Buying your first home takes a lot of planning and preparation. In this project, you will write a plan designed to help you to purchase your first home when you are an adult. Since you have several years to accomplish this goal, you have time to save some money for a down payment, establish a good credit rating, choose a home, apply for a mortgage, and negotiate a price.

Log on to finance07.glencoe.com. Begin by reading Task 1. Then continue on your WebQuest as you study Unit 2.
Consumer Debt: The Deeper the Hole, the Better for Business

When is bad debt good business? Public collection agencies that specialize in the purchase of unpaid credit-card obligations and other bills are expected to get a lift as the consumer starts to show signs of overload.

Consumers have borrowed a bundle in recent years—over $2 trillion in credit card and auto debt, according to the Federal Reserve. Add mortgages and the figure jumps to nearly $10 trillion. The average U.S. household is deeper in the hole than it was four years ago, carrying debt of about $9,200, up from $7,200.

Since household income isn’t keeping pace with debt growth, more consumers are getting close to the edge. Credit card charge-offs, or the bad debt that banks write off the books, were expected to hit a record $65 billion in 2004, up from $57.3 billion in 2003, according to the Nilson Report. Such debts will increase to $2.8 trillion by 2010.

Ultimately, collection companies make their money from bad-debt portfolios by working out reasonable solutions with borrowers. Zaro [CEO of Cavalry Investments] says: “If you don’t help them, you don’t help yourself.”

—By Mara Der Hovanesian

Write About It How do you think consumers can reduce their credit debt?

Log On To read the complete BusinessWeek article and do the BusinessWeek Extension activity to help you learn more about handling credit and avoiding debt, go to finance07.glencoe.com.
When you have completed this chapter, you will be able to:

Section 5.1
- Identify types of financial services.
- Describe the various types of financial institutions.

Section 5.2
- Compare the costs and benefits of different savings plans.
- Explain features of different savings plans.
- Compare the costs and benefits of different types of checking accounts.
- Explain how to use a checking account effectively.

Reading Strategies
To get the most out of your reading:
Predict what you will learn in this chapter.
Relate what you read to your own life.
Question what you are reading to be sure you understand.
React to what you have read.
**In the Real World . . .**

When Lynn Podesta was hired for her first job, she decided to open a bank account. She went to local branches and picked up brochures that explained interest rates, fees for services, locations of ATMs, and online services. Lynn was surprised to find out that each bank had different benefits and costs. Some banks charged for ATM usage and teller services. She also found a bank that offered a free checking account if her paychecks were deposited directly.

Lynn felt that it was important to start an account. Using a debit card would allow her to shop without carrying cash, and having an account would help her establish credit. Getting to know banking would not be too difficult, and she would have advantages.

**As You Read**  Consider how you can use basic banking services to your advantage.

---

**ASK STANDARD & POOR’S**

**Savings Account**

Q: I make only $75 a week at my part-time job and use most of it for movies, food, and CDs. Because I make so little, do I really need to put my money in a bank?

A: Since you have a small amount of money to take care of, you may not need a bank. However, $75 a week is a large sum to spend on entertainment. You should open a savings account and try to save at least $10 a week. After three months you would have $130, and after a year you would have more than $500.

**Ask Yourself** Why is it a good idea to start a savings account now?

Go to finance07.glencoe.com to complete the Standard & Poor’s Financial Focus activity.

finance07.glencoe.com
Financial Services and Institutions

How to Manage Your Cash

What are your cash needs?

Banking in America began in 1791, soon after the United States declared independence. Congress established the nation’s first central bank with eight branches. Today, with more than 11,000 banks, 2,000 savings and loan associations, and 12,000 credit unions in the United States, you have a wide array of financial services from which to choose. A trip to the bank may be a visit to an automated teller machine (ATM) in the mall or a quick look at your savings account balance on the Internet. Your choice of financial services will depend on your daily cash needs and your savings goals. (See Figure 5.1.)

Daily Cash Needs

Your daily cash needs may include buying lunch, going to the movies with friends, filling the car with gasoline, or paying for other routine activities. Of course, you can carry cash, or currency—bills and coins—to pay for these items. You can also use a credit card or go to an ATM, also known as a cash machine.

As you decide which method to use for your everyday cash needs, consider the pros and cons of each one. For example, ATMs may charge a fee for each use. If you pay a $1 fee each time you take out cash, say, twice a week, you will spend $104 on fees each year.

In addition to your short-term cash needs, you need to consider your long-term financial goals. Resist the temptation to overspend and avoid buying on impulse or overusing credit cards. Try not to dip into your savings to pay current bills. Put extra money you have to work for you—in a savings account or an investment plan.

Sources of Quick Cash

Regardless of how well you plan, you may sometimes need more cash than you have available. You have two options: Use your savings or borrow the money. Remember that either choice requires a trade-off. Although you will have immediate access to the funds you need, long-term financial goals—such as paying for college, buying a car, or starting a business—may be delayed.
Types of Financial Services

Which financial services would benefit you?

In order to stay competitive in today’s marketplace, banks and other financial institutions have expanded the range of services that they offer. These services can be divided into three main categories:

- Savings
- Payment services
- Borrowing

Savings

Safe storage of funds for future use is a basic need for everyone. Money that is going to be left in a financial institution for months or years is called a *time deposit*. Some examples of time deposit funds include money that you keep in any type of savings account and certificates of deposit or CDs. Having a savings account is essential for any personal finance plan.

---

**Figure 5.1** Financial Services

<table>
<thead>
<tr>
<th>Financial Services for Short-Term Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Daily purchases</td>
</tr>
<tr>
<td>• Living expenses</td>
</tr>
<tr>
<td>• Emergency fund</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Daily Cash Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Check cashing</td>
</tr>
<tr>
<td>• Automated teller machines (ATMs)</td>
</tr>
<tr>
<td>• Prepaid cards</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Regular savings account</td>
</tr>
<tr>
<td>• Money market account</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Checking</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Regular checking account</td>
</tr>
<tr>
<td>• Online payments</td>
</tr>
<tr>
<td>• Automatic preauthorized payments</td>
</tr>
<tr>
<td>• Payment by phone</td>
</tr>
<tr>
<td>• Cashier’s checks</td>
</tr>
<tr>
<td>• Money orders</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Services for Long-Term Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Major purchases</td>
</tr>
<tr>
<td>• Long-term financial security</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Certificates of deposit (CDs)</td>
</tr>
<tr>
<td>• U.S. Savings Bonds</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cash loans for cars, education</td>
</tr>
<tr>
<td>• Home loans</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Mutual funds</td>
</tr>
<tr>
<td>• Financial advice</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tax preparation</td>
</tr>
<tr>
<td>• Insurance</td>
</tr>
<tr>
<td>• Budgeting</td>
</tr>
</tbody>
</table>

---

**Planning Ahead**

You may think that you need only cash and checking services at this time in your life.

Why would it be a good idea to save a small amount regularly?
Payment Services

Transferring money from a personal account to businesses or individuals for payments is a basic function of day-to-day financial activity at a bank. The most commonly used payment service is a checking account. Money that you place in a checking account is called a **demand deposit** because you can withdraw the money at any time, or on demand.

Borrowing

Most people use credit at some time during their lives. If you need to borrow money, financial institutions offer many options. You can borrow money for a short term by using a credit card or taking out a personal cash loan. If you need to borrow for a longer term, say, for the purpose of buying a house or car, you may apply for a mortgage or auto loan. Chapter 6 discusses the types and costs of credit.

Other Financial Services

Financial institutions may also offer a variety of services, such as insurance protection; stock, bond, and mutual fund investment accounts; income tax assistance; and financial planning services.
Electronic Banking Services
How can you use electronic banking services?

When Jeff’s older brother was in high school, he had to get to his bank by 3 P.M. on Friday, or he would have to wait until 9 A.M. on Monday to cash his paycheck. Today Jeff’s bank is open for longer periods on weekdays as well as on Saturdays. For more convenience, Jeff can use the bank’s electronic services 24 hours a day. He can check the status of his account or make a transaction from an ATM, by telephone, or online. Other online services allow customers to get up-to-date account information with personal financial management software to view details about a home loan or a line of credit and to check the amount of interest paid.

Security is the number one issue for online customers. The way to ensure online security is to use a security code, or password, and a customer identification name or number.

Direct Deposit

Many businesses offer their employees direct deposit, an automatic deposit of net pay to an employee’s designated bank account. Instead of a paper paycheck, employees receive a printed statement that lists deductions and information about their earnings. Direct deposit saves time, money, and effort—and offers a safe way to transfer funds.

\[ \text{As You Read} \]
Would you use electronic banking services? Why or why not?

\[ \text{RELATE} \]

\[ \text{CASH AT HAND} \]
Follow simple rules of ATM etiquette when using this banking convenience. If you are in line, stand at least a few feet away from the person who is using the machine. When you are at the machine, protect the screen as you enter your PIN and other information. Why are these practices important?
Automatic Payments

Utility companies, lenders, and other businesses allow customers to use an automatic payment system. With your authorization, your bank will withdraw the amount of your monthly payment or bill from your bank account. Make sure you have enough money in your account for the payment. Arrange your payments according to when you receive your paycheck. Check your bank statements each month to make sure the payments were made correctly.

Automated Teller Machines (ATMs)

A cash machine, or automated teller machine (ATM), is a computer terminal that allows a withdrawal of cash from an account. You can also make deposits and transfer money from one account to another. ATMs are located in banks, shopping malls, grocery stores, and even sports arenas.

To use an ATM for banking, you must apply for a card from your financial institution. This card is called a debit card, which is a cash card that allows you to withdraw money or pay for purchases from your checking or savings account. The card also allows you to access the machine for other purposes. Some financial institutions may charge a small fee for the use of the card. Unlike a credit card, a debit card enables you to spend only the money that you have in your account.

When you use your debit card, the ATM computer will ask you to enter your personal identification number (PIN). Never give this number to any business or individual, or for online transactions. Memorize it and keep a written record in a safe place. Never keep your PIN with your debit card. If your card is lost or stolen along with your PIN, anyone could withdraw money from your account.

ATM Fees The fees that some financial institutions charge for the convenience of using an ATM can add up over time. You may feel that the benefit is worth the cost. However, you might consider these suggestions:

PLASTIC PAYMENT Debit cards are convenient, cashless ways to make purchases. What might be one drawback of using a debit card?
• Compare ATM fees before opening an account. Get a list of fees in writing.
• Use your bank’s ATM machines to avoid the additional fees that other banks charge when you use their machines.
• Consider using traveler’s checks, credit cards, personal checks, and prepaid cash cards when you are away from home.

**Lost Debit Cards** If you lose your debit card, or if it is stolen, notify your bank immediately. Most card issuers will not hold you responsible for stolen funds. Check with your card issuer. However, some institutions require you to notify them within two days of losing your card. If you wait longer, you may be held responsible for up to $500 for its unauthorized use for up to 60 days. Beyond that time, your liability may be unlimited.

**Plastic Payments**

Although cash and checks are very common methods of paying for goods and services, various access cards are also available.

**Point-of-Sale Transactions** A point-of-sale transaction is a purchase by a debit card of a good or service at a retail store, a restaurant, or elsewhere. Financial institutions offer two types of cards for these transactions—online and offline. An online card works like an ATM card. You have to use your PIN to authorize the payment, and the money is transferred from your account instantly. Charges made with an offline card do not require a PIN, and the funds to cover the payment are deducted from your account within a day or two.

**Stored-Value Cards** Prepaid cards that you can use for bus or subway fares, school lunches, long-distance phone calls, or library fees are popular. Some of these cards, such as phone cards, are disposable. Others, called stored-value cards, are reloadable or rechargeable, which means that money can be added to the card.

**Electronic Cash** Some companies are working to develop electronic money. They plan to create electronic versions of all existing payment systems—paper money, coins, credit cards, and checks. The day may come when you will not handle currency at all.

**Opportunity Costs of Financial Services**

What are the trade-offs when you choose financial services?

When you are making decisions about saving and spending, try to find a balance between your short-term needs and your future financial security. Also, consider the opportunity costs, or trade-offs, of each choice you make as you select financial services. Ask several questions.
• Is a higher interest rate on a certificate of deposit worth giving up liquidity, which is the ability to easily convert your resources into cash without a loss in value?
• Would you trade the convenience of getting cash from the ATM near your office for lower ATM fees?
• Is it worth opening a checking account that has no fees—but does not earn interest—if you have to keep a minimum balance of $500?

Remember to consider the value of your time in addition to the money you are saving. Reevaluate your choices occasionally. You may find a new financial institution that offers you more of the services you need or offers less expensive services.

**Types of Financial Institutions**

**What are the differences between financial institutions?**

After you have identified the services you want, you can choose from among many types of financial institutions. You may select an institution that offers a wide range of services or one that specializes in certain services. **Figure 5.2** provides some tips for selecting a financial institution. Many institutions provide the option of cyberbanking, or banking via the Internet. Some banks operate exclusively on the Internet.

![Figure 5.2 Selecting a Financial Institution](image)

**1. Stop by the bank.** Pick up brochures about the bank’s services. While there, speak to a customer service representative about the bank’s services.

**2. Take the brochures home.** Study them and discuss the features with your parents.

---

128 Unit 2 Banking and Credit
Federal Deposit Insurance Corporation

When you consider a financial institution consider its safety record. During the Great Depression of the 1930s, many banks failed. The people and businesses that had made deposits in these institutions lost their money. In 1933, the federal government created the Federal Deposit Insurance Corporation (FDIC) to protect deposits in banks. The FDIC insures each account in a federally chartered bank up to $100,000 per account. The FDIC also administers the Savings Association Insurance Fund (SAIF) for savings and loan associations. Like the FDIC, the SAIF insures deposits up to $100,000. All federally chartered banks must participate in the FDIC program. Banks that are not federally chartered may choose to enroll in the program.

Deposit Institutions

Most people use deposit-type institutions to handle their banking needs. These institutions include commercial banks, savings and loan associations, mutual savings banks, and credit unions.

Commercial Banks  A **commercial bank** is a for-profit institution that offers a full range of financial services, including checking, savings, and lending. Commercial banks serve individuals and businesses. These banks are authorized to conduct business through a charter, or license, granted by either the federal government or a state government.
A savings and loan association (S&L) is a financial institution that traditionally specialized in savings accounts and mortgage loans but now offers many of the same services as commercial banks. Services include checking accounts, business loans, and investment services. S&Ls have either a federal or a state charter.

Mutual Savings Banks Mutual savings banks specialize in savings accounts and mortgage loans. Some offer personal and automobile loans as well. The interest rates on loans from a mutual savings bank may be lower than those that a commercial bank charges. In addition, mutual savings banks sometimes pay a higher interest rate on savings accounts.

Credit Unions A credit union is a nonprofit financial institution that is owned by its members and organized for their benefit. Traditionally, its members have some common bond, such as membership in a labor union, college alumni association, or employment by the same company. Most credit unions offer a full range of services, including checking accounts, loans, credit cards, ATMs, and investment services. Credit union fees and loan rates may be lower than those at commercial banks.

Non-Deposit Institutions

Financial services are also available at institutions such as life insurance companies, investment companies, finance companies, and mortgage companies.

Life Insurance Companies Though the main purpose of life insurance companies is to provide financial security for dependents, many insurance policies also contain savings and investment features. In addition, some insurance companies offer retirement planning services. You will learn more about life insurance in Chapter 14.

Investment Companies These firms combine your money with funds from other investors in order to buy stocks, bonds, and other securities. The investment company then manages these combined investments, which are called mutual funds. Chapter 10 discusses more about mutual funds.

Finance Companies Finance companies make higher-interest loans to consumers and small businesses that cannot borrow elsewhere because they have below-average credit ratings.
Mortgage Companies  Mortgage companies specialize in loans for the purchase of homes. Chapter 7 discusses the finances of housing.

Comparing Financial Institutions

**What should you know to choose a financial institution?**

When you compare banks and other financial institutions, you should ask these questions to help choose the best one:

- Where can you get the highest rate of interest on your savings?
- Where can you obtain a checking account with low (or no) fees?
- Will you be able to borrow money from the institution—with a credit card or another type of loan—when you need it?
- Do you need an institution that offers free financial advice?
- Is the institution FDIC- or SAIF-insured?
- Does the institution have convenient locations?
- Does it have online banking services?
- Does it have any special banking services that you might need?

Section 5.1 Assessment

**QUICK CHECK**

1. What are three main categories of services offered by financial institutions?
2. What are the types of electronic banking services that are available?
3. Which institutions fall under the category of deposit institutions? Which are classified as non-deposit institutions?

**THINK CRITICALLY**

4. Name some financial services you use now. How might your needs for services change in the next five years?

**USE MATH SKILLS**

5. **Wise Use of ATMs**  Margaret uses an ATM three times a week. It is not her bank’s machine, but it is convenient to the store where she works. For every transaction, Margaret pays a fee of $1.50.

**Calculate**  What is Margaret’s annual expense for the use of this ATM?

**SOLVE MONEY PROBLEMS**

6. **Choosing a Financial Institution**  Dakota is thinking about changing banks. He has a part-time job at a supermarket. Sometimes he works late hours, and he would like the convenience of being able to make deposits and withdrawals at any time. He needs cash for food and gas, and he writes only two checks a month—to his music CD club account and to his credit card company. Soon he will need to take out a loan to buy a car. He also wants to put aside some money to pay for technical school.

**Write About It**  Help Dakota select the type of financial institution that offers the features that would be most useful to him and write a list for him.
Savings Plans and Payment Methods

Types of Savings Plans

What are some savings program options?

To achieve your financial goals, you will need a savings program. Various types of savings programs include regular savings accounts, certificates of deposit, money market accounts, and U.S. Savings Bonds. (See Figure 5.3.)

Regular Savings Accounts

Regular savings accounts, traditionally called *passbook accounts*, are ideal if you plan to make frequent deposits and withdrawals. They require little or no minimum balance and allow you to withdraw money on demand. The trade-off for this convenience is that the interest you earn will be low compared with other savings plans.

You may receive a passbook that records deposits and withdrawals, but typically, you will get a monthly or quarterly statement in the mail. Commercial banks, savings and loan associations, and other financial institutions offer regular savings accounts. At credit unions they may be called *share accounts*.

Certificates of Deposit

A *certificate of deposit (CD)* is a savings alternative in which money is left on deposit for a stated period of time to earn a specific rate of return. This period of time is called the *term*. The date when the money becomes available to you is called the *maturity date*. This savings plan is a relatively low-risk way to invest your money. It offers a higher interest rate than a regular savings account pays, but you will have to accept a few trade-offs.

To earn the higher interest rate paid by CDs, you must accept three key limitations. First, you may have to leave your money on deposit for one month to five or more years. Second, you probably will pay a penalty if you take the money out before the maturity date. Third, financial institutions require that you deposit a minimum amount to buy a certificate of deposit. This amount is usually larger than the balance a regular savings account requires.
CD Investment Strategies  Here are some tips for investing in CDs:

- Find out where you can get the best rate. You can put your savings in a bank anywhere in the United States. You can use the Internet to find out what rates banks offer all over the country.
- Consider the economy as you decide what maturity date to choose. You may want to buy a long-term CD if interest rates are relatively high. Then, if interest rates go down because of changes in the economy, your money will continue to earn the higher rate.
- Never let a financial institution “roll over” a CD. For example, if your one-year CD matures, and you do nothing, the bank will redeposit that money in another one-year CD. You may decide to roll over, however, if you know that you will get the best rate possible.
- Consider when you will need the money. If you plan to use the money in two years to help pay for college, then buy a CD with a term of two years or less.
- If you have enough funds to have several accounts, you might consider creating a CD portfolio, which includes CDs that mature at different times. For example, you could have $1,000 in a three-month CD, $1,000 in a six-month CD, and $1,000 in a one-year CD. This way, you would be able to withdraw money at different times and still get better interest rates than you would with a passbook savings account.

![Figure 5.3 Savings Alternatives](image)

<table>
<thead>
<tr>
<th>Type of Account</th>
<th>Benefits</th>
<th>Drawbacks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular savings accounts</td>
<td>• Low minimum balance</td>
<td>• Low rate of return</td>
</tr>
<tr>
<td></td>
<td>• Ease of withdrawal</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Insured</td>
<td></td>
</tr>
<tr>
<td>Certificates of deposit (CDs)</td>
<td>• Guaranteed rate of return for time of CD</td>
<td>• Possible penalty for early withdrawal</td>
</tr>
<tr>
<td></td>
<td>• Insured</td>
<td>• Minimum deposit</td>
</tr>
<tr>
<td>Money market accounts</td>
<td>• Good rate of return</td>
<td>• Minimum balance</td>
</tr>
<tr>
<td></td>
<td>• Some check writing</td>
<td>• No interest and possible service charge if below a certain balance</td>
</tr>
<tr>
<td></td>
<td>• Insured</td>
<td></td>
</tr>
<tr>
<td>U.S. Savings Bonds</td>
<td>• Low minimum deposit</td>
<td>• Lower rate of return when cashed in before bond reaches maturity date</td>
</tr>
<tr>
<td></td>
<td>• Guaranteed by the government</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Free from state and local taxes</td>
<td></td>
</tr>
</tbody>
</table>

So Many Choices

Each type of savings plan has pros and cons that you should consider.

Which type(s) would be best for a person who wants to save frequently but with small amounts?
Money Market Accounts

A **money market account** is a savings account that requires a minimum balance and earns interest that varies from month to month. The rates float, or go up and down, as market rates change. Although the interest rate of a money market account is usually higher than that of a regular savings account, a money market account also requires a higher minimum balance, typically $1,000. You may have to pay a penalty if your balance goes below the minimum amount. You can write a limited number of checks to make large payments or to transfer money to other accounts. The FDIC insures money market accounts up to $100,000.

U.S. Savings Bonds

Another savings option is purchasing a U.S. Savings Bond (also called a **Patriot Bond**). For example, when Meagan graduated high school in 2005, her aunt gave her a U.S. Savings Bond as a gift. Her aunt paid $250 for the bond, but it has a face value of $500. This means that if Meagan keeps the bond long enough until the designated maturity date, it will eventually earn enough interest to be worth $500 or even more.

▲ MEETING GOALS  Most people save for many years to go to college. **Why might certificates of deposit and U.S. Savings Bonds be good investments for someone who is saving for a long-term goal such as college?**
You can purchase Series EE Savings Bonds from the federal government in amounts that range from $25 to $5,000 (face values of $50 to $10,000, respectively). The government limits total purchases per year to $15,000 ($30,000 face value) per person. You may buy savings bonds from banks or through the government’s Web site. The Federal Reserve sends bond certificates within 15 business days.

The maturity date, or the date a bond reaches its face value, depends on the date it was bought and the interest rate the bond is earning. For some bonds, the rate changes every six months. Because interest rates vary, no official maturity date exists for Series EE Savings Bonds. Bonds purchased after April 1997 and cashed after less than five years are subject to a three-month penalty—that is, you will not receive any interest for the last three months before you cash it. For example, if you cash a bond after 18 months, you receive only 15 months’ worth of interest.

A Series EE Savings Bond continues to earn interest for 30 years if you do not cash it in. The longer you hold it, the more it is worth. Its value may be more than the face value if it is held past maturity.

Meagan kept her bond for ten years. In 2004, she decided to cash it in to help her make a down payment on a condominium. She found out that it was worth a little more than $450. Your bond’s worth will depend on current interest rates and on the month and year in which the bond was issued.

**Taxes on Savings Bonds** The interest you earn on Series EE Bonds is exempt from, or free of, state and local taxes. You do not pay federal taxes on the interest earnings until you cash in the bond. Once a Series EE Bond has reached maturity, you can choose to defer federal taxes further by exchanging it for a Series HH Bond. Low- and middle-income families who use the money from redeemed Series EE Bonds to pay for higher education pay no taxes on the interest.

**Evaluating Savings Plans**

**How should you evaluate a savings plan?**

Your selection of a savings plan will be influenced by several factors. You should consider the rate of return, inflation, tax considerations, liquidity, restrictions, and fees.

**Rate of Return**

Earnings on savings can be measured by the rate of return, or yield. The rate of return is the percentage of increase in the value of your savings from earned interest. For example, when Emisha put the $75 she earned from babysitting on New Year’s Eve into a regular savings account last year, she earned $3 in interest. Therefore, her rate of return was 4 percent. To calculate the rate of return, she divided the total interest by the amount of her deposit ($3 ÷ $75 = .04 or 4 percent).
Compounding  The yield on your savings will usually be greater than the stated interest rate. **Compounding** is the process in which interest is earned on both the principal—the original amount you deposited—and on any previously earned interest. It is a multistep process for computing interest. First, the interest on the principal is computed. That interest is added to the principal. The next time interest is computed, the new, larger balance is used. Compounding may take place every year, every quarter, every month, or even every day.

How much interest would your account earn in one year if the interest were compounded monthly? To make this calculation, first multiply the principal by the annual interest rate. Divide that figure by 12, the number of months in a year. This is the interest you would earn after the first month. To calculate the interest earned for the second month, add any interest earned in the first month to the principal. Then take that amount and multiply it by the annual interest rate. Next divide that number by 12. This is your interest earned in the second month. After you have repeated this calculation for all 12 months, add the monthly interest totals. The sum of the monthly interest amounts is the interest your account would earn in one year if the interest were compounded monthly.

**GO FIGURE**  **FINANCIAL MATH**

**INTEREST COMPOUNDED MONTHLY**

**Synopsis:** Savings accounts that pay interest monthly can end up earning more interest than an account that pays once a year.

**Example:** You deposit $100 in a savings account. The bank is paying you 4 percent annually, which is compounded monthly. How much interest will you earn for the year?

**Formula:** Find the interest earned for the first month:

### A. Formula

\[
\text{Interest Earned for First Month} = \frac{\text{Principal} \times \text{Annual Interest Rate}}{12}
\]

### B. Formula

\[
\text{Interest Earned for a Given Month} = \frac{(\text{Principal + Previously Earned Interest}) \times \text{Annual Interest Rate}}{12}
\]

**Solution:**

<table>
<thead>
<tr>
<th>Month</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>($100.00 \times 4%) \div 12 = $0.33</td>
</tr>
<tr>
<td>2</td>
<td>($100.33 \times 4%) \div 12 = $0.33</td>
</tr>
<tr>
<td>3</td>
<td>($100.66 \times 4%) \div 12 = $0.34</td>
</tr>
<tr>
<td>4</td>
<td>($101.00 \times 4%) \div 12 = $0.34</td>
</tr>
<tr>
<td>5</td>
<td>($101.34 \times 4%) \div 12 = $0.34</td>
</tr>
<tr>
<td>6</td>
<td>($101.68 \times 4%) \div 12 = $0.34</td>
</tr>
<tr>
<td>7</td>
<td>($102.02 \times 4%) \div 12 = $0.34</td>
</tr>
<tr>
<td>8</td>
<td>($102.36 \times 4%) \div 12 = $0.34</td>
</tr>
<tr>
<td>9</td>
<td>($102.70 \times 4%) \div 12 = $0.34</td>
</tr>
<tr>
<td>10</td>
<td>($103.04 \times 4%) \div 12 = $0.34</td>
</tr>
<tr>
<td>11</td>
<td>($103.38 \times 4%) \div 12 = $0.34</td>
</tr>
<tr>
<td>12</td>
<td>($103.72 \times 4%) \div 12 = $0.35</td>
</tr>
</tbody>
</table>

At the end of the year, you will have $104.07 ($100.00 + $4.07 = $104.07). You earned $4.07 in compounded interest for the year.

**YOU FIGURE**

How much interest would this account earn if interest was paid once for the whole year?
The more frequently your balance is compounded, the greater your yield, or rate of return, will be. For example, if you deposited $100 in an account with a 4 percent annual interest rate that is compounded annually (once a year), after one year you will earn $4 ($100 \times 0.04 = 4\% \times $100 = $4). Your rate of return is 4 percent. If you put that same $100 in an account that is compounded monthly at an annual interest rate of 4 percent, your rate of return will be higher.

Remember, your rate of return is the total interest earned divided by the amount of your original deposit. The difference may not seem like much, but compounding can have a great impact on large amounts of money that are held in savings accounts for long periods.

**Truth in Savings**  According to the Truth in Savings law (Federal Reserve Regulation DD), financial institutions have to inform you of the following information:

- Fees on deposit accounts
- Interest rate
- Annual percentage yield (APY)
- Terms and conditions of the savings plan

The **annual percentage yield (APY)** is the amount of interest that a $100 deposit would earn, after compounding, for one year. The interest is based on the annual stated interest rate and the frequency of compounding for a 365-day period. In the previous **Go Figure** example, the APY is 4.07 percent. The higher the APY is, the better the return. The APY helps you determine the amount you can expect to earn on your money. Because the APY is stated as a percentage and as an annual rate, it you can compare savings plans that have different rates and compounding frequencies.
Investigate: A Checking Account
Bank Statement

A checking account bank statement contains the following information:
- Balance, or amount, in the account at the beginning of a time period
- Deposits made to the account
- Deductions made from the account
- Ending balance at the end of the time period

Your Motive: You need to keep track of deductions and deposits in your check register as you write checks and deposit money. The monthly statement is the bank’s record of that activity. It is important that your records and the bank’s records are the same so your account will not get overdrawn.

<table>
<thead>
<tr>
<th>SMITHVILLE BANK N.A.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCOUNT SUMMARY</td>
</tr>
<tr>
<td>Statement Date: 02/24/05</td>
</tr>
<tr>
<td>Balance forwarded from 01/23/05</td>
</tr>
<tr>
<td>Checks</td>
</tr>
<tr>
<td>Interest added</td>
</tr>
<tr>
<td>Ending balance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ELECTRONIC CREDITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>2/24/05</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHECKS AND OTHER DEBITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>01/27/05</td>
</tr>
<tr>
<td>02/18/05</td>
</tr>
<tr>
<td>02/12/05</td>
</tr>
<tr>
<td>02/10/05</td>
</tr>
<tr>
<td>02/19/05</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DAILY BALANCE SUMMARY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>1/27/05</td>
</tr>
<tr>
<td>02/10/05</td>
</tr>
<tr>
<td>02/12/05</td>
</tr>
<tr>
<td>02/18/05</td>
</tr>
<tr>
<td>02/19/05</td>
</tr>
<tr>
<td>02/24/05</td>
</tr>
</tbody>
</table>

Key Points: If there is a difference between your records and the bank’s records, you need to resolve the problem with your bank. If the bank thinks you have less money than you do, your checks may “bounce,” or be rejected and go unpaid, causing the bank to charge you penalty fees.

Find the Solutions
1. What time period does this statement cover?
2. From this statement, what do you think is the meaning of the word credits?
3. From this statement, what do you think is the meaning of the word debits?
4. On 02/10/05, the balance in this account changed. Why?
5. There is a line on this statement that reads “Checks 6,310.00.” What does this mean?
Inflation

You should compare the rate of interest you earn on your savings with the rate of inflation. If you open a savings account that offers 3 percent interest, and the inflation rate rises to 6 percent, your money will lose value and buying power. Usually, however, the interest rates offered on savings accounts increase if the rate of inflation increases. The biggest problem with inflation occurs if you are locked into a lower interest rate for a long period.

Tax Considerations

Like inflation, taxes reduce the interest earned on savings. For example, Karim was glad to find a savings account that would pay 5 percent interest. However, he was not happy when he filled out his tax return and had to pay taxes on that interest. He decided to look into tax-exempt and tax-deferred savings plans for some of his money.

Liquidity

Check the savings plans you are considering to determine whether they charge a penalty or pay a lower rate of interest if you withdraw your funds early. If you need to be able to withdraw your money easily, put your money in a liquid account—even if it earns lower interest. On the other hand, if you are saving for long-term goals, a high interest rate is more important than liquidity.

Restrictions and Fees

Be aware of any restrictions on savings plans, such as a delay between the time when interest is earned and when it is actually paid into your account. Also check for fees for making deposits and withdrawals. Find out about any service charges you may have to pay if your balance drops below a certain amount, or if you do not use your account for a certain period. These fees and service charges can add up.

Types of Checking Accounts

What are the different kinds of checking accounts?

Checking accounts can be divided into three main categories: regular, activity, and interest-earning accounts.

Regular Checking Accounts

Regular checking accounts usually do not require a minimum balance. However, if the account does require a minimum balance, and your account drops below that amount, you will have to pay a monthly service charge. A $10 charge every month can take a bite out of your funds. Some institutions will waive a service charge if you keep a certain balance in your savings account.
Standard and Poor’s publishes the globally recognized S&P 500® financial index. It also gathers financial statistics, information, and news, and analyzes this data for international businesses, governments, and individuals to help them guide their financial decisions.

SWITZERLAND

Say “Switzerland,” and people often think of rich chocolate, cozy alpine villages, and cuckoo clocks. Switzerland also boasts its most famous industry—banking. Once called the crossroads of Europe, the country of Switzerland has been one of the world’s most important financial centers for centuries. Its government’s neutrality during times of war and the skill of its bankers attract depositors by the millions. Above all, clients—from the ordinary to the rich—appreciate the banks’ secrecy. Numbers, not names, identify each customer. “Serious money is safe and private in a Swiss bank in Switzerland,” promises one ad. However, a new Swiss federal law now prohibits complete secrecy. Deposits of questionable or criminal origin must be reported to the authorities.

Activity Accounts

If you write only a few checks each month and are unable to maintain a minimum balance, this type of checking account may be right for you. The financial institution will charge a fee for each check you write and sometimes a fee for each deposit. In addition, a monthly service fee will be charged. However, you do not need to maintain a minimum balance.
Interest-Earning Checking Accounts

Interest-earning checking accounts are a combination of checking and savings accounts. These accounts pay interest if you maintain a minimum balance. If your account balance goes below the limit, you may not earn any interest, and you may also have to pay a service charge.

Evaluating Checking Accounts
What factors should you consider when choosing a checking account?

How do you decide which type of checking account will meet your needs? You will need to weigh several factors: restrictions, fees and charges, interest, and special services.

Restrictions

The most common restriction is the requirement that you keep a minimum balance. Other restrictions may include the number of transactions allowed and the number of checks you may write in a month.

Fees and Charges

You may pay a monthly service charge as well as fees for check printing, overdrafts, and stop-payment orders.

Interest

Interest rates, frequency of compounding, and the way in which interest is calculated all affect an interest-bearing checking account.

Special Services

Checking account services include ATMs and banking by telephone and online. As a checking account customer, you may also receive overdraft protection—an automatic loan made to an account if the balance will not cover checks written. The institution will charge interest on that loan, but the amount may be less than the fee for overdrawing your account. Your bank may also offer an overdraft protection service that transfers money from your savings to your checking account.

The Check Clearing for the 21st Century Act, or “Check 21,” took effect as of October 28, 2004. The Act allows banks to dispense with original paper checks. Banks can now transmit electronic images of checks through the check-clearing process. If you want to receive your cancelled paper check, the bank will provide a substitute check, such as a printout of an electronic image, for a fee.
Using a Checking Account

How do you open and use a checking account?

After you select the type of checking account that best fits your needs, you need to know how to use it effectively.

Opening a Checking Account

Before you open a checking account, decide whether you want an individual or joint account. An individual account has one owner; a joint account has two or more. Personal joint accounts are usually “or” accounts, which means that only one of the owners needs to sign a check. You sign a signature card at the bank so that your signature on a check can be verified.

Writing Checks

Before you write a check, write the date, the number of the check, the name of the party who will receive the payment, and the exact amount in your check register. A check register is a small booklet that you use to record activity in your account. You receive it with your supply of blank checks. Record all checks that you write, deposits, ATM withdrawals, debit card charges, interest earned (if any), any fees, and other transactions. Be sure to keep a current balance of the money you have by deducting from or adding to your balance the amount of any check transaction. Figure 5.4 shows a sample check register.

<table>
<thead>
<tr>
<th>Number</th>
<th>Date</th>
<th>Description of Transaction</th>
<th>Payment/Debit ( )</th>
<th>Fee if Any ( )</th>
<th>Deposit/Credit ( )</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>106</td>
<td>7/15</td>
<td>Bob’s Service Station, oil change</td>
<td>$25.00</td>
<td></td>
<td></td>
<td>-25.00</td>
</tr>
<tr>
<td>107</td>
<td>7/15</td>
<td>Cutler Enterprises, magazine subscription</td>
<td>14.00</td>
<td></td>
<td></td>
<td>-14.00</td>
</tr>
<tr>
<td>108</td>
<td>7/16</td>
<td>Motor Vehicles Department, renewal</td>
<td>160.00</td>
<td></td>
<td></td>
<td>-160.00</td>
</tr>
<tr>
<td>109</td>
<td>7/18</td>
<td>Jack’s Music, gift</td>
<td>34.00</td>
<td></td>
<td></td>
<td>-34.00</td>
</tr>
</tbody>
</table>

This sample check register shows how to keep track of checks as you write them.

What other amounts should you record in your check register?
Figure 5.5 illustrates the correct way to write a check. Follow these steps when you write a check:

1. Write the current date.
2. Write the name of the party (payee) who will receive the check.
3. Record the amount of the payment in numerals.
4. Write the amount in words.
5. Sign the check in the same way you signed your signature card at the bank.
6. Make a note of the reason for the payment. This is a good place to record an account number if the payment is for a credit card or service, such as electricity or cable television.

If you make a mistake when writing a check, do not erase the error. Write a new check, tear up the old check, and write the word Void in your check register. If the mistake is small, you may be able to correct the check and write your initials next to the correction.

If a check is lost or stolen, or if you want to take back your payment for a business transaction, you may ask the bank to issue a stop-payment order. A stop-payment order is a request that a bank or other financial institution not cash a particular check. Fees for this service can range from $10 to $20 or more.
Making Deposits

To add money to your checking account, fill out a deposit ticket. Tickets usually include room to list four or five checks and any amount of cash that you are depositing. Endorse, or sign, the back of each check you want to deposit. The endorsement is the signature of the payee, the party to whom the check has been written.

There are also different ways to endorse a check. A blank endorsement is the most simple. You or the check holder signs the back of the check. A restrictive endorsement requires the check holder’s signature and a restriction on how the paper may be used by the bank. The most common expression used is “For deposit only.” This is an instruction that restricts the bank to applying the check amount to the holder’s account. A special endorsement allows you to transfer a check to an organization or another person. When you endorse the check, you write the words pay to the order of, followed by the name of the organization or person, and then you sign your name.

Here are some tips to follow when endorsing a check:

- Do not endorse a check until you are ready to cash or deposit it.
- Write your signature on the back of the check at the top left end.
- Sign your name exactly as it appears on the front of the check.
- Use a pen so that your signature cannot be erased.
- If depositing a check by mail, write “For deposit only” above your signature.

Check Clearing

Check clearing is a system that ensures that the money you deposited in the account is available for withdrawal. For example, if you deposit a check for $50 into your account, your bank usually holds that $50 until it clears with the bank on which it was drawn. During this time you cannot withdraw that money. By law, institutions are limited to holding funds from checks drawn on local banks to no more than two business days, and from checks drawn on non-local banks to no more than five business days. Check-clearing rules vary by bank, so ask your bank about its rules.

Keeping Track of a Checking Account

Each month your bank will send you a statement that shows your checking account activity for the month. Your bank statement will list:

- Deposits
- Checks you have written (charged against your account)
- ATM withdrawals
- Debit card charges (identified by the business or organization to whom you made the payment)
- Interest earned
- Fees
Reconciliation  The balance reported on the bank statement may be different from the balance in your check register. You might have written checks that have not yet cleared your bank, or maybe you deposited money into your account after the bank prepared your statement.

To determine your true balance, you can fill out a bank reconciliation form. A bank reconciliation is a report that accounts for the differences between the bank statement and a checkbook balance. This process is called balancing your checkbook. To balance, or reconcile, your account, follow several steps (a simplified version of a reconciliation form is shown in Figure 5.6).

**Figure 5.6  Bank Account Reconciliation**

<table>
<thead>
<tr>
<th>Description</th>
<th>Checks &amp; Other Debits</th>
<th>Deposits &amp; Other Credits</th>
<th>Date</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Forward</td>
<td></td>
<td></td>
<td></td>
<td>00.00</td>
</tr>
<tr>
<td>Deposit</td>
<td></td>
<td></td>
<td></td>
<td>00.00</td>
</tr>
<tr>
<td>Check 101</td>
<td>273.00</td>
<td>500.00</td>
<td>7/01</td>
<td>500.00</td>
</tr>
<tr>
<td>Check 102</td>
<td>27.00</td>
<td></td>
<td>7/07</td>
<td>200.00</td>
</tr>
<tr>
<td>Check 103</td>
<td>100.00</td>
<td></td>
<td>7/08</td>
<td>150.00</td>
</tr>
<tr>
<td>Deposit</td>
<td></td>
<td></td>
<td></td>
<td>0.00</td>
</tr>
<tr>
<td>Check 104</td>
<td>32.00</td>
<td></td>
<td>7/14</td>
<td>250.00</td>
</tr>
<tr>
<td>Check 105</td>
<td>140.00</td>
<td></td>
<td>7/14</td>
<td>218.00</td>
</tr>
</tbody>
</table>

**Balancing Your Checkbook**

The adjusted bank balance should agree with your checkbook register.

**Why should you reconcile your checking account with each new statement?**
1. Compare the checks you have written during the month with those that are listed on the bank statement as paid, or cleared. List all outstanding checks—checks you wrote but have not cleared. Subtract the total amount of outstanding checks from the balance on the bank statement.

2. Determine whether any recent deposits are not on the bank statement. If so, add the amounts of those deposits to the bank statement balance.

3. Subtract fees and charges listed on the statement from your checkbook balance.

4. Add interest earned to your checkbook balance.

Then compare the balance in your check register and the adjusted bank balance on the reconciliation form. They should be the same. If the balances do not match, check your math, and make sure all checks and deposits are entered in your check register and on the statement. If there is a bank error, report it.

**Other Payment Methods**

You may make payments by other methods besides using a personal check. A certified check is a personal check with a guaranteed payment. The financial institution deducts the amount from your account when it certifies the check. You can also purchase a cashier’s check or money order from a financial institution. You pay the amount of the check or money order plus a fee. Travelers checks allow you to obtain cash in a country’s currency when you are away from home.

**TRAVELING MONEY**

Travelers checks are one option for students who need to carry money while traveling in foreign countries. Most banks, hotels, and stores will accept this currency. Why are travelers checks preferred over regular cash when traveling?
You sign each check once when you purchase the checks and a second time when you cash them. If you lose a check or it is stolen, it can be replaced with proof of purchase. Prepaid travelers cards allow travelers to get local currency from ATMs throughout the world.

Financial Institutions and Your Money

How Do Banks Make Money?

The amount of deposits held by a bank affects its ability to loan money. Banks make money by making loans. The amount of money that banks can lend is affected by the reserve requirement set by the Federal Reserve. The reserve requirement is 3 percent to 10 percent of a bank’s total deposits, including your deposit. For example, when a bank gets a deposit of $100, the bank can then lend out $90. That $90 goes back into the economy, paying for goods or services, and may end up deposited in another bank. That bank can then lend out $81 of that $90 deposit, and that $81 goes into the economy to pay for goods or services, and is then deposited into another bank that proceeds to lend out a percentage of it. Thus, banking your money benefits you as well as others in the economic system.

Section 5.2 Assessment

QUICK CHECK
1. What are some of the costs and benefits of a certificate of deposit?
2. What factors can you use to evaluate a savings plan?
3. What are regular, activity, and interest-earning checking accounts?

THINK CRITICALLY
4. Why do you think a law was passed to standardize the ways in which financial institutions inform consumers of the terms and conditions of savings plans?

USE COMMUNICATION SKILLS
5. The Banking Business Banks advertise to attract customers.

SOLVE MONEY PROBLEMS
6. Checking Account Choices Matthew Delarosa has just moved to a new town and is about to open a checking account. He pays for all his monthly expenses—rent, phone, car payment, credit card bills, dry cleaning, and insurance—by check.

Write About It With a partner, examine the features of the different types of checking accounts and write a paragraph to help Matthew decide which type would be best for him.
CHAPTER SUMMARY

- The three primary types of financial services are savings; payment services; and borrowing.
- Commercial banks, savings and loan associations, mutual savings banks, and credit unions are financial institutions that accept secure deposits and provide transfer and lending services. Life insurance companies and investment companies accept customers’ funds, provide financial security for dependents, and invest and manage funds. Finance companies and mortgage companies offer loans.
- Bank savings plans offer the lowest interest rates with the greatest liquidity. Higher interest rates are available on certificates of deposit (CDs); money must be on deposit for a specified time. Money market accounts and U.S. Savings Bonds are less liquid than bank savings accounts, but may provide greater returns.
- To evaluate a savings plan, look at its features, such as its rate of return compared with inflation, tax considerations, liquidity, and restrictions and fees.
- Regular, activity, and interest-earning are the three categories of checking accounts. Some of these require minimum balances and/or fees for transactions. Some pay interest on deposits.
- To use a checking account, write checks carefully, endorse checks you deposit, and reconcile your checkbook against bank statements.

Communicating Key Terms

Write the copy for a promotional brochure for a commercial bank, explaining what the bank offers its customers. Use at least eight of the terms below in your brochure copy.

- direct deposit
- automated teller machine (ATM)
- debit card
- point-of-sale transaction
- commercial bank
- savings and loan association (S&L)
- credit union
- certificate of deposit (CD)
- money market account
- rate of return
- compounding
- annual percentage yield (APY)
- overdraft protection
- stop-payment order
- endorsement
- bank reconciliation

Reviewing Key Concepts

1. Explain two advantages and two disadvantages of online banking.
2. Identify the services offered by the different financial institutions.
3. Explain why a large, nationally chartered bank may be the safest place to deposit your money.
4. Discuss how you benefit when interest is compounded monthly as opposed to annually.
5. Explain the circumstances under which a person should choose a regular checking account, activity checking account, or interest-bearing checking account.
6. List the steps to take to use a checking account effectively.
Economics  Explain at least three ways to reduce ATM fees charged to your account. Also describe the trade-offs involved in each action.

Write About It  Create a list with your explanations.

Checking Account Minimum Balances  Bank X offers a checking account with a minimum balance of $300, but does not charge fees nor give interest. Bank Y’s minimum balance is $50, but it charges a fee of $25 if you have more than 35 transactions per month, including deposits. Both banks pay 2 percent interest on regular savings accounts and 3 percent on certificates of deposit with terms of 24 months.

1. Describe (a) Someone for whom Bank A’s offer is the best deal. (b) Someone for whom Bank B’s offer is the best deal.
2. Compute by using spreadsheet software bank statements that compare returns from Bank A and Bank B for the people profiled.

Connect with Business and Government  Check 21 is a federal law that lets banks handle more checks electronically, which should make check processing faster, more efficient, and less expensive. Before Check 21 became effective in late 2004, banks physically moved paper checks from one bank to another. If you used to receive your cancelled checks after they cleared your bank, you now receive a picture of the front and back of your checks instead.

1. Research  Use library and online sources to find out more about Check 21.
2. Think Critically  Who do you think benefits the most from this change? The least?

Banking Online  Many banks offer online banking, but it does not appeal to everyone.

Log On  Go to the Web site of a bank that you or your family uses and find out if it offers Internet banking. Answer the following questions:
1. How can you be sure the site is secure?
2. What transactions can you perform with an online account?

Newsclip: Teen Savings  Banks offer many savings options to teenagers. A teen can open a savings/passbook account or a CD (certificate of deposit).

Log On  Go to finance07.glencoe.com and open Chapter 5. Read about the different types of available savings options. Then answer this question: When is it the right time to save, and what types of savings accounts are available?
## BASIC BANKING QUIZ

How much do you know about basic bank services and terms? Take this quiz before you read the chapter and retake it after studying the chapter to see how much you have learned. Write your answers on a separate sheet of paper.

1. A bank CD is a __________.
   - a. cash deposit
   - b. compact disc
   - c. certificate of deposit
   - d. compact deposit

2. To borrow money from the bank, you need to ask for a __________.
   - a. loan
   - b. money market account
   - c. safe-deposit box
   - d. transfer

3. You can store valuables in the bank’s vault if you have __________.
   - a. permission
   - b. a money market account
   - c. a safe-deposit box
   - d. an ATM card

4. You keep money in a bank account to __________.
   - a. keep it safe
   - b. earn interest
   - c. learn financial responsibility
   - d. all of the above

5. The total amount of money in your bank account is called __________.
   - a. the statement
   - b. the interest
   - c. the balance
   - d. peanuts

6. The amount of money your bank account earns depends on the __________.
   - a. type of account you have
   - b. balance in your account
   - c. interest rate
   - d. all of the above

7. When you make a purchase and have the funds taken directly from your checking account, you use a __________.
   - a. credit card
   - b. note from your mother
   - c. debit card
   - d. driver’s license

8. To set up a savings plan that requires a low minimum balance and allows you to withdraw funds at any time, you would __________.
   - a. buy a CD
   - b. buy a U.S. Savings Bond
   - c. put the money under your mattress
   - d. open a savings account
Comparison Shopping for Banking Services

Sean is ready to open some bank accounts and is looking for the bank that best suits his needs. He is deciding between the local bank and the credit union where he works.

Sean’s Savings Search

<table>
<thead>
<tr>
<th>Name of Institution</th>
<th>Kensington Bank</th>
<th>Acme Credit Union</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Savings</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual interest rate</td>
<td>1.8%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Minimum balance required</td>
<td>$100</td>
<td>none</td>
</tr>
<tr>
<td>Certificate of Deposit (CD) interest rate for 6 months</td>
<td>5.20%</td>
<td>5.40%</td>
</tr>
<tr>
<td><strong>Checking</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly service charge</td>
<td>$8.50</td>
<td>$6.00</td>
</tr>
<tr>
<td>Minimum balance for “free” checking</td>
<td>$3,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Fees for ATM</td>
<td>Free</td>
<td>no ATMs</td>
</tr>
<tr>
<td>Cost of checks</td>
<td>$10.00</td>
<td>$8.75</td>
</tr>
<tr>
<td>Overdraft protection</td>
<td>yes</td>
<td>none</td>
</tr>
<tr>
<td>Banking hours</td>
<td>Mon.–Sat. 9–6, Closed Sun.</td>
<td>Mon.–Fri. 9–6, Closed Sat. and Sun.</td>
</tr>
</tbody>
</table>

Sean decided to open a checking account at the bank because he needs the convenience of using the ATM. He opened a savings account at the credit union because it pays higher interest. When he has enough money, he will also purchase a CD at the credit union.

**Compare**

In your workbook or on a separate sheet of paper, list the banking services that are important to you. Then call or visit several banks in your area and compare services, costs, and interest rates that are available to you. What services are most important to you? Which bank would you choose? Explain why.