



# Banking Basics

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PARTICIPANT'S GUIDE

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## Ali's Decision: Part 1

Ali has \$20,000 that he has been saving for his daughter's college tuition. He was keeping the money at home, but recently someone told him about safety deposit boxes at financial institutions. He was excited to learn that the bank keeps your valuables in a vault. So, he moved some important papers and his tuition savings into a safety deposit box at a nearby financial institution.

1. What other options would work for Ali so that his money is protected?
  - Checking account
  - Savings account
  - Certificate of deposit (CD)
  - Money market account (MMA)
  - Brokerage account
2. In one of those scenarios, who is the lender, and who is the borrower? How do you know?

## Ali's Decision: Part 2

Although \$20,000 is a good start, Ali will need much more than that for his daughter's education. He is still \$20,000 short of his total goal of \$40,000 for his daughter's college fund.

Ali is considering taking out a loan for the remaining \$20,000. His bank has offered him two options: a loan at five percent interest for five years, or a loan at five percent interest for two years.

Compare the options, and then answer the questions.

Option A	Option B
Principal amount of loan: \$20,000 Interest rate: 5% Loan term: 5 years Total interest owed: \$5,525.63	Principal amount of loan: \$20,000 Interest rate: 5% Loan term: 2 years Total interest owed: \$2,050

1. What factor is affecting the difference in the total amount of interest in these examples?
  - a. Principal amount of loan
  - b. Interest rate
  - c. Loan term
  
2. Which option would ultimately cost the borrower, Ali, less money in interest?
  - a. Option A
  - b. Option B
  
3. Which option would give the borrower, Ali, more time to pay off the loan?
  - a. Option A
  - b. Option B

## Financial Plan

Your financial plan is a worksheet that you will use and edit weekly to gain financial strength and health.

- Where are you now?
- What is your current financial picture?
- What is your current income and how much are your current expenses?

**Estimated total income:** \$ \_\_\_\_\_

<b>Needs:</b> mortgage or rent, groceries, utilities (electricity and gas)	
Mortgage or rent:	\$ _____
Groceries:	\$ _____
Utilities:	\$ _____
<b>Estimated total needs:</b>	<b>\$ _____</b>

$$\begin{array}{rcl}
 \text{Income} & - & \text{Needs} & = & \text{Disposable Income} \\
 \$ \_\_\_\_\_\_ & - & \$ \_\_\_\_\_\_ & = & \$ \_\_\_\_\_\_
 \end{array}$$

<b>Estimate total disposable income:</b> \$ _____		
<p><b>Wants:</b> cable TV, beauty products, restaurant meals, lottery tickets</p> <p><b>Total:</b> \$ _____</p>	<p><b>Savings:</b> savings accounts including certificates of deposit, cash, investments, bonds</p> <p><b>Total:</b> \$ _____</p>	<p><b>Debt:</b> loans, credit card bills, promissory notes, accounts payable</p> <p><b>Total:</b> \$ _____</p>

## Financial Goals

Where are you going?

Goal-setting is an important step on your journey toward financial strength.

Want	Cost	By When

## Choosing an Account: Priorities

On a scale of 1 to 5, where 1 is not important and 5 is very important, rate each feature to indicate how important it is to you personally.

- ATM/debit card
- Interest rates
- Physical branch locations
- ATM locations
- Online banking ability
- Mobile banking ability
- Mobile check deposits
- Minimum required opening deposit
- Minimum balance amount
- Monthly fees
- Overdraft protection
- FDIC/NCUA insurance

## How to Open a Checking or Savings Account

Procedures may vary by individual financial institution, but as a guideline, use this checklist to help you prepare to open a checking or savings account.

- Visit a bank or credit union in person to open a new account.
- Bring two forms of identification, which could include a driver's license, passport, birth certificate, Social Security card, or other form of government-issued ID.
- Provide personal details such as your address, phone number, and email address. Confirm the accuracy of your address on any checks. Sometimes people use an alternate mailing address so as not to print their home address on their checks.
- Have cash or a check with you to make your first deposit. There may be a minimum amount.
- For joint accounts or minor accounts, provide personal information and identification for each person who will use the account.

## Safety and Security Scenarios

What can the following people do to improve the safety and security of their financial information?

*Note: You can participate in this activity even if you don't currently have a bank account or use online banking.*

- George is very disorganized. To make things easy for himself, he uses the same password for all accounts and devices.
- Amira creates account security questions using real information, like the street she grew up on, the place of her birth, and her maiden name.
- Ming loves the convenience of mobile banking, and she often checks her account when she is at a cafe or restaurant.
- Sam doesn't have a computer, so he does his online banking at the public library.

## Common Terms

- **Accrue:** money accumulating over time; often used to refer to interest
- **Asset:** any personal possession of value; also includes cash, real estate, and investments
- **Available balance:** the amount of funds in an account ready for immediate withdrawal
- **Bank:** a for-profit financial institution that is federally licensed to receive deposits and issue loans
- **Certificate of deposit (CD):** an account into which a sum of money is deposited for a specified length of time; typically pays higher interest rates than standard savings and checking accounts
- **Checking account:** an account at a financial institution into which money is deposited and from which checks can be written for purchases or services; may be used to receive wages and pay bills
- **Credit:** (1) an increase in a savings or checking account, such as a deposit made to the account; (2) a person or company's ability to borrow money, with the expectation the money will be paid back in the future
- **Credit score:** in contrast to a credit rating, a number (600, 700, etc.) indicating an individual's creditworthiness. Credit bureaus look at factors such as total debt, number of open accounts, and whether renting or owning a home. A good credit score can result in a lower interest rate for loans.
- **Credit union:** a not-for-profit financial institution that is member owned and operated, and is licensed to receive deposits and issue loans
- **Debit:** a decrease in a savings or checking account, such as a withdrawal or a check written against the account
- **Debit card:** an automated teller machine (ATM) card that can be used to pay for goods at stores or businesses, online, and at ATMs; draws the money from a checking account, in contrast to a credit card that borrows money and has to be paid back
- **Deposit:** funds added to an account
- **Direct deposit:** An automatic deposit to your account made by your employer or an outside agency (such as a pension or government benefit payment). These are usually recurring and spare you the hassle of depositing a paper check. Online transfers are not considered direct deposits.

- **Disposable Income:** Money you have left over after you pay your bills and expenses.
- **FDIC:** The Federal Deposit Insurance Corp. A government-run organization that insures customers' bank deposits up to \$250,000 if the bank fails. The National Credit Union Administration is the equivalent for credit unions.
- **Income:** Money received or earned for work done or from investments.
- **Interest:** money paid regularly at a particular rate for the use of money lent, or for delaying the repayment of a debt.
  - *Simple Interest:* Interest computed only on the principal balance, without compounding.
  - *Compound Interest:* Interest that applies to the original deposit as well as any newly earned interest.
- **Interest income:** Your earnings on savings accounts, certificates of deposit and money markets.
- **Interest rate:** The annual percentage paid on an interest-bearing savings account or CD, or the interest charged on loans. The interest paid on a deposit account is the "annual percentage yield" (APY) and the rate charged on a loan is the "annual percentage rate" (APR).
- **Liability:** Financial debt or any money or service owed.
- **Maturity** For loans, the date that the full balance is due. For CDs, the date the CD funds are available for withdrawal or renewal with interest paid.
- **Minimum balance:** The amount your average balance in a deposit account must stay above to avoid fees.
- **Mobile banking** Access to your account via your smartphone or tablet. Three channels for mobile banking are available – apps, mobile web and SMS/text messages.
- **Money market account:** A high-yield savings account that's FDIC-insured up to \$250,000. In contrast to a CD, with a money market account, you can still have regular access to your funds.
- **Money Service Business:** A non-bank financial institutions that transmits and converts money.
- **Online bill payment:** Sending money electronically to pay your bills through a bank account.
- **Online banking:** Banking or financial transactions that are done online via the internet.

- **Overdraft protection:** An arrangement made between you and your bank that allows you to withdraw more than the balance in your account. You may incur fees.
- **Personal identification number (PIN):** A number issued with your debit or credit card, so you can withdraw money from ATMs. To help prevent fraud, keep your PIN secret. A PIN should be memorized, never written down or disclosed to anyone else.
- **Savings Account:** An interest-bearing account used to hold money for short- or long-term goals or emergencies. You can add to this account at any time, but certain types of withdrawals may be limited.
- **Service charge:** A charge for a service or a penalty for not meeting certain requirements, such as insufficient funds in a checking account.
- **Wire transfer:** An electronic payment service for transferring funds by wire. Wire transfers are guaranteed funds for the recipient, meaning the payment cannot be revoked by the sender after the transfer.