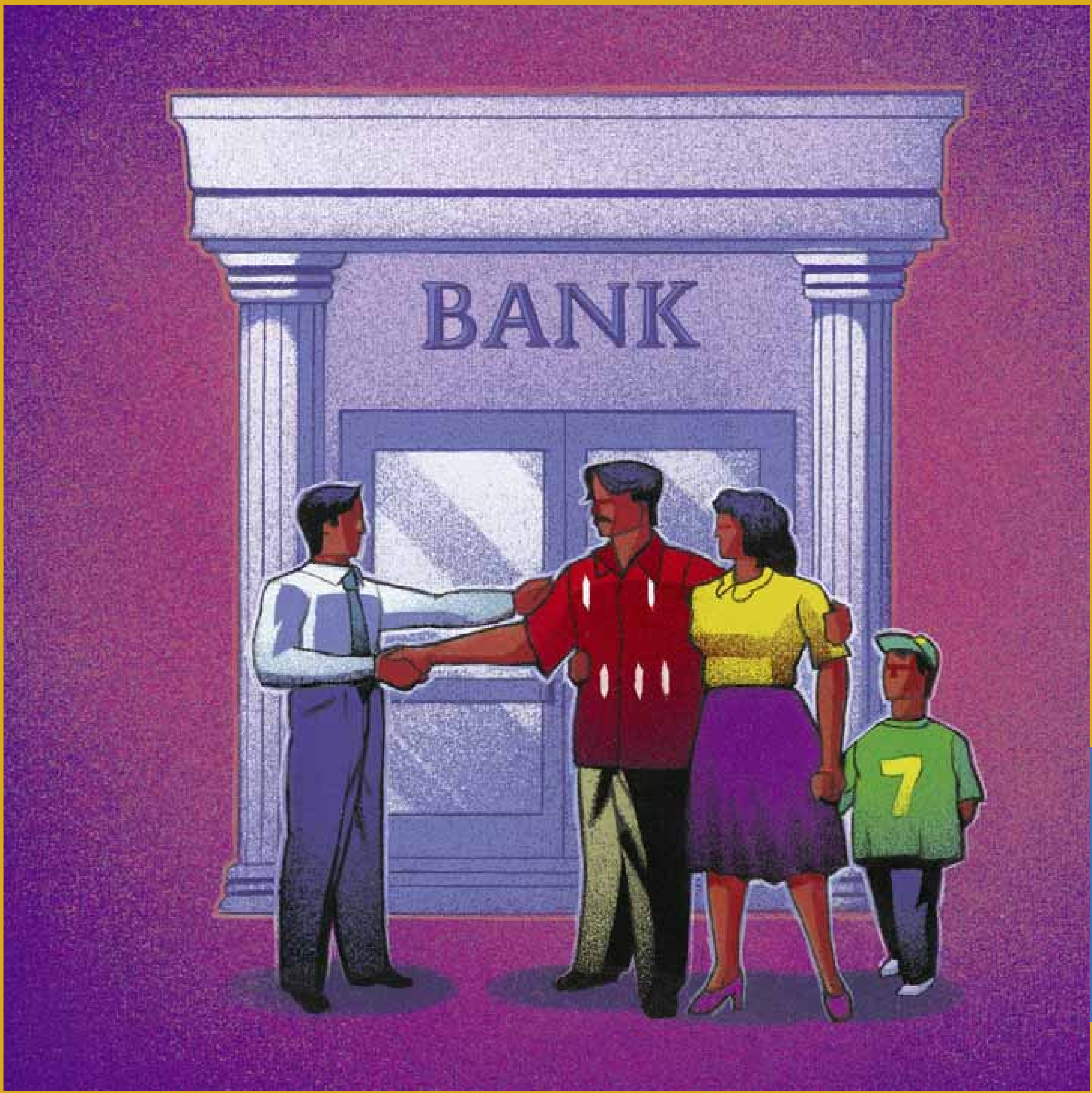
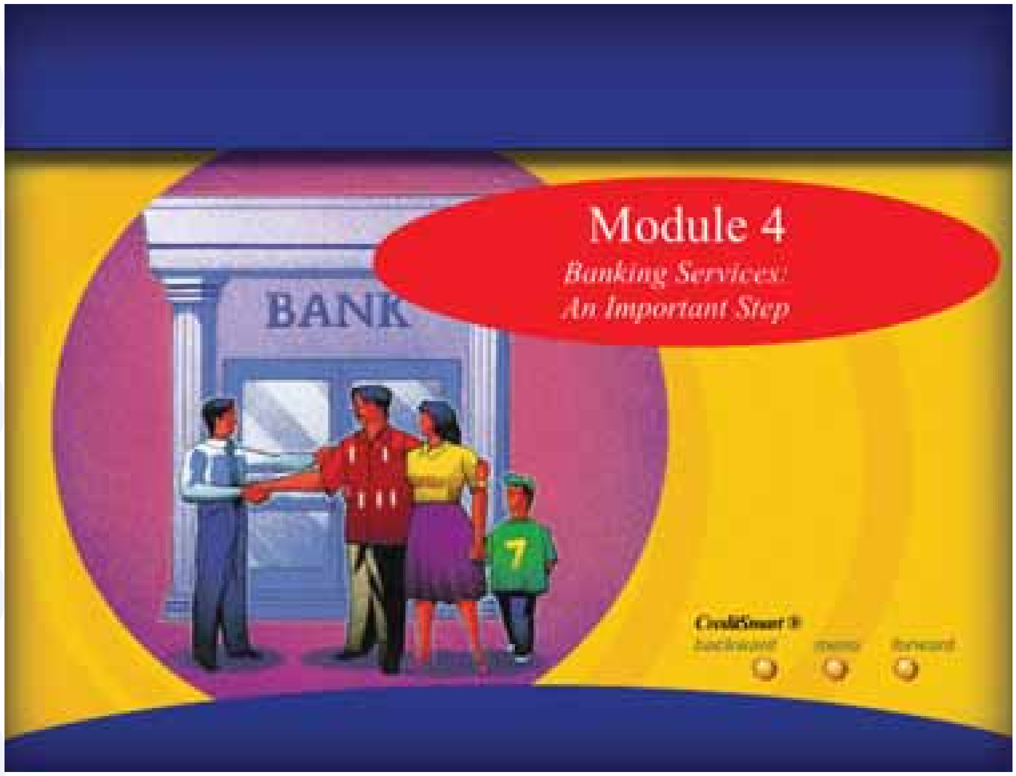
Module 4

Banking Services: An Important Step





Module 4:
Banking Services: An Important Step

In Module 2, we introduced to you ways you can begin to build savings, set a spending plan, and manage your money.

Module 4, *Banking Services: An Important Step,* will help you understand the basics of banking and how to establish a relationship with a financial institution so you can begin to build credit and save money to achieve your long-term goals.

The primary source of information cited in this module was provided by the Federal Deposit Insurance Corporation's (FDIC) *Money Smart* adult financial education curriculum.

Module 4 Introduction

Module 4, *Banking Services: An Important Step*, will show you how to build a relationship with a financial institution. You'll learn about the major types of financial institutions, basic banking terms, the differences between financial institutions and check cashing services, types of accounts, and banking services.

When you have completed this module, you will be able to begin using the services of a financial institution.

Consumer Workbook Materials
for Module 4: Banking Services: An Important Step

- *Tips When You're Visiting a Financial Institution* (page 51)
- *Choosing a Financial Institution* (page 51)
- *Reasons Why You Should Keep Your Money in a Financial Institution* (page 52)
- *Advantages of Using a Financial Institution* (page 52–53)
- *Checking Accounts* (pages 54–55)
- *Sample Checkbook Register* (page 56)
- *Choosing an Account* (page 57)

These materials are also available in Your Credit, Your Home, and Your Future
for Module 4: Banking Services: An Important Step

- *Tips When You're Visiting a Financial Institution* (page 19)
- *Choosing a Financial Institution* (page 20)
- *Reasons Why You Should Keep Your Money in a Financial Institution* (page 21)
- *Advantages of Using a Financial Institution* (pages 21–22)
- *Choosing an Account* (page 24)

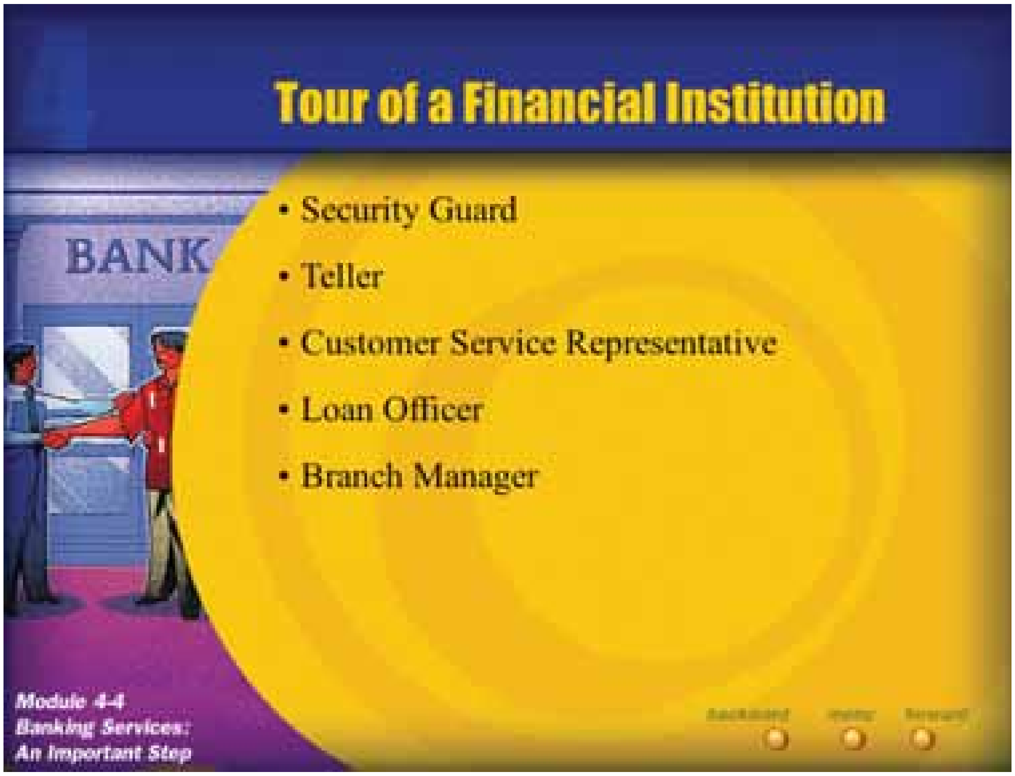
Types of Financial Institutions

There are three types of financial institutions:

- ***Bank:*** A financial institution that is run under federal and state laws and regulations. Banks make loans, cash checks, accept deposits, and provide other financial services.
- ***Credit Union:*** A federally regulated cooperative financial institution that is owned and controlled by the people who use its services. Credit unions serve groups that share something in common, such as where they work, live, or go to church. Credit unions are not-for-profit, and exist to provide a safe, convenient place for members to save money and get loans at reasonable rates. You have to become a member of the credit union to keep your money there.
- ***Thrift:*** A federally regulated savings bank or savings and loan association that is similar to a bank. Thrifts were created to promote homeownership and must have a majority of their assets in housing-related loans. While banks offer a wide array of services, a thrift's main business is to make home loans.

Refer to the Consumer Workbook:

- *Tips When You're Visiting a Financial Institution* (page 51)
  (Your Credit, Your Home, and Your Future page 19)
- *Choosing a Financial Institution* (page 51)
  (Your Credit, Your Home, and Your Future page 20)



Tour of a Financial Institution

Banking services in a financial institution are generally automated. As a result, when you walk into a financial institution, you may not have an opportunity to get to know the people who work there and they may not be familiar with you.

It's important not to be intimidated by this lack of familiarity. The people who work at the financial institution want to do business with you and are dedicated to helping you with your banking needs. Some financial institutions even employ bilingual staff to assist you if you speak another language. Because banking services are automated, a banking professional can quickly provide and review your information by computer.

Understanding the jobs of the people working in a financial institution will help you to know whom you should talk to when you go to the financial institution.

Security Guard

- Is stationed in the lobby or at the front door of the financial institution to protect the vault, money, and other valuables from theft.
- Protects the employees who work there and its customers from someone intending to commit a crime.

Teller

- Stands behind the counter and takes money.
- Answers questions.
- Cashes checks.
- Refers you to the person who can help you with more specialized services.

Customer Service Representative

- Is seated at a desk in the lobby and helps you open your account.
- Explains services.
- Answers general questions.
- Refers you to a person who can help you with more specific services.
- Provides written information explaining the bank products.

Loan Officer

- Takes applications for loans offered at the financial institution.
- Answers questions.
- Provides written information explaining loan products.
- Helps you fill out a loan application.

Branch Manager

- Supervises the operations of the financial institution.
- Helps fix problems that cannot be solved by other employees and is the person you ask for if you have a concern.
- Holds the ultimate authority for running the branch office.

From the Consumer Workbook (page 51)

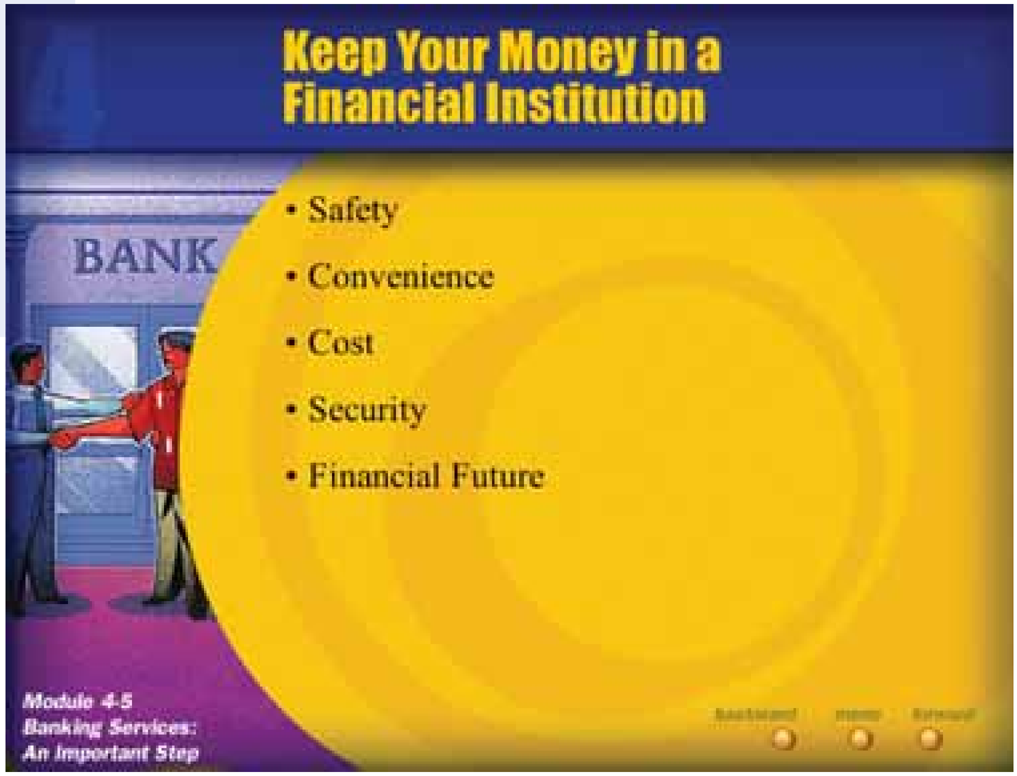
Tips When You're Visiting a Financial Institution

- If you don't know who to talk to, ask for help. Someone will take you to the right person. If you speak another language, ask for an employee who speaks your language.
- Always ask questions until you are clear on all the information and don't sign anything you don't understand.
- Ask for written information to take home to review.

Choosing a Financial Institution

Use this checklist to help you choose a financial institution and the account that's right for you. Also ask your friends and relatives about financial institutions they enjoy doing business with.

	Financial Institution A	Financial Institution B	Financial Institution C
Name of financial institution			
Does it offer the services I need?			
Is it close to home?			
Does it have reasonable hours?			
Does it have ATMs? If so, are they located near where I live, work, or shop?			
If I am choosing a credit union, am I eligible?			
Do any employees speak my language?			
What, if any, fees will be charged?			
How are complaints handled?			
Is this financial institution insured?			



Keep Your Money in a Financial Institution

A financial institution, such as a bank, thrift, or credit union, is a business that offers you a safe place to keep your money and uses it to make more money. Financial institutions offer different services for keeping your money at their business.

Reasons Why You Should Keep Your Money in a Financial Institution

- ***Safety:*** Money is safe from theft, loss, and fires.
- ***Convenience:*** You can get money quickly and easily.
- ***Cost:*** Using a financial institution is usually less expensive than using other businesses, such as check cashing businesses, to cash your check. Also, a checking account allows you to write checks rather than pay for money orders.
- ***Security:*** Most financial institutions are insured. This means that if for some reason the financial institution closes and cannot give its customers their money, the insuring organization, like the Federal Deposit Insurance Corporation (FDIC), will return the money to the customer. The FDIC will only insure deposits up to $100,000 per account.
- ***Financial Future:*** Building a relationship with a financial institution will allow you to write checks so that you can demonstrate a record of paying bills, save money, and get a loan or mortgage. (However, you may be able to obtain a mortgage without having established a banking relationship, but you must keep accurate records and receipts of paying your rent and other bills.) In addition, having a bank account will help you establish and manage good credit. For example, if you opt to receive overdraft protection on your account—a feature that automatically advances funds into your account to cover items that would cause a check to bounce—you'll receive a positive tradeline for your credit report. As part of credit report terminology, a tradeline is any credit account you might have, such as a loan, credit card, or mortgage.

Refer to the Consumer Workbook
Reasons Why You Should Keep Your Money in a Financial Institution (page 52)
(Your Credit, Your Home, and Your Future page 21)

From the Consumer Workbook (page 52)

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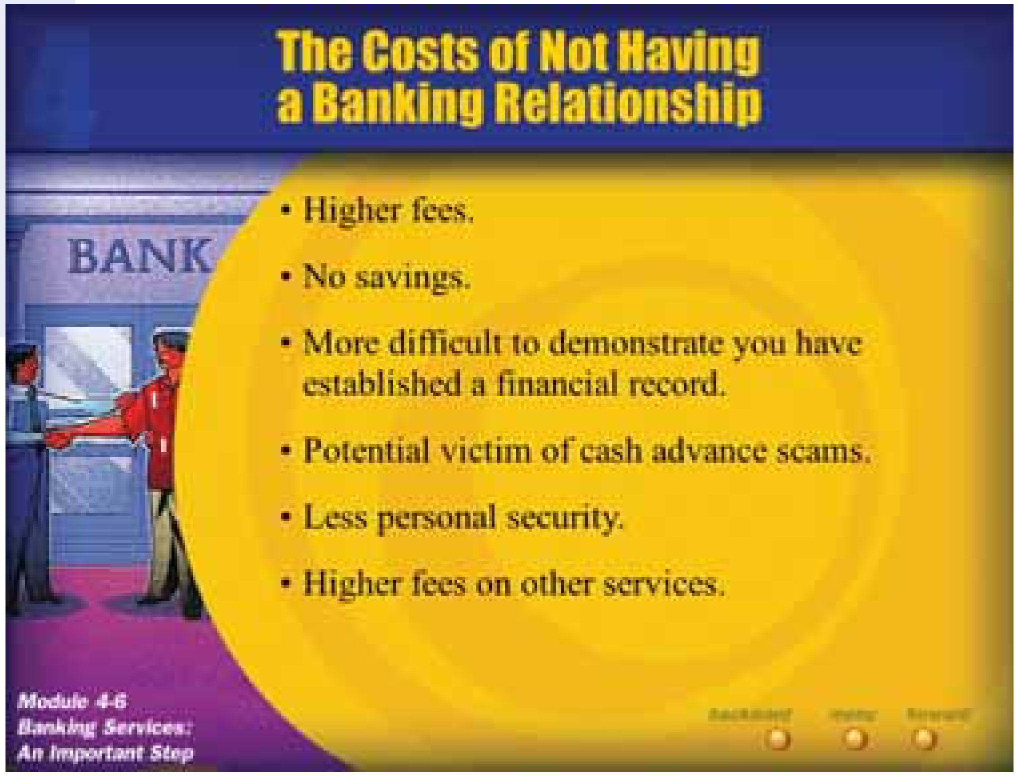
- ***Financial Future:*** Building a relationship with a financial institution will allow you to write checks so that you can demonstrate a record of paying bills, save money, and get a loan or mortgage. (However, it's possible to obtain a mortgage without having established a banking relationship. But you must keep receipts and accurate records of paying your rent and other bills.) In addition, having a bank account will help you establish and manage good credit. For example, if you opt to receive overdraft protection on your account—a feature that automatically advances funds into your account to cover items that would cause a check to bounce—you'll receive a positive tradeline for your credit report. As part of credit report terminology, a tradeline is any credit account you might have, such as a loan, credit card, or mortgage.



The Costs of Not Having a Banking Relationship

While most people have established a banking relationship with a financial institution, some people use check cashing businesses instead. People who use check cashing businesses often do so for their availability in and around the neighborhoods in which they live.

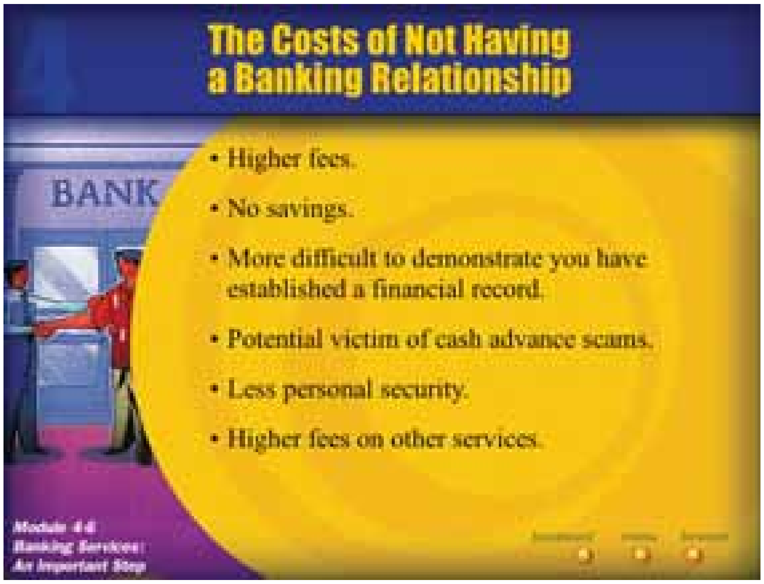
However, there are many advantages to using a financial institution rather than a check cashing company. First and foremost, it is generally much less expensive to use a deposit account at a financial institution than the services that a check cashing company provides.

For example, Angela uses a check cashing company to cash her checks. She cashes four checks a month and is charged $5 each time. That means she pays $20 a month (4 X $5) or $240 a year ($20 X 12 months) just to cash her checks. She cannot write checks to pay her rent and utilities since she does not have a checking account at a local financial institution.

Some financial institutions have branch offices around your community. In addition, some financial institutions operate Automated Teller Machines (ATMs) in convenient locations, including grocery stores, shopping malls, movie theatres, and in kiosks on neighborhood streets. ATMs are available 24-hours-a-day; seven-days-a-week.

Example: John cashes his checks by using an account at a financial institution that charges a monthly fee of $5, which includes 8 free checks per month and free use of the ATM. *(We'll talk more about ATM usage and fees in a few minutes.)* Additionally, ordering a box of 100 checks costs him about $18, since he purchases his checks through the financial institution. In this case, using a checking account for one year cost John $78 ($5 X 12 months = $60 + $18 = $78). ***This equals a savings of $162 a year ($240–$78).***

Refer to the Consumer Workbook
Advantages of Using a Financial Institution (pages 52–53)
(Your Credit, Your Home, and Your Future pages 21–22)



There are other advantages to using a financial institution as well:

- ***You can begin saving money, even if it is only a small amount.*** Some check cashing businesses charge extremely high fees to use their services. Try saving enough money to equal the check cashing fee. Use the funds to open a savings account at a financial institution. Every time you cash a check, deposit the money you would have paid to the check cashing company into your new savings account.
- ***You can establish, build, and improve your credit.*** To get a mortgage or other type of loan, such as a car or student loan, it is generally a good idea to have established an account with a financial institution (though you may be able to obtain a mortgage without one). When you have a bank account, lenders know that you have established a financial record and can demonstrate the responsible use of your accounts. When you use a check cashing company, there is no evidence to a lender that you have established a financial record and you may not be able to get a loan.
- ***You can avoid becoming the victim of cash advance scams by unscrupulous companies.*** For example, some check cashing businesses now offer their own types of loans—small, short-term loans that carry extremely high interest rates. Payday loans are so expensive that some states have prohibited these types of loans. *(We'll talk more about cash advance scams and payday loans in Module 8.)*
- ***You can take advantage of special programs offered by financial institutions that have recently begun offering low-fee checking account options.*** Be sure to ask about these special programs.
- ***Your personal safety is better ensured.*** When you leave the doors of a check cashing company, you risk being the victim of a crime because of the large amount of cash you may be carrying out of the store. When you exit from a financial institution, you take only the amount of cash you need to carry with you and leave the remaining amount safeguarded in your bank account.
- ***Financial institutions provide other services, such as wire transfers and cashing paychecks.*** Typically financial institutions offer these and other services at lower costs than check cashing businesses.

From the Consumer Workbook (pages 52–53)
(Your Credit, Your Home, and Your Future pages 21–22)

Advantages of Using a Financial Institution

- ***You can begin saving money, even if it is only a small amount.*** Some check cashing businesses charge extremely high fees to use their services. Try saving enough money to equal the check cashing fee. Use the funds to open a savings account at a financial institution. Every time you cash a check, deposit the money you would have paid to the check cashing company into your new savings account.
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- ***You can avoid becoming the victim of cash advance scams by unscrupulous companies.*** For example, some check cashing businesses now offer their own types of loans—small, short-term loans that carry extremely high interest rates. Payday loans are so expensive that some states have prohibited these types of loans.
- ***You can take advantage of special programs offered by financial institutions that have recently begun offering low-fee checking account options.*** Be sure to ask about these special programs.
- ***You and your money are better protected.*** When you leave the doors of a check cashing company, you risk being the victim of a crime because of the large amount of cash you may be carrying out of the store. When you exit from a financial institution, you take only the amount of cash you need to carry with you and leave the remaining amount safeguarded in your bank account.
- ***Financial institutions provide other services, such as wire transfers and cashing paychecks.*** Typically financial institutions offer these and other services at lower costs than check cashing businesses.

Example #1

Angela uses a check cashing company to cash her checks. She cashes four checks a month and is charged $5 each time. That means she pays $20 a month (4 x $5) or $240 a year ($20 x 12 months) just to cash her checks. She does not have the ability to write checks to pay her rent and utilities since she does not have a checking account at a local financial institution.

Example #2

Juan cashes his checks by using an account at a financial institution that charges a monthly fee of $5, which includes 8 free checks per month and use of the automated teller machine (ATM). Additionally, ordering a box of 100 checks costs him about $18, since he purchases his checks through the financial institution.

In this case, using a checking account for one year cost Juan $78 ($5 x 12 months = $60 + $18 = $78. ***This equals a savings of $162 a year ($240-$78).***

Account Verification

When you go to open a checking account at a financial institution, most will review your history of using checking accounts. Some financial institutions will run your full credit report.

If you have a history of bouncing checks or misusing your accounts, a financial institution might not allow you to open a checking account. If you do not have a history of using a bank account or credit, don't worry. If you have proper documentation, a financial institution will welcome doing business with new customers.

According to the FDIC, the financial institution will need your photo identification to open an account. This is usually a driver's license and either a Social Security number or Taxpayer ID number. If you do not have a driver's license, you can use a state-issued identity card, passport, or permanent resident card.

After the financial institution determines that you are eligible to open an account, you can deposit money into your new account and begin to use it.

Basic Banking Terms

Deposit: A deposit is money you add to your account. When you add money to your account, you must fill out a deposit slip. The deposit slip tells the financial institution how much money you are adding. If you deposit cash, the funds will be immediately available. But if, for example, you deposit your paycheck or a check drawn on an out-of-state financial institution, you may not have immediate use of the funds. The financial institution must first make sure there are funds to cover your check from the financial institution at which the check was originally drawn. Be sure to ask the financial institution how many days from the date of your deposit you can use the money you deposited.

Balance: Your balance is the amount of money you have in your account.

Withdrawal: When you make a withdrawal, you are taking money from your account. You do this by writing a check, giving a teller a withdrawal slip, or by using an ATM. It's important to know how much is in your account so you won't try to withdraw more money than you have. Keep a record of how much money you withdraw and how much money is left in your account. With a checking account, if you "overdraw"—write a check for more money than you have in your account—you will be charged a fee. Only write checks against funds that are available.

Fees: Financial institutions charge you fees for providing you with various services. For example, a monthly maintenance fee might be charged for maintaining your account. You might also be charged a penalty fee if you misuse your account, such as by writing a check for more money than you have in your account.

Interest: Interest is the additional money in your account that the financial institution pays you for keeping your money at the financial institution. One of the advantages of having a deposit account is the interest the financial institution pays you.

Note: *Interest is not earned on all deposit accounts. Financial institutions offer both interest-bearing and non-interest bearing accounts.*

Deposit Accounts

Bank accounts that allow you to add money to the account are called deposit accounts. Checking and savings accounts are two examples of deposit accounts.

Checking Account

A checking account is an account that lets you write checks to pay bills or to buy goods and services. The financial institution takes the money from your account and pays it to the person named on the check. The financial institution sends you a monthly record of the deposits and withdrawals made. This is called a bank statement.

Savings Account

A savings account is an account that earns interest.

You can open a savings account with a few dollars and then deposit more money to your account over time to earn more interest and build your savings. Keep in mind that if you make a lot of withdrawals from your account over time and your balance falls below the amount set by the bank when you opened the account, you might have to pay a monthly fee.

It's a good idea to compare the rules of different accounts. For example, financial institutions might require you to have a certain balance to open an account, earn interest, or avoid fees. This is usually called a "minimum balance."

Refer to the Consumer Workbook

- *Checking Accounts* (pages 54–55)
- *Sample Checkbook Register* (page 56)
- *Choosing an Account* (page 57)
  (Your Credit, Your Home, and Your Future page 24)

From the Consumer Workbook (page 54)

Checking Accounts

Although credit cards have, in many ways, reduced the need for checking accounts, it is still important to establish a checking account. Checks can be conveniently used to pay routine bills. Furthermore, canceled checks can provide you with "proof of payment" and are therefore, very important for past and future documentation. Finally, the possession of a checking account and demonstration of its responsible use will help you to establish a banking history and credit record.

The next pages provide a list of some of the items to be considered when shopping for a checking account. This list is followed by a Sample Checkbook Register and a checklist. The checkbook register will provide you with an illustrated example of how to record checks, deposits, and other transactions in your checkbook register. It is extremely important to always remember to write the check number and dollar amount in your register immediately when making a purchase and/or payment. This will help to prevent forgetting check amounts and surprises such as "bounced checks" for not knowing exactly how much money you have in your account. You can use the checklist when you begin to look for an account.

Fees for bounced checks add up fast and only compound the problem of a low or "no" balance. In addition, bounced checks are damaging to your credit.

Savings account registers are nearly identical in appearance, except for listing the "check number." So once you have mastered a checking account register, keeping track of your savings, deposits, and withdrawals will be a breeze.

Finally, there are also numerous computer software programs available to help you to track expenses, pay bills, and even help you to organize your financial records for income tax preparation.

More About Checking Accounts

As indicated in the workshop presentation, it is extremely important to establish a financial presence. A financial presence is your affiliation with a financial institution and can be established by using several services, like savings and checking accounts from the same bank, and using them responsibly.

What constitutes responsible use?

- ***Avoid bouncing checks.***
- ***Keep accounts above any required "minimum balances."***
- ***Make regular deposits.***
- ***Contact the financial institution promptly if there are any account related problems.***

If granted an ATM card, be sure to safeguard against its fraudulent use by keeping it and your personal identification number (PIN) secure. ***ALWAYS*** remember to document account withdrawals (checks and ATM) to prevent going below your required minimum balances or bouncing checks.

There are numerous types of checking accounts, so before opening a checking account, research which type of account best meets your needs. The following is a list of some of the items to be considered:

- What (if any) is the monthly account service fee? Some accounts are free if you maintain a minimum account balance, such as $200–$300 dollars in the account at all times.
- Does the account require a minimum balance? If the account requires a minimum balance, set that money aside in the account, that is, deposit the funds and subtract that amount from your checkbook ledger. In doing so, you will not consider your required minimum balance as part of your available balance. This will help you to avoid going under the required minimum.
- What other service fees are attached to the account? Ask about the fee structures for the use of ATMs, returned canceled checks, falling under the minimum balance, the cost of an accidental overdraft, the cost of checks, and other related transactions.
- Will the canceled checks be returned to you for your records or does the bank offer carbon copy checks? Some banks will return canceled checks to you. Others offer carbon copy check options, some provide a photocopy of the canceled checks as part of your monthly statement, and others still charge for access to your canceled checks.
- ***Always be sure to record all check payments, withdrawals, and deposits.***
- ***Balance your checkbook every month by comparing your checkbook register with the bank's monthly statement.***

From the Consumer Workbook (page 56)

Sample Checkbook Register

NUMBER	DATE	DESCRIPTION OF TRANSACTION	PAYMENT/DEBIT (-)		CODE*	FEE (-)	DEPOSIT/CREDIT (+)		BALANCE	
	1/4/02	Work Paycheck					$450	00		
		deposit to open account							$450	00
1000	1/6/02	Excel Energy	$47	15						
		gas and light bill							$402	85
1001	1/9/02	Municipal Water Dept.	$12	37						
		water bill							$390	48
1002	1/10/02	Gas Plus	$18	53						
		car gas							$371	95
1003	1/11/02	Freeway Finance	$275	00						
		car payment							$96	95
	1/15/02	Work Paycheck					$400	00		
		deposit							$496	95
	1/16/02	Transfer to Savings	$100	00	TT					
		deposit to savings							$396	95
1004	1/18/02	Phone Right	$31	52						
		telephone bill							$365	43

* *USE THESE CODES WHEN RECORDING YOUR NON-CHECK TRANSACTIONS. These codes will help you keep an accurate record of your account and make note of the method in which you made your non-check transactions.*

* *D-Deposit; DC-Debit Card; ATM-Automated Teller Machine; AP-Automatic Payment ** TT-Telephone Transfer; T-Tax Deductible; O-Other*

** *Automatic payments are payments that you authorize to be automatically deducted from your account and transferred electronically on a regular basis to your designated payees, such as your mortgage company, your landlord, your newspaper carrier, etc. The advantage of using automatic payments is that you are assured that your bills will be paid on time each time they are due. These on-time payments become part of your credit record, and therefore, help you build good credit.*

From the Consumer Workbook (page 57)

Choosing an Account

It's a good idea to compare the rules of different accounts. Use this checklist when you begin to look for an account to help you choose which account is right for you.

	Financial Institution A	Financial Institution B	Financial Institution C
Type of account			
How much money do I need to open the account?			
How much do I have to keep in my account to avoid fees?			
What are the fees for bounced checks?			
How many checks can I write before extra fees are charged?			
How many withdrawals can I make each month?			
Does this account pay interest?			
Does an ATM or debit card come with this account?			
Will I be charged to use the ATM or debit card at this financial institution?			
Will I be charged to use the ATM or debit card at another financial institution?			
What is my liability if I lose my ATM or debit card?			
Are there any other fees?			
Does the financial institution offer a service for overdraft protection?			

Additional Banking Services

Financial institutions provide additional services for free or a low fee with some deposit accounts. Remember to keep track of the fees charged, if any.

ATM

An ATM, or automated teller machine, is a machine you can use 24 hours a day to make deposits, withdrawals, and transfer money. Unlike a check cashing company, the financial institution does not have to be open for you to use an ATM. In addition, there are literally dozens of ATMs in any given neighborhood or community.

When you use an ATM, you need a card issued by the financial institution and a personal identification number, or PIN. A PIN is a special password or set of numbers to use your ATM card. The PIN is used for security purposes so no one else can access your account.

You can use the ATM for many services but there might be a fee involved. Most people use the ATM to get cash or make deposits to their checking, savings, or other account. If you use another financial institution's ATM, you might be charged an additional fee. Generally, you can only make deposits at your financial institution's ATM. Be sure that you only use an ATM from an accredited financial institution to avoid becoming the victim of a scam. Also remember to keep your ATM transaction receipts to help you keep track of your withdrawals and to protect against identity theft. *(We'll talk more about identity theft in Module 8.)*

Debit Card
A debit card is a plastic card, sometimes called a "check card." The debit card usually has the name of your financial institution and may have a MasterCard® or Visa® logo. The card has a magnetic strip on the back that allows you to pay for goods and services at stores and other businesses that accept MasterCard® or Visa® credit cards.

The debit card also functions as an ATM card. With debit cards, you can make deposits to or withdrawals from your checking account at ATMs. Most debit cards require a PIN if you use the card as an ATM card.

A debit card may look like a credit card and may be accepted by stores that accept credit cards, but it is not a credit card. When you use a debit card, the money comes directly out of your account and reduces your account balance. You do not receive a bill and then have a few days to pay the bill like you do with a credit card.

Again, keep track of all debit card receipts to protect against identity theft.

Direct Deposit
With direct deposit, your paycheck or benefit check is electronically transferred and directly deposited into your account. The amount of money is immediately available. Some financial institutions may not charge monthly fees if direct deposit is used with certain accounts.

Loan
A loan is money you borrow from a financial institution with a written promise or a "note" to pay it back later. With a loan, financial institutions charge you fees and interest to borrow the money. You can talk to a customer service representative for more information about the loans they offer.

Money Order
A money order is similar to a check. It is used to pay bills or make purchases when cash is not accepted. Many businesses sell money orders for a fee. If you need to use a money order, shop around for the best price. Remember to keep copies of money order receipts

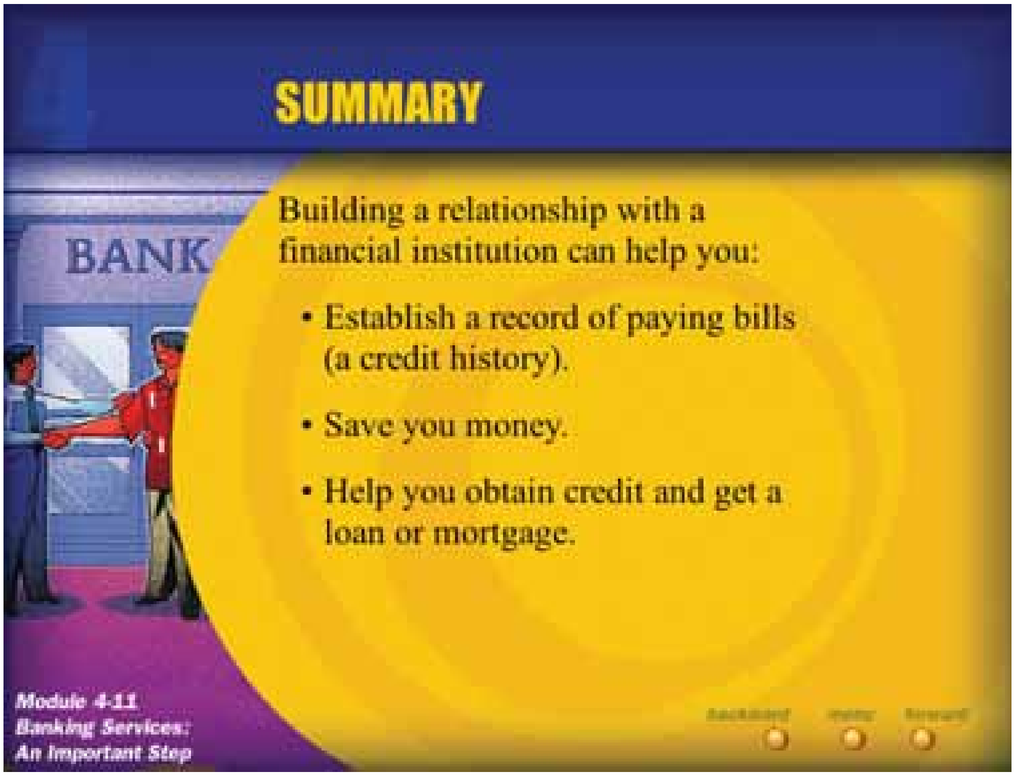
used to pay bills for at least 12 months. This is important if you have not established a credit history and you go to apply for a mortgage. The receipts can serve as documentation of how you pay your rent and other bills.

Telephone Banking
Telephone banking allows you to:
- Check account balances.
- Transfer money between accounts.
- Obtain account history, such as most recent deposits or withdrawals.
- Stop payment on a check.
- Obtain information on branch hours or other information.
- Report a lost, stolen, or damaged card.

Wire Transfer
Wire transfer is a method of electronically transferring money from one financial institution to another, both nationally and internationally. The fees charged by financial institutions to wire money to countries outside the U.S. are generally less expensive than through check cashing businesses.

Safe Deposit Boxes
Many financial institutions offer safe deposit boxes. A safe deposit box is a fireproof, locked box that provides you with a secure compartment within the bank's vault for the storage of valuables, such as passports, important documents, jewelry, etc. The keys remain solely under your control; boxes are available in varying sizes for a small, yearly rental fee.

Online Banking
Online banking is a bank service that allows you to make payments, check account balances, transfer money between accounts, obtain account history, such as deposits and withdrawals, stop payments on a check, and obtain general bank information at any time from any



SUMMARY

Building a relationship with a financial institution can help you establish a record of paying bills, can help you save money, provide a reference to obtain credit, and get a loan or mortgage.

Remember that financial institutions offer more services than check cashing businesses and are generally less expensive to use and are regulated and insured.

Using the information you learned in this module, you should be able to begin using the services of a financial institution.

Key Terms to Remember

Refer to the Consumer Workbook:
Glossary of Terms (pages 213–222)
(Your Credit, Your Home, and Your Future pages 73–83)