take it, write down your account information, or write checks in your name;
- When using the ATM or making a purchase, make sure that no one is standing behind you or in such proximity that they can see you enter or write your PIN number; and
- Always protect your account and identifying information by keeping your documents in a safe place at home.

If you lose your debit or ATM card, contact your bank right away and tell a bank representative about the loss. Debit and ATM cards have a toll-free (800) number on the back of the card that you can use to contact your bank. Make sure to write this number down in an easy to find location so you can have it if you need to contact your bank. When

contacting your bank, if possible, provide the day you lost your card and any other relevant information. You'll need to get a new debit and/or ATM card with a new PIN. You might also consider opening a new account and transferring your funds to that account.

Protecting your financial information and learning to effectively manage a checking and savings accounts are important steps to manage your finances and keeping your financial plan on track.

Remember banks and credit unions offer many services to keep you and your money at their financial institution!