Banking Options

Unit: Basic Skills

Problem Area: Demonstrate Business Math Applications

Lesson: Banking Options

Student Learning Objectives.

Instruction in this lesson should result in students achieving the following objectives:

1. **Explain checking account options.**
2. **Explain savings account options.**
3. **Explain tips for young adults (and new college students) when selecting banking options.**

Resources.

The following resources may be useful in teaching this lesson:

“Checking Account Essentials,” *About.com: Banking/Loans*. Accessed Oct. 23, 2011. <http://banking.about.com/od/checkingaccounts/a/checkingaccountinfo.htm>.

Milion, Mark. “Square Seeks to Replace Cash Register with Revamped App,” *CNN Tech*. Accessed Oct. 23, 2011. <http://articles.cnn.com/2011-05-23/tech/square_1_credit-card-jack-dorsey-cell-phones?_s=PM:TECH>.

“Savings Accounts vs. Certificates of Deposit,” *Financial Planning Advices*. Accessed Oct. 23, 2011. <http://www.financialplanningadvices.com/saving-money/savings-accounts-vs-certificates-of-deposit.html>.

Equipment, Tools, Supplies, and Facilities

- ✓ Overhead or PowerPoint projector
- ✓ Visual(s) from accompanying master(s)
- ✓ Copies of sample test, lab sheet(s), and/or other items designed for duplication
- ✓ Materials listed on duplicated items
- ✓ Computers with printers and Internet access
- ✓ Classroom resource and reference materials

Key Terms. The following terms are presented in this lesson (shown in bold italics):

- account numbers
- checking account
- checks
- overdraft fees
- prepaid debit cards
- reloadable debit cards
- remote and online depositing
- routing numbers
- savings account

Interest Approach. Use an interest approach that will prepare the students for the lesson. Teachers often develop approaches for their unique class and student situations. A possible approach is included here.

> *Ask students to imagine the day they move out of the house—whether it is when they are old enough to find a full-time job or whether they will go away to college. Ask them what banking services they plan to use when they are living on their own. Have them write a one-paragraph answer. Tell them to keep the paragraph to compare it with the lab later.*

CONTENT SUMMARY AND TEACHING STRATEGIES

Objective 1: Explain checking account options.

Anticipated Problem: What are options for checking accounts?

I. As individuals and businesses fulfill their wants and needs on a daily basis, they make transactions (e.g., purchasing or paying bills). A checking account is a typical banking option used to make purchases or pay bills. This objective will focus on checking account options for individuals.

A. A ***checking account*** is a method for managing customer money used to make purchases and pay bills. It is kept by a bank that provides ways for customers to deposit and use the money whenever the customer wants or needs it.

   1. ***Checks*** are slips of paper used to make purchases or pay bills. Checks contain a routing number, an account number, and the customer's personal information (e.g., address and phone number). ***Routing numbers*** are a sequence of digits used to identify the customer's bank. ***Account numbers*** are a sequence of digits used to identify the customer's checking account.
   2. Debit cards are plastic wallet-size cards with an electromagnetic strip containing information about the customer's checking account. Debit cards are used to make purchases, pay bills, and withdraw cash. When a debit card is used, the money comes out of the person's checking account.
      a. ***Prepaid debit cards*** are cards that have a specific amount of money assigned to them. Once the money is spent, the card will no longer work.
      b. ***Reloadable debit cards*** are prepaid cards that can have more money assigned to them when all of the money has been spent.
      c. Cash back is offered by many businesses. When customers make purchases with their debit cards, they have the option of getting cash from their checking account. The cashier would give the customers cash, and that cash amount would be subtracted from the customers' checking accounts, along with their purchase amounts.

B. Accounts can be linked together so money can be moved from one account to another. Businesses use this feature to manage operational budgets. Individuals use this feature to move money from savings into checking when needed or to move money between checking accounts.

C. When a check or debit card is used to make a purchase and there is not enough money in the checking account, the bank will return the check to the business and say there are "insufficient funds" in the checking account. This is also called a "bounced check."

   1. For example, Ted has $700 in a checking account and writes a $1,000 check to buy a car stereo at Best Buy. Best Buy sends the check to Ted's bank expecting the bank to take $1,000 out of Ted's checking account and send it to Best Buy. The bank does not send Best Buy $1,000 because there is only $700 in Ted's checking account. When this happens, Ted may be charged a $40 fee by both the bank and Best Buy.
   2. ***Overdraft fees*** are penalties charged to the checking account when a customer makes a purchase for more money than is in the checking account.

D. One banking option is to have "overdraft protection" on the checking account to help avoid overdraft fees. For instance, Ted had $500 overdraft protection on his checking account. So the bank paid Best Buy $1,000 and informed Ted that his account had a negative balance of $300. Ted still must deposit $300, but he does not have to pay the additional overdraft fees.

E. Some checking accounts have charges for each check that is written. Such accounts put a limit on the number of checks that can be written each month without charges. For example, Ted selected a checking account with five free checks per month, and a $0.50 fee per additional check written that month.

F. Some checking accounts require a minimum balance. If the balance goes below the minimum, a fee may be charged that month. For instance, Julie was given the choice of having a checking account with a $200 minimum balance and free check writing or an account with no minimum balance and $0.25 cents per check. She selected to keep a $200 minimum balance and have free check writing.

G. Autopay is a situation in which bills are paid out of a checking account automatically each month. For example, Bill moved into an apartment when he went to college. He set up an autopay to have his electric bill electronically paid each month out of his checking account, so he did not have to remember to do anything.

H. Depositing is putting money into a checking account. There are different options for depositing.

   1. A direct deposit is making a deposit without having to handle any paper or visit an ATM or the bank. For instance, Isabelle set up a direct deposit with her job at Subway. The store electronically deposited her weekly paycheck into her checking account.
   2. ***Remote and online depositing*** is sending an image of a check to the bank to have the funds credited to an account and sending in the physical check later. For example, Xavier scanned his birthday checks and emailed them to the bank to make a remote deposit since he needed to use the money quickly to buy a book for his new Biology course that was starting in two days. Xavier was able to buy his Biology book, and he mailed the birthday checks to the bank with a deposit slip the next day.

Teaching Strategy: *Use VM–A through VM–C. Have students sketch a money flow map of how money moves when a check is written or a debit card is used. (For example, a check moves from a customer to a business… a business to a bank… a bank to a business.) Have students review information at http://banking.about.com/od/checkingaccounts/a/checkingaccountinfo.htm and create a student panel presentation that discusses important things to consider and mistakes to avoid when opening a checking account.*

Objective 2: Explain savings account options.

Anticipated Problem: What are savings account options?

II. Savings account options are used to store money for later use. In addition, some options can help increase the amount of money via interest. The following are examples of savings account options.

A. A ***savings account*** is a bank storing money that the customer does not plan on using until later.

1. Some savings account options include keeping a minimum balance. If the account goes under the minimum balance, a monthly fee may be taken out of the savings account.
2. Savings accounts may have fees for a number of transfers or withdrawals from the account. These fees are in place to remind the customer that the purpose of a savings account is to leave the money in the account instead of moving it around or using it. For example, Trisha has a savings account with a minimum balance of $200. If she goes under that balance or transfers or withdraws money out of the savings account more than four times per month, a $5 fee is charged.
3. As a reward for saving money, the bank adds interest to the account. Interest is a small addition to the savings using a formula that considers the amount of money saved and how long it has been in the account. For instance, Trisha has a 2.5 percent interest rate on her savings account.

B. A certificate of deposit (CD) is a timed savings plan in which the money cannot be used until an agreed end date. The interest rate is usually a little higher than a regular savings account. For instance, Tom's family bought him a $1,000 CD that can be cashed out in one year at a 5 percent interest rate.

C. Both IRAs and 401Ks are special savings accounts in which the money is accessible to customers when they reach retirement. For example, Elena is too young to start a retirement account. After Elena graduates, she plans on looking for a job that offers a retirement savings account. If she cannot find a job that offers a retirement account, she plans on starting her own IRA.

D. A "holiday account" is an example of a special savings account in which the customer saves money and uses it during the holidays to purchase gifts, etc.

Teaching Strategy: *Use VM–D through VM–F. Have students visit http://www.financialplanningadvices.com/saving-money/savings-accounts-vs-certificates-of-deposit.html to compare savings accounts versus CDs.*

Objective 3: Explain tips for young adults (and new college students) when selecting banking options.

Anticipated Problem: What are some tips for young people when selecting banking options?

III. Banking options: Emerging banking technology; security issues; budgeting software; and tips about using debit cards

A. Emerging technology trends in banking options

1. "Square technology" is based in i-Phones and enables customers to make purchases without using a plastic credit card and without receiving a paper

receipt. The technology connects customers with businesses, businesses with banks, and banks with credit cards to enable purchases without swiping cards. In addition, the customers receive their receipts via email.

2. Biometrics is an improvement in customer banking security as it requires scanning of the customers' eyes and/or fingerprints as a security/identification method. Biometrics is used in some ATMs. Instead of entering a pin, the customers have their eyes or fingerprints scanned.

B. It is best to use a combination of Internet and brick-and-mortar with local branch accessibility. If possible, customers should choose banks that offer online banking service and a local branch. As a result, customers could complete their banking using their personal computers anytime and anywhere. In addition, they could have face-to-face visits with bankers if needed.

C. FDIC stands for "Federal Deposit Insurance Corporation." It was started in 1933 and offers insurance for bank customers. If the bank "fails" and loses the customers' money, the FDIC will ensure that the customers' money is made available to them if the bank cannot provide it.

D. It is critical to look for appropriate online banking security.

1. The online banking website should always begin with "https." Also, the website should show that it has an SSL certificate.
2. It is important to never have browsers save online banking passwords automatically.

E. It is important to watch out for unnecessary fees, especially if using online banking. Online banking usually offers the best interest rates and the least amount of fees, especially if the bank has no brick-and-mortar facility. Online banks have fewer costs in general, and that is why they offer better interest rates and less fees. However, it is critical to shop around and to find an FDIC online bank with less fees and better interest rates.

F. It is necessary to use software budgeting tools (e.g., Quicken™) to balance checkbook and account records. The software checkbook should be kept balanced by synchronizing it with bank information online.

G. Identity theft happens when the thief uses another person's personal identification information to complete financial transactions that are charged to the victim and his or her credit or debit card.

1. When ordering checks, it is best to minimize the amount of personal information printed on the check. For example, Social Security and phone numbers should not be printed on checks.
2. If checks, debit cards, or credit cards are lost, it is essential to call and notify the bank immediately.

H. Notes about debit cards

1. Each person has a credit score based on how well he or she has repaid loans in the past, how much debt he or she currently has, and other variables. Debit cards can be obtained without a credit check. Also, while some laws do not

allow minors to take out credit cards, checking accounts and debit cards are not limited as much by age.

2. Debit cards eliminate the need to write paper checks and eliminate the possibility of personal information listed on a paper check being stolen by someone handling the paper check.
3. Debit card transactions come out of the account at the time of purchase, and there is no credit card bill to pay later.
4. Businesses accept debit cards easier than paper checks since paper checks can "bounce," but debit cards are not as likely to come back with insufficient funds.
5. Debit cards will not always show when an overdraft is occurring and will sometimes accidently allow a purchase when there is not enough money in the checking account.
6. Debit cards can be used to take cash from ATMs, thereby avoiding cash advance charges and interest rates that accompany using a credit card to receive cash.
7. Debit card fraud is generally not covered to the same extent as credit card fraud. Skimming is a situation in which a thief steals the debit card number and PIN number and makes a fake duplicate debit card that works like the real card.
    a. Customer protection is limited in skimming fraud. Often it must be reported to the bank in a few days.
    b. In addition, the customer generally is not reimbursed 100 percent of the fraudulent transactions.
    c. Therefore, credit cards offer better customer protection in terms of reimbursing fraudulent charges and giving the customer a bigger window to report the fraud.

Teaching Strategy: *Use VM–G through VM–I. Have students visit http://articles.cnn.com/2011-05-23/tech/square_1_credit-card-jack-dorsey-cell-phones?_s=PM:TECH to read about contact-less debit technology called "Square" technology.*

- **Review/Summary.** Use the student learning objectives to summarize the lesson. Have students explain the content associated with each objective. Student responses can be used in determining which objectives need to be reviewed or taught from a different angle. Questions at the ends of chapters in the textbook may also be used in the Review/Summary.

- **Application.** Use the included visual master(s) and lab sheet(s) to apply the information presented in the lesson.

- **Evaluation.** Evaluation should focus on student achievement of the objectives for the lesson. Various techniques can be used, such as student performance on the application activities. A sample written test is provided.

Answers to Sample Test:

Part One: Matching

1. h
2. d
3. g
4. a
5. b
6. c
7. e
8. f

Part Two: True/False

1. T
2. F
3. F
4. F
5. T
6. F
7. F

Part Three: Short Answer

1. Answers will vary and may include the following: Debit cards can be used without a credit check. Debit cards eliminate the need to write paper checks and eliminate the possibility of personal information listed on a paper check being stolen by someone handling the paper check. Debit card transactions come out of the account at the time of purchase, and there is no credit card bill to pay later. Businesses accept debit cards easier than paper checks because paper checks can “bounce,” but debit cards are not as likely to come back with insufficient funds. Debit cards will not always show when an overdraft is occurring and will sometimes accidentally allow a purchase when there is not enough money in the checking account. Debit cards can be used to take cash from ATMs.
2. Answers should include savings account and checking account. The information for each may vary. See “Content Summary” I.A.1–2.a–c. for checking accounts. For saving accounts, see: “Content Summary” II.A–D.

Sample Test

Name ______________________________

Banking Options

Part One: Matching

Instructions: **Match the term with the correct definition.**

a. overdraft fees
b. reloadable debit cards
c. savings account
d. checking account
e. checks
f. routing numbers
g. prepaid debit cards
h. account numbers

_____1. A sequence of digits used to identify the customer's checking account

_____2. A method for managing customer money used to make purchases and pay bills

_____3. Cards that have a specific amount of money assigned to them

_____4. Penalties charged to the checking account when a customer makes a purchase for more money than is in the checking account

_____5. Prepaid cards that can have more money assigned to them when all of the money has been spent

_____6. A bank storing money that the customer does not plan on using until later

_____7. Slips of paper used to make purchases or pay bills

_____8. A sequence of digits used to identify the customer's bank

Part Two: True/False

Instructions: **Write *T* for true or *F* for false.**

_____1. You can deposit money into a checking account whenever you want.

_____2. A prepaid card will work even when it has run out of money.

_____3. Getting cash back is an option when you pay with a check.

_____4. Savings accounts are meant to be withdrawn from on a regular basis.

_____5. IRAs and 401Ks are special forms of savings accounts that become available upon retirement.

_____6. Using biometrics involves iPhones and does not result in the use of a plastic card or a paper receipt.

_____7. It is a good idea to have your computer save passwords for your online bank account(s).

Part Three: Short Answer

Instructions: **Answer the following.**

1. What are two facts about debit cards?

2. What are the types of accounts addressed in this lesson, and what are two facts about each?

CHECKING ACCOUNTS AND CHECKS

A **checking account** is a method for managing customer money used to make purchases and pay bills. **Checks** are slips of paper used to make purchases or to pay bills. Checks contain a routing number, account number, and the customer's personal information. **Routing numbers** are a sequence of numbers used to identify the customer's bank. **Account numbers** are a sequence of numbers used to identify the customer's checking account.

DEBIT CARDS

- Debit cards are plastic cards with a magnetic strip containing information about the customer's checking account.
- Debit cards are used to make purchases, pay bills, or withdraw cash. When a debit card is used, the money comes out of the checking account.
  - **Prepaid debit cards** are cards that have a specific amount of money assigned to them. When the money is all spent, the card will no longer work.
  - **Reloadable debit cards** are prepaid cards that can have more money assigned to them when all of the money has been spent.
  - Cash back is offered by many businesses. When the customer makes a purchase with the debit card, he or she has the option of getting cash from the checking account. The cashier gives the customer cash, and that cash amount is subtracted from the customer's checking account, along with the purchase amount.

TRANSFERS AND ACCOUNT LINKING

- Accounts can be linked together so money can be moved from one account to another.
- Businesses use this feature to manage operational budgets.
- Individuals use this feature to move money from savings into checking when needed or to move money between checking accounts.

SAVINGS ACCOUNTS

- A **savings account** is a bank storing money that the customer does not plan on using until later.
- Minimum balances and fees:
  - Some savings account options include keeping a minimum balance. If the account goes under the minimum balance, a monthly fee may be taken out of the savings account. Savings accounts may have fees for the number of transfers or withdrawals from the account. These fees are in place to remind the customers that the purpose of savings accounts is to leave the money there instead of moving it around or using it.
  - For example, Trisha has a savings account with a minimum balance of $200. If she goes under that balance or transfers or withdraws money out of the savings account more than four times per month, a $5 fee is charged.

INTEREST RATES

- As a reward for saving money, the bank adds interest to the account. Interest is a small addition to the savings using a formula that considers the amount of money saved and how long it has been in the account.
- For instance, Tom has a 2.5 percent interest rate on his savings account.

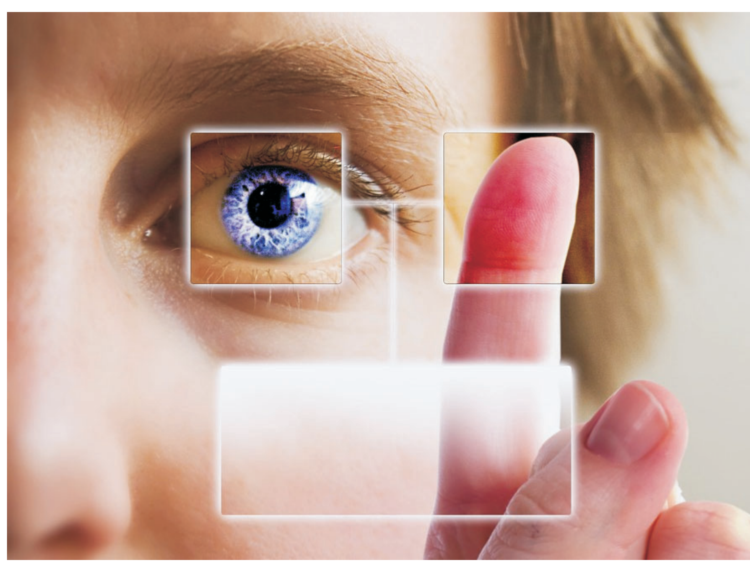
CDS, RETIREMENT, AND SPECIAL ACCOUNTS

- A certificate of deposit (CD) is a timed savings plan in which the money cannot be used until an agreed end date. The interest rate is usually a little higher than that of a regular savings account.
  - For instance, Jenny's family bought her a $1,000 CD that can be cashed out in one year at a 5 percent interest rate.
- IRAs and 401Ks are special savings accounts in which the money is accessible to customers when they reach retirement.
  - For example, Carmen is too young to start a retirement account. After Carmen graduates, she plans to look for a job that offers a retirement savings account. If she cannot find a job that offers a retirement account, she plans to start her own IRA.
- A "holiday account" is an example of a special savings account in which the customer saves money and uses it during the holidays to purchase gifts, etc.

EMERGING TECHNOLOGY

- "Square technology" is based in i-Phones and enables customers to make purchases without using a plastic credit card and without receiving a paper receipt. The technology connects customers with businesses with banks and banks with credit cards to enable purchases without swiping cards. Also, customers receive their receipts via email.

- Biometrics is an improvement in customer banking security, as it requires scanning of a customer's eyes or fingerprints as a security/identification method. Biometrics is used in some ATMs.



COMBINING ONLINE WITH BRICK AND MORTAR; FDIC

- If you can, choose a bank that offers online banking service and has a local branch. This way, you can complete banking using your personal computer online anytime and anywhere. In addition, you can have a face-to-face visit with bankers, if needed.
- FDIC stands for "Federal Deposit Insurance Corporation." It was started in 1933 and offers insurance for bank customers. If the bank "fails" and loses the customer's money, the FDIC will ensure that the customer's money is made available to him or her if the bank cannot provide it.

ONLINE BANKING SECURITY AND FEES

- Look for appropriate online banking security.
  - Always make sure the online banking website begins with "https." Also, the website should show it has an SSL certificate.
  - Never have browsers save your online banking passwords automatically.
- Watch out for unnecessary fees, especially if using online banking. Online banking usually offers the best interest rates and the least amount of fees, especially if the bank has no brick-and-mortar facility. Shop around and find an FDIC online bank with less fees and better interest rates.

LS–A

Name ____________________

Starting a Personal Banking Plan

Purpose

The purpose of this activity is to identify personal banking options to use for managing personal finances.

Objectives

1. Examine different banking options.
2. Create a personal plan with options you will use and why you will use them.

Materials

- lab sheet
- writing utensil
- Internet-connected computer
- word processor

Procedure

1. Complete Internet searches using the keywords provided in this lab. Read through websites of interest in these areas, taking notes (on the back of your lab sheet) about information that is most interesting and useful to you.
2. Answer the “Personal Banking Plan” questions provided in this lab.
3. Write a two-page summary of what banking services you plan to use to manage your money.
4. Share your answers in a large group discussion.

Lab Keyword Search

1. online checking accounts
2. savings account options
3. debit cards
4. ATM cards
5. personal finance software

Personal Banking Plan Questions

1. Do you plan to use checks and/or a debit card? Explain why.
2. In what different situations would you need to use a check versus a debit card?
3. Regarding the "cash back option" when using a debit card… Do you see this as a good or bad idea? When would you use that option?
4. Do you see any reason to select a preloaded debit card versus a regular checking account debit card? Explain why you made this choice.
5. Do you see any benefit in having a reloadable debit card versus a regular checking account debit card? Explain why you made this choice.
6. Will you use a checking account, savings account, or both?
7. Will you use overdraft protection? Explain why you made this choice.
8. Will you select a checking or savings account that has minimum balances or no minimum balances? Explain why you made this choice.
9. Will you select a checking account that has check writing fees or no fees? Explain why you made this choice.
10. Do you see any uses for CDs or special savings accounts?
11. Will you use brick-and-mortar banking, online banking, or both? Explain why you made this choice.
12. What personal financial software would you choose?
13. Are there any special security steps you will take while doing your banking?

Starting a Personal Banking Plan

The main point of this lab is to get students thinking about banking options. It is better to grade this assignment as a “pass/fail” (or do not assign a grade) and to use the answers to generate classroom discussion and learn how your students think when it comes to banking services and managing money. The discussion is an opportunity for you to interject your personal tacit knowledge related to using banking options that may benefit your students.

Make sure throughout this lesson and lab that students do not share any specific information about banking options they currently use. For example, we do not want to broadcast to classmates if students are carrying credit or debit cards or checkbooks in their purses, wallets, or book bags, etc.