

Financial Literacy Series: Introduction to Banking



Reading Activities for Smart Financial Choices





The READ Center developed the financial literacy series to equip students with the knowledge and skills they need to manage money effectively.

Financial literacy includes understanding how a checking account works, what using a credit card really means, and how to avoid debt.

Financial literacy is the first step to financial well-being.

DID YOU KNOW



- Banks and credit unions offer similar services, but they are not the same.
- Banks and credit unions offer a lot of different types of accounts.

IN THIS BOOK, YOU WILL BE LEARNING:

- The different kinds of accounts that banks and credit unions offer.
- The types of fees that banks and credit unions charge.
- How to compare banks and credit unions and pick the best option for you.



Credit Unions vs Banks

CREDIT UNIONS

- People who bank at a credit union are called members. They own part of the credit union.
- Credit unions are local and organized to help the members. Credit unions have rules about who is allowed to join the credit union.
- Credit unions are not-for-profit. Any money made is paid back to members by lower loan rates and higher savings rates.
- All deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The FDIC is a branch of the federal government.

BANKS

- People who bank at a bank are called customers. They do not own part of the bank. Investors own the bank.
- Banks are open to the general public.
- Banks are for-profit corporations. Any money made is paid to stockholders only.
- All deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The FDIC is a branch of the federal government.

What Can a Bank Do For You?

In the past, when people wanted to save their money, they sometimes put it under their mattresses or in their freezers! They didn't want other people to find it. They thought their money was safe in those places. Now, most people in the United States keep money in banks or credit unions. Banks and credit unions have many services. They can help you save and manage your money.

Savings Accounts:

A savings account is a place where you put or **deposit** your money so that it will be safe and grow. The bank pays you money, called **interest**, when you save your money in one of their accounts.

Checking Accounts:

A checking account is a place where you put or **deposit** your money when you will need to spend it soon. You can pay your **bills** with checks. The bank or credit union takes the money from your account when they receive your check from a business or company.

ATM:

The ATM (Automated Teller Machine) is a machine that lets you **withdraw**, or take, money from your checking or savings account and **deposit** money into an account at any time. If you use an ATM that is not from your bank, you usually have to pay for the service. It can cost from \$.50 to \$4.00 every time you use their ATM machines.

ATM/Debit Card:

You insert the ATM card into the ATM machine to **withdraw** or **deposit** money. You can also use the card at stores, supermarkets, gas stations, or restaurants. It is like a credit card or cash. Sometimes, you must pay for the service, as you do at ATM machines.



Loans:

Banks or credit unions can loan you money. You pay the money **back** a little at a time. They **charge** you **interest** for the loan.

Money Orders and Traveler's Checks:

You can get money orders and traveler's checks from a bank or credit union. If you have an account, they do not **charge** you as much as other places do. Sometimes, they are free.

Check-Cashing:

At a bank or credit union, you do not have to pay a fee for cashing a paycheck or any other check. Many check-cashing businesses **charge** 10% (of the check) or more to **cash** your check.

When you want to know how much money is in an account, or if a check has **cleared** (been paid) on your account, you can call the bank to get **automated** information. You can also use the internet or the ATM to get the status of your account. Some banks **allow** you to transfer money from one account to another over the phone, the internet or an ATM. There are many services **available** at banks or credit unions. You will study more about them in this unit.

Reading Check:



Do you understand? Circle **YES** or **NO**

1. If you will spend your money quickly, put it in a savings account. **YES** **NO**
2. If you use the ATM at your own bank, you must pay a fee. **YES** **NO**
3. A credit union is similar to a bank. **YES** **NO**
4. You can get information about your bank accounts by calling the bank or by using the ATM or internet. **YES** **NO**
5. If you cash your paycheck at your own bank, you must pay a fee. **YES** **NO**

Shopping for a Checking Account

There are many things to think about before you buy a car. It's the same with a checking account! Banks and credit unions have different kinds of checking accounts for different kinds of customers. You need to shop around to find the best account for you. In other words, you need to evaluate accounts at different banks. They are not all the same. Before you open a checking account, it's important to know and understand the answers to these questions:

1. What are the different services and fees?

MONTHLY SERVICE

Banks must take care of you and your account each month. They help you with deposits, withdrawals, checks, and other things. Most banks charge between \$5-\$10 each month for this basic service. Many banks will waive this fee if a specific minimum amount of money is always kept in your account, or if you have direct deposit. If your bank waives a fee, it means that you don't have to pay it. Direct deposit means that your employer sends your paycheck to your bank each month for automatic deposit into your account.

OVERDRAFT PROTECTION

If you write a check for more than the amount you have in your account, you will bounce a check. Overdraft Protection is a service that helps people avoid this mistake. With this service, if you write a check for more money than you have in your checking account, the bank will take money out of your savings account (or another account) to pay for the check. There is a small fee for each time that you use this service.

If you do not have overdraft protection and you bounce a check, you must pay the bank a large fee for this mistake. Sometimes you must also pay a fee to the person who received your check. Bounced checks are a very expensive mistake and they can hurt your good credit.

CHECKS


Bank customers must order and pay for their own checks. Sometimes a bank will waive the fee for checks with a certain minimum balance.

PER CHECK FEE

This is a small fee that is charged for each check that you write. Most checking accounts do not have this fee, but some banks offer a special "economy" checking account for people who write very few checks each month. With this kind of account, the monthly service fee is less and you can usually write about 8 checks for free. If you write more than 8 each month, the "per check fee" is usually about \$0.50 for each check.

EXAMPLE:

You write a check to the supermarket for \$17.11, but you don't have enough money in your account to pay for the check. Your bank charges you a \$15 fee for the bounced check and returns the check to the supermarket's bank. The supermarket receives the check and charges you a \$20 fee. Now you must pay the following:



\$17.11	(check amount)
+15.00	(bank's fee)
+20.00	(supermarket's fee)
<hr/>	
\$52.11	Total

SEE—It's a very expensive mistake! Make sure that you have enough money in your account before you write a check.

2. What is the minimum balance?

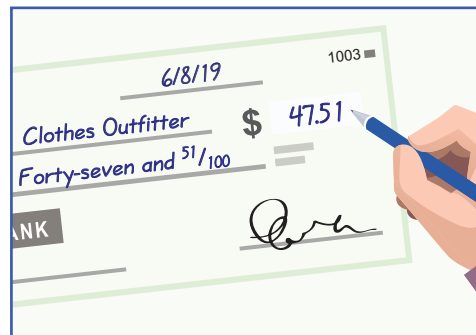
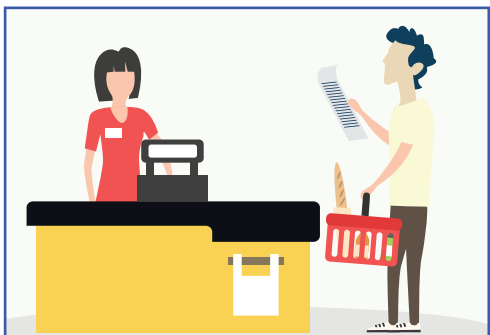
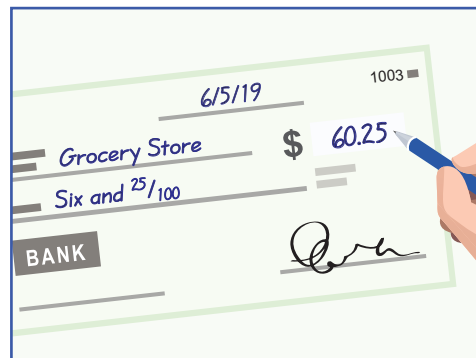
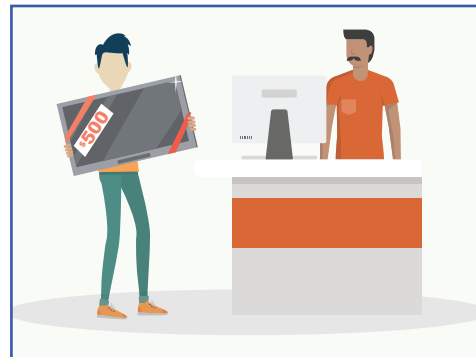
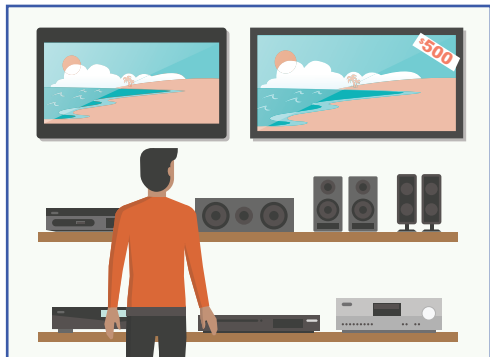
The minimum balance is the smallest amount of money that you can keep in your account. For many checking accounts, there is no minimum balance. Many banks will waive your monthly service fee if you keep a high minimum balance.

Some checking accounts that require a high minimum balance (\$1500+) will pay you interest on the account. Interest is a small percentage of money that the bank pays you for keeping your money in their bank.

3. Is the bank convenient?

Most people think about the location and convenience before they choose a bank or credit union. You should find out if the bank has an office, or branch, near your home or workplace and what hours the bank is open.

FREE CHECKING!



FREE CHECKING!

Alex has \$200.00 and wants to open a checking account. He sees a sign in a bank window for a free checking account. The bank employee says “Your checking account has many fees. Be careful and write good checks.”

Alex loves soccer and wants a big screen TV. At an electronics store, he buys one for \$500.00. The bank employee charges Alex a bounced check fee.

Alex goes to the supermarket. He writes the wrong amount on the check. The bank employee is angry. She says, “Take this list of numbers and use it to write checks.”

When Alex goes to a department store to buy clothes. He looks at the numbers. He writes a good check.

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