

# Banking

## With the Finance Freak



# How Banks Work

- It's a pretty simple idea... You put your money in the bank in a savings account and they'll pay you a little interest - like 2%. (Interest is money added to your account based on how much you have in there.) Then, the bank will loan your money (and other people's) to someone else and charge them more interest than they are paying you - like 8%. That extra 6% is the profit they make with their little system. Pretty smart!
- You put money in the bank and earn interest (good), they turn around and loan it to other people and charge them interest (bad)...they make money in between!



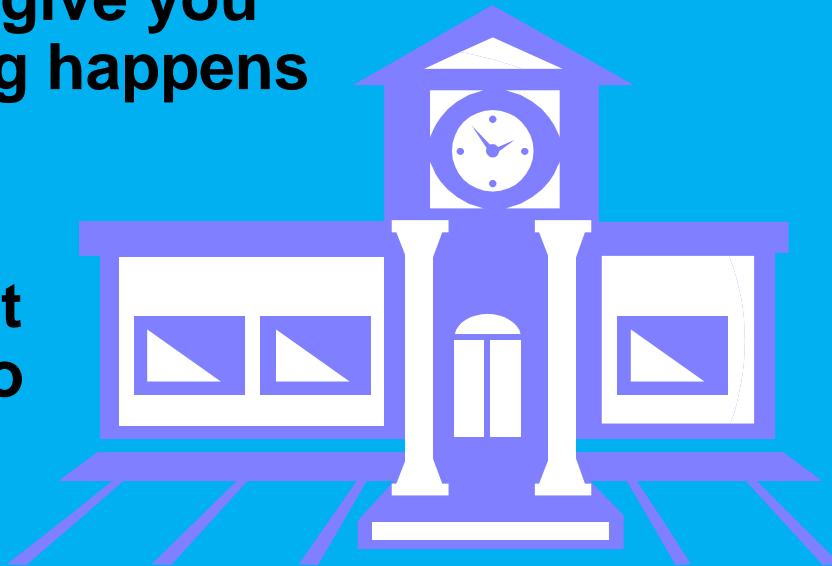
# How Banks Really Work

- So, really, you are loaning your money to the bank so they can loan it to someone else.
- Because of something called the "FDIC" (Federal Deposit Insurance Company), your money is completely safe in a bank. Well, \$100,000 of it, anyway. Today it's more like \$250,000.
- When the stock market crashed in 1929, a bunch of banks went out of business -- taking people's money with them! All the money (people's money) the bank had invested was lost and the bank couldn't give people back their money. After this, people were afraid to put their money in banks...



# How Banks Really Work

- No deposits meant that the banks didn't have any money to loan out... So, people couldn't get loans for important things like houses.
- To keep this from ever happening again, in 1933, Franklin D. Roosevelt created the FDIC. It means that the U.S. government will give you your money back if something happens to your bank.
- In 1988, about 200 banks went belly-up... and the FDIC had to come to the rescue.



# Maximum Protected by the FDIC

- **The trick is that the maximum amount you can have protected by the FDIC in a single bank is \$250,000. So, if you're ever lucky enough to have \$300,000, put it in two different banks! Probably nothing will happen, but you never know!**



# Banking- Types of Banking Services

- Standard Banks offer savings accounts, checking accounts, ATM cards, debit cards, credit cards, certificates of deposit (CD's) and money market accounts.
- They even give loans, like auto loans and mortgages (house loans). If you don't know what half of this stuff is, pay attention!



# Credit Unions

- These guys offer all the same great things as commercial banks, but they are **non-profit organizations**. All you need to know about this is that they don't have to pay **federal taxes**, so they'll usually give you better deals on stuff -- higher interest rates on your accounts, lower interest loans and fewer fees.
- This is a great place to do your banking, but not everyone can just walk into a credit union and open an account. You have to work at the right kind of place.
- Teachers and government employees, for example, get to be in credit unions. If you live with a family member who's in one, you'll probably be able to get in too. You also might be able to get in through your school or church. If you can, go for it!



# Savings & Loans

- These aren't nearly as popular now since a good chunk of them went belly-up in the 1980's. But, there are still some around and they've really worked hard to forget the past. And your money is safe with them too.
- They're covered under the FDIC (really the Savings Association Insurance Fund (SAIF), which is part of the FDIC.) **Savings and Loans (called S & L's)** gave us a really good lesson on making sure that the place you put your money is insured -- not all are, so you do have to check!



# Internet Banks

- These are pretty new (duh), but as long as they are insured, they are a great option. Since they don't have a bunch of buildings you can walk into, they save a lot of money and pass that along to you in the way of good interest rates.
- With Internet banks, you do almost everything electronically. You can make deposits through the mail, have the internet bank connect to your regular checking account and do transfers, or have your employer just do a direct deposit (put your paycheck in there for you).
- You can even get checking accounts, ATM cards, credit cards and everything else through these guys. Virtual Banking is a good one to check out.



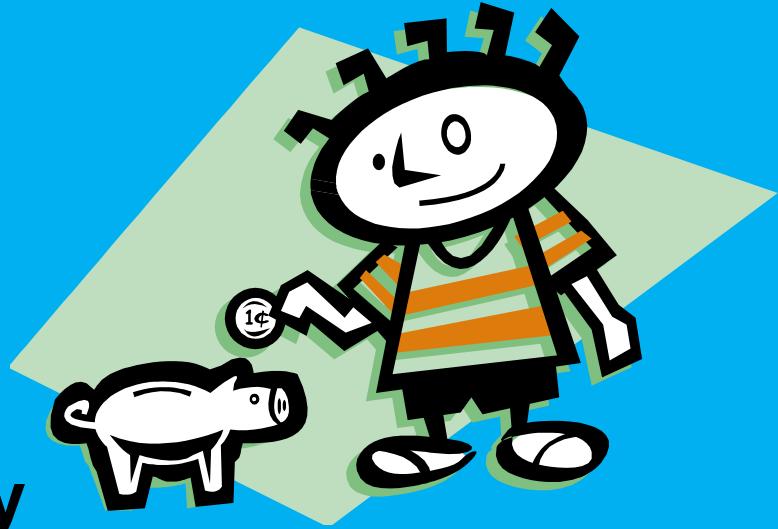
# Banking- Types of Bank Accounts

- You may end up having one of each of these... Or more than one of some!



# Savings Accounts

- This is usually the first kind of account a person has... You put your money in and the bank gives you interest on your money.



**Savings Account= Place where you save money and earn interest!**

- The interest rate is usually pretty low (like 1%), but it's better and safer than sticking the money under your mattress! Your **mattress doesn't pay ANY interest** and the money can be stolen. In a savings account, your money is safe.

# Here are some things to watch out for when opening a saving account:

- Is there a minimum amount you need to have to start the account?
- Is there a "required minimum balance?" This means that you have to always have a certain amount in the account, like \$100. With some banks, if you drop below that amount -- even by a penny for one minute, they'll charge you a fee!!

Ouch!



**Here are some things to watch out for when opening a saving account cont.:**

- **Will you get charged for things like withdrawals (taking money out) or asking what your balance is?**
- **What's the interest rate and how often do they compound the interest? (Remember, keep reading and you'll learn all about this stuff.) Monthly? Quarterly? (That's every three months.)**
- **Can you get an ATM card with the account? (We'll get to these.)**



# Money Market Accounts

- Money market accounts are just a twist on a standard bank savings account. The twist is that the **interest rate changes every week**. This is a good place to put your money though, if you still want to be able to get to it pretty quickly because they pay a higher interest rate than regular savings accounts.



The trick is that you usually have to have a fairly high minimum balance (sometimes \$1000) and you can only make a few withdrawals and deposits each month.

# Certificates of Deposit (CD'S)

Here's how they work in a nutshell:

- You put your money, say \$1000, into a CD for a **specific amount of time** (6 months, 1 year, up to 3 years) and they'll **give you a slightly higher interest rate** than you'd get with money market accounts -- and a much higher interest rate than a regular savings account.
- You are loaning the bank money at 3% so they can turn around and loan it to someone else at 9%.
- CD's are completely safe since they are done through banks that are **FDIC (Federal Deposit Insurance Corporation) insured**.



# Certificates of Deposit

- The only catch is that you can't take your money back out until the time is up – unless you want to pay a stiff penalty. So, you have to be able to completely live without that money during that time. Of course, the longer the time commitment, the higher the interest rate will be... But, the longer you'll have to be without your money. Also, you'll have to pay state and federal income tax on the interest.
- If you want to buy CD's, definitely do some research on the Internet for the best rate. You'll probably be able to find a higher rate than what your local bank is offering.



# Checking Accounts

- **Really, when you think about it, checking accounts are pretty strange things... You have your money in a bank (or credit union, etc.) and you just fill out a little piece of paper and hand it to someone and it's the same thing as taking money out of your account and giving it to them. Amazing!**
- **This is a pretty big topic, so in a few slides it will be just about checking accounts.**



# Checking Accounts

- When do you need to get a checking account?  
→ When you start to need to send money via snail-mail... and when you have to start paying for things at school or at stores and they won't take cash.
- Really, when you get your first job (even part-time), you should go ahead and get a savings account and a checking account.



# Checking Accounts

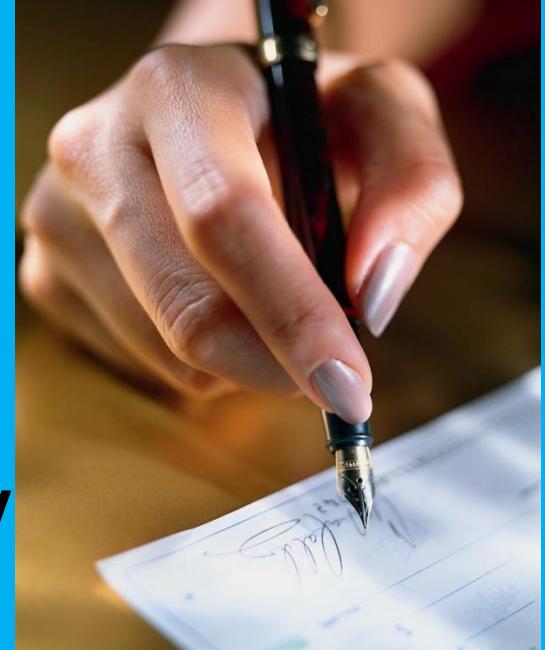
Here are the basics of how the checking account system works:



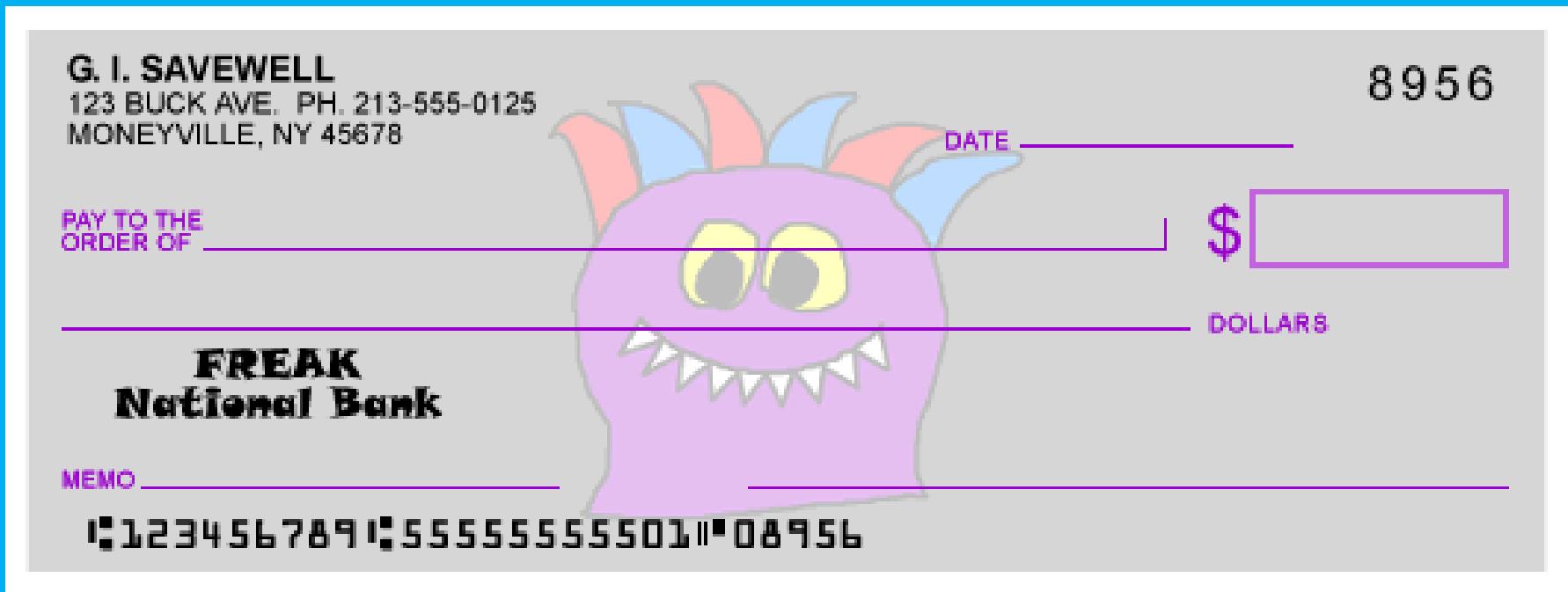
- You put **some money in your checking account...** You write a check to **someone to pay for something...** That company gives your check to their bank... Their banks then get the money from your bank and **your bank takes it out of your account.**
- But, don't be fooled into thinking, "Oh, I'll give them a check now and then get the money in my account in a few days. It'll be OK." New technologies have made this whole process very fast!! **You have to have the money IN your checking account WHEN you write the check!**

# Checking Accounts

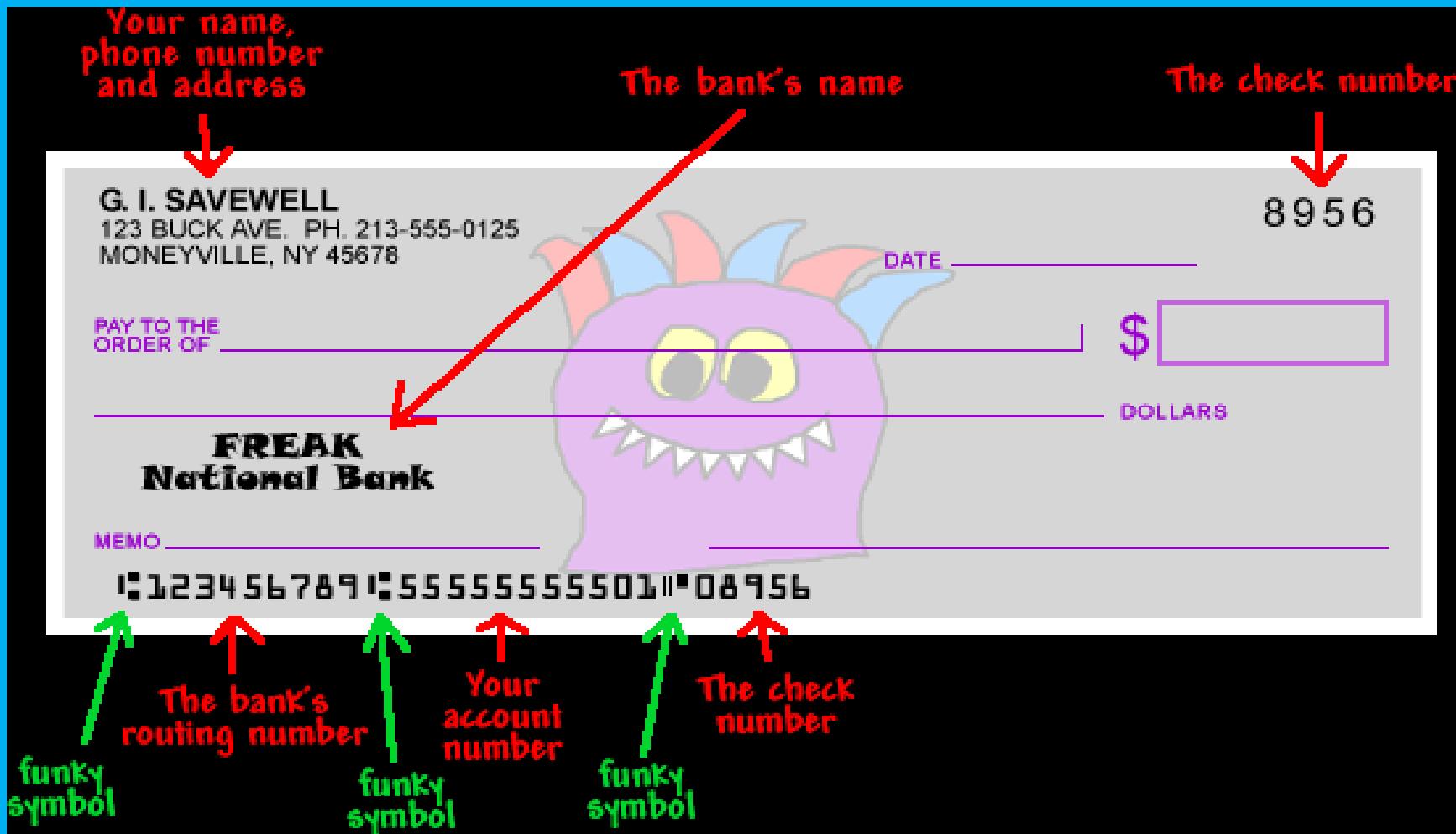
- When you write a check and the money isn't in your account, it's called "writing a bad check."
- And, when the check comes back to your bank and there's not enough money in your account (even by a penny), it's called "bouncing a check."
- Writing a bad check is illegal. Really. You can lose the privilege of writing checks and you can even go to jail for it! The very least that will happen is that your bank will charge you a \$25 penalty fee. Ouch, that's gotta hurt!



# Here's What A Check Looks Like



# Here's What All This Stuff Is



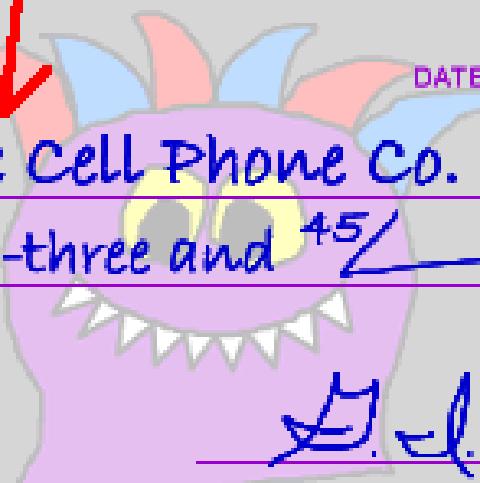
# Checks



- The bank's **routing number** is kind of like its electronic address. It tells the other banks where to go for the money. Your **account number** is your checking account number, not your savings account number. When you get your checks, you'll see that they are all numbered like the pages in a book. You and your bank will use these numbers to keep track of who you're giving your money to.
- One more thing: When you get your checks, make sure you put your **phone number** on them... If you don't, **EVERYONE** will ask you for it and it will be a pain. Why do they want your phone number? So they know who to call and yell at if your check bounces!

# Here's How To Fill It Out

Amount in words	Who the check is to	Today's date	Amount in numbers
G. I. SAVEWELL 123 BUCK AVE. PH. 213-555-0125 MONEYVILLE, NY 45678	PAY TO THE ORDER OF  Yackmoore Cell Phone Co.	DATE 6-26-05	8956
<u>one hundred twenty-three and</u> 45/ <u>                </u>	\$ <u>123.45</u>		DOLLARS
FREAK National Bank			<u>J. I. Savewell</u>
MEMO # <u>716-555-8237</u>			
123456789012345655555555010896			
Your cell phone account number		Your official signature	



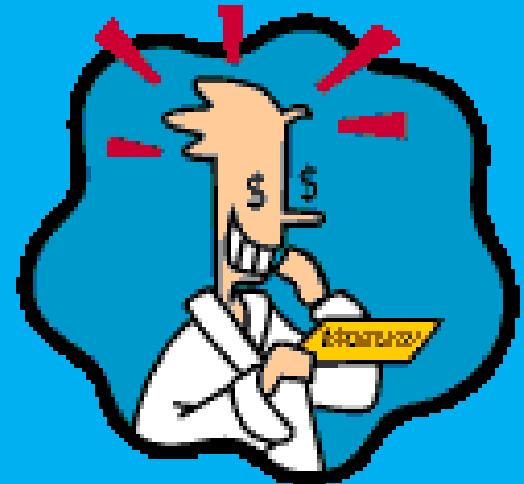
# Checks



- The reason they make you write out the amount in numbers and in words is because some of you have **pretty messy writing...** and, this way, if they can't read one, they can double-check it with the other.
- There are a ton of questions to ask when you want to open a checking account. Of course, the easiest thing is to just go to the bank your parents use-- but things may be different for you since you have less money.

# Here's the list of what to look out for when opening Checking Accounts:

- Do they offer special "student" checking accounts?
- Does the checking account pay interest? (Most don't, but it's nice if you can get it.)
- Do you have to keep a minimum amount (balance) in the account and, if you drop below, will there be a penalty?
- Is there a minimum balance needed to open the account?



# What To Look Out For Cont.

- Is there a "per check" charge? Some banks charge you each time you write a check and some don't. Per check charges are bad. Some may let you write 10 checks for free each month and charge you after that. This may be all you need and not be a bad deal.
- Is there a monthly charge?
- Is there a maximum amount of checks you can write each month?



# What To Look Out For Cont.



- **How much do the checks cost?** Yes, you have to buy your checks. They come in big boxes and usually cost \$8-\$20 per box. The plain ones are the cheapest. Anything else (like with little cutesy flowers or your favorite football team) is a waste of money. Keep in mind that the \$8-\$20 that you pay for the checks comes out of your checking account! When I was a teenager, I bounced my first (and only) check because of this... The cost of the checks made me just THREE cents short. Ouch!
- **What's the fee for bouncing a check?** (It might happen, even if you are trying to be careful. Even a penny off is too much.)

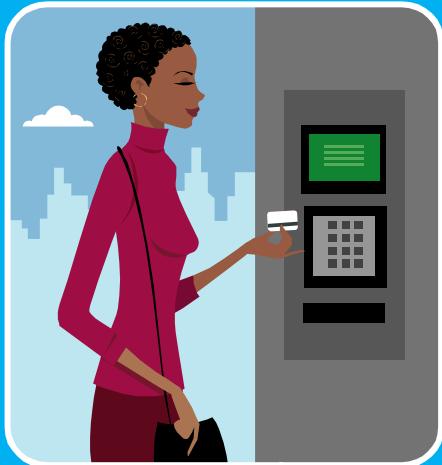
- Is there "over draft protection?" If you have a savings account at the bank too (with actual money in it), you can have your checking account attached to your savings account so that, if you bounce a check, the bank will automatically take the money out of your savings to cover it. Ask them if there's a fee for this and how many times they'll do it in a month.
- Can you check your balance over the phone? Is there a **fee** for this?
- **One other thing:** There are two kinds of check books -- the kind that have a carbon (with these, you keep the carbons for your records) and the kind without a carbon (with these, you'll get your original checks back for your records.) Some people like one and some like the other.
- I know it seems like a lot to worry about, but you'll get the hang of it.

# Checking Accounts

- **Always, always, ALWAYS keep track of the checks you write or when you swipe your check card and know how much is in your checking account at all times. I did say, "ALWAYS", didn't I?**
- Your check books will come with a little booklet that will have spaces for you to write down all your check amounts. When you put new money into your checking account, you'll put it in this booklet too.
- With a little addition and subtraction, you'll always know how much money is in your checking account and you won't ever bounce a check (hopefully).



# Banking & ATM Cards



- ATM cards are, without argument, one of the most convenient things ever invented. You can do your banking at the market, or at school, or outside the theater... You can do your banking on the weekend at 2 a.m. ... You don't have to drive to the bank and wait in line to ask a teller for 20 bucks.
- The banks think they are wonderful too because they don't have to pay a teller to talk to you. Dealing with you now costs them WAY less than it did before. And the best thing is that they can charge you all sorts of extra fees!!
- Wait... It costs them way less to serve you... But they charge you MORE for it? Welcome to the real world of business, my friend!

# Banking & ATM Cards

- But, some banks and credit unions don't charge you for using certain ATM machines -- you just have to look for a certain logo on the machine (like a star).
- When you pick a bank or credit union, this is one big thing you want to ask about. Because being able to use ATM's is great and saves so much time...
- Unless you don't go hog wild about being able to access your money too easily!



# Banking & ATM Cards



- Having easy access to cash is THE best way to blow through it quickly! Cash in the wallet is a dangerous thing. And having those twenties magically spit out of that machine really does make it seem like they're coming from some far off world called Moneyland... But, remember, they're coming straight out of your very own paycheck.
- Debit cards or “check cards” are ATM cards that you can use to make purchases. You just swipe them through one of those cool machine-thingies by the cash register and you get to walk out with the merchandise. Again, this might make it feel like you are getting free stuff.

# Debit & ATM Cards

- So, what's the best way to not go nuts with all this easy money stuff?  
**Keep track of every penny you spend!**
- Debit and ATM cards just look like credit cards. They may even have a VISA or MasterCard logo. To keep just anyone from being able to use your card (like if you lose it), the bank will give you a **PIN (Personal Identification Number.)** It's usually 4 or 5 digits and you'll type it into the machine (ATM machine or at the cash register) when you make a transaction. You can also use your PIN to do your banking by phone! This is an easy way for you to check account balances and make transfers. (I love modern technology!) But, again, be sure to ask if there are fees for all this neat stuff!



# Hidden Fees

- And, yes, you really do have to watch out for hidden fees. Those commercials aren't exaggerating! You can even get charged \$3 for just talking to someone at the bank... And you can get charged for just asking how much is in your account!

Yikes!



# Debit & ATM Cards

- Big PIN mistake #1? To write your PIN on your ATM card! Duh! Don't do that!
- Big PIN mistake #2? To keep your PIN in your wallet! Don't do that! (This is the first place the thief will look! They figure, if you were dumb enough to lose your wallet...)
- You need to just memorize that puppy! Just to be safe (in case something happens to you), you might want to give it to someone you really trust (like a parent).

