

Lesson 3: Bank Account Basics

Student Guide Pages: 32-35

Lesson Objectives: By the end of this lesson, your students should be able to:

- Explain how a bank works
- Determine how to prevent themselves from dipping into their emergency fund

Lesson Summary:

Remember, your emergency fund needs to be in a liquid account, a financial term that means the money is accessible. Since you never know when an emergency is going to happen, you must have access to that money at all times. For most people, this means putting it in a bank.

Banks are financial institutions that are in the business of keeping money safe and lending it out. The bank often pays interest on money held there. In essence, the bank is renting your money. Interestingly, only about 10 percent of your money is actually in cash and in the bank vault at any one time. The other 90 percent is loaned out by the bank, at a higher interest rate than they are paying you. This is one of the ways a bank makes money.

Since banks need your money, they try to convince you to deposit it, often with the use of checking and savings accounts. *Savings accounts* are for saving money and typically pay a higher interest rate. *Checking accounts* allow you to transfer money easily, either with a check or a debit card.

A *check* is a legal contract to transfer money. Like any other contract, it must be signed by two people: The *check writer* (you) signs the front, and the *payee* (the receiver of the money) signs, or *endorses*, the back. When you write a check you authorize an amount of money to be moved from your account to the payee's, and the payee agrees to accept it.

A *debit card* does the same thing, only electronically. When you swipe and enter your PIN, you authorize the transfer of money from your account to another.

While debit cards are great for checking accounts, you should not get one for your savings account. Savings accounts are just that, for saving. In other words, the money should be difficult to get. For this reason, it's best not to link your checking and savings accounts, online or otherwise. Ideally, place them at separate banks so the money in your savings is harder to get!

Once you set up your account and start contributing to it, you might want to consider some of the other accounts banks offer. Here are two of the most popular:

- ***Money market account:*** The *money market* is a market where corporations, governments, and individuals can borrow large amounts of money for a very short term. Some companies need to borrow money for only one night, so they go to the money market. Whose money do they borrow? Yours! If you open a money market account at your bank, you agree to let your bank loan that money to the money market. It's a bit riskier than a bank account, but it pays more interest.
- ***Certificate of deposit account (CD):*** A *CD* is like a savings account with a lock on it. If you agree not to touch the money for a certain amount of time, anywhere from one month to several years, the bank agrees to pay you a higher interest rate than what a regular savings account earns. While a CD can be a great way to save money, it is *not* the best place for your emergency fund, because there are penalties for taking the money out early.

Review Questions:

- If you already have a bank checking account, why not just use that for your emergency fund?

Answer: The emergency fund is for emergencies, not for everyday bills. The money cannot be too easy to access. It's best to have a separate account with no ATM card attached to it.

- What's a credit union?

Answer: A *credit union* is a nonprofit bank, and its customers are referred to as *members*. Credit union members actually own the credit union and share the profits via lower fees and better interest rates.

Homework Assignment:

Direct students to find out the fees on their bank accounts. If they don't have an account, advise them to collect information from three local banks or credit unions. What are the fees, and what do these offer? Is there a better deal? Tell them to ask about interest rates, the cost of checks, monthly fees, and account minimums. They can look online, go in person, or use information from a bank account they already have, and this can even be a group project.

Class Activity

After homework completion, have the class bring in their findings about banks and credit unions in the neighborhood. Are there better

deals out there? Ask students which bank they would choose and why. Is it the website? Low fees? The hours?

Additional Information:

www.bankrate.com: Publishes the best interest rates all banks are offering.

www.cuna.org: The website of the Credit Union National Association can help you find credit unions in your area.

www.ncua.org: The website of the National Credit Union Association can also help you find credit unions in your area.

Fun Facts:

The first bank Jesse James robbed was the Clay County Savings Association in the town of Liberty, Missouri. It was the first armed robbery of a U.S. bank after the Civil War.

Notes: _____

Parts of a Check

1. Checks include the check writer's name and address so people know who wrote the check.
2. Checks are numbered so you can keep track of them.
3. Checks are dated when the check writer fills them out.
4. The name of the party (the payee) to whom you are making a payment is written here.
5. The amount you are writing a check for is written here, in numerals.
6. To eliminate errors, banks also ask you to write out, in words, the amount of the check.
7. The bank where the checking account is held is always placed on the check. This tells the person cashing the check where the money will come from.
8. Checks have a memo line to reference what the check is for, such as rent or dry cleaning.
9. Remember that you must sign the check, agreeing to have the amount withdrawn from your checking account.
10. The first set of numbers at the bottom of the check is the *routing number*. Every bank has a unique routing number to help them sort the checks they receive.
11. The second set of numbers at the bottom of the check is your *account number*. This informs the bank which account to withdraw the money from.
12. The back of the check must be endorsed or signed, by the payee, the person the check is made out to. By signing, the payee legally agrees to accept the money.

