

## Financial Capability Curriculum



### Lessons On:

Savings | Credit | Loans | Financial Psychology  
Income | Risk Management | Insurance | Debt



ETRENDS

GROUP

Your Prosperity Advisor

# Introduction to Personal Finance

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# Account Management







# Account Management

You will be introduced to the banking process. You will learn how to locate a bank or credit union with which you want to do business, what accounts you should have open, and how to handle those accounts in a professional manner.

## Banking Basics

### Warm-Up Activity

Why should you put your money in a bank?

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### ▀ Banks and Credit Unions

How you manage your money today determines whether you achieve financial freedom tomorrow. Opening and maintaining the right bank accounts is a very important aspect of good money management.

The accounts you have open with a bank or credit union are the center of your financial planning. Everyone needs checking and savings accounts. All your money will transfer from these accounts to pay your bills and to fund your investments.

#### HOW BANKS AND CREDIT UNIONS WORK

As a business model, the banking concept is pretty simple. In short, banks use your money to make loans to other account holders.

- **SAVERS** deposit money and earn interest.
- **BORROWERS** borrow money and pay a higher interest rate to the bank, so the bank makes money.

Banks make money by lending money to people at higher rates than they pay the people who deposit money. For example, you deposit money in a savings account and earn 2.25% interest. The bank can then lend money to other customers at an interest return of 8%. The bank earns the difference.

The difference between a bank and a credit union is that a bank is **for-profit**. The income a bank makes is given to its stockholders and investors. A credit union, on the other hand, is **not-for-profit**. The members of a credit union are its owners, and any income the credit union makes is reinvested into the organization.

# Banking Basics

## DO YOU NEED CHECKING AND SAVINGS ACCOUNTS?

Yes, you do. Here are several compelling reasons to open checking and savings accounts:

- **SAFETY.** Storing your money in a bank is safer than holding cash. Please note that you should still keep several months of cash safely hidden at your house as well.
- **INTEREST.** The bank pays you interest every month just for depositing your money there.
- **DIRECT DEPOSIT.** You can have your employer deposit your paycheck electronically into your checking account.
- **ORGANIZATION.** Bank accounts help you track spending, manage savings, and stay on target with your budget.
- **FUTURE.** Building a relationship with a bank will pay off in the future as your banking needs increase.

## Lesson Activity: Banks vs. Credit Unions

Mark the table below to indicate whether a feature is an advantage or disadvantage.

BANKS				CREDIT UNIONS			
	Advantage	Neutral	Disadvantage		Advantage	Neutral	Disadvantage
Large and smaller				Smaller and regionally located			
Typically have a lot of branches and ATMs				Typically may not have a lot of branches or ATMs			
Typically do not offer the best rates on savings accounts				Typically have good rates on savings accounts			
Charge fees for some accounts				Do not charge fees for accounts			
For-profit companies				Nonprofit organizations so profits are reinvested in the credit union			
Serve their investors and stockholders				Serve their members (customers)			



In order to decide which bank or credit union is right for you, consider your expectations and purposes in opening the accounts. Will your accounts be used for business, pleasure, savings, wage deposits, or eventual loans?

- First, choose a credit union that offers online banking. In today's economy, you cannot do without this feature. Online banking allows you to check balances from the comfort of your home or office. You can pay all your monthly utilities, cell phone, and credit card bills electronically without ever writing a check.
- Next, look at the costs. Financial institutions are competitive, so ask about and compare fees for opening and running an account. Many institutions charge fees for both checking and savings accounts. They also may charge separate fees for such things as:
  - Receiving statements in the mail
  - Online banking
  - Multiple checkbooks
- Finally, choose a bank or credit union that's convenient to where you work or live. Since you can now access your accounts online or by phone, you can make many bank transactions without ever visiting the bank. However, you will want to check out the locations of your bank's ATMs (Automatic Teller Machines).
- Over time, build a long-term relationship with your chosen financial institution. The longer you remain a good customer, the more benefits you'll receive. As you build a banking relationship, the next time you need a car loan, investment account, student loan, or home loan you may find that the terms of those services improve along with the relationship.

In summary, opening and automating your accounts is the first step toward building a financial foundation. Find a credit union or bank with which you can grow over time. Look for one that offers the services you need now, as well as those you may need in the future. Be a good customer and grow with your bank. As that relationship grows, so will the benefits you receive.

# Banking Basics

If you had past problems with a bank or credit union, you may have trouble opening an account. Visit <https://www.consumerdebit.com/consumerinfo/us/es/chexsystems/report/index.html> to see if there is a problem being reported. If so, use this form letter to clear up your ChexSystems report.

## CHEXSYSTEMS FORM LETTER

Mail to:

ChexSystems, Inc.  
7805 Hudson Road, Suite 100  
Woodbury, MN 55125

*Your Full Name*  
*Social Security Number*  
*ID number (listed on ChexSystems Report)*  
*Address*  
*Contact Number*  
*Name of the bank you are disputing*  
*Bank's Address*  
*Account Number*

This letter is about the issue with *(account number, bank)* which I dispute and which I would like your help in clearing. I am disputing both the validity of the alleged debt and the validity of your report.

The Fair Debt Collection Practices Act requires evidence that has my signature and shows I have a contractual obligation to pay. As you are aware, any negative mark on my ChexSystems report for a debt I don't owe is in violation of the Fair Credit Reporting Act (FCRA). Therefore please delete the entry in question.

My permission is required before you take any action that could negatively affect my rating with credit reporting agencies.

*Full Name*  
*Signature*

## Lesson Questions

1. Which of the following statements is true regarding banks and credit unions?
  - a. They offer completely different services.
  - b. Their members own part of the financial institution.
  - c. They typically have the same interest rates.
  - d. They both typically provide savings, checking, and other types of accounts.
2. Which of the following statements is true about credit unions?
  - a. They are nonprofit organizations.
  - b. The Board of Directors serves the shareholders.
  - c. They usually charge higher fees than banks.
  - d. They usually pay lower interest on savings accounts.



## Essential Questions

What is a bank?

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What is a credit union?

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What are the advantages and disadvantages of credit unions?

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What are the advantages and disadvantages of banks?

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## Banking Essentials

### Warm-Up Activity

What is the difference between a checking and savings account?

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### ▀ Evaluating Account Options

- A **CHECKING ACCOUNT** is where most of your transactions will take place. This is the brain of your bank account and will handle most of your money's "ins and outs." For this reason, checking accounts pay little or no interest.
- A **SAVINGS ACCOUNT** pays interest for each day you leave your money on deposit. These are the accounts where you deposit money for short-term and long-term savings. As the money in your accounts grows, the effect of compound interest begins working in your favor.

Once you have chosen the credit union or bank that best suits your needs, immediately open both a checking and a savings account. This is the first step toward getting your finances in professional order.

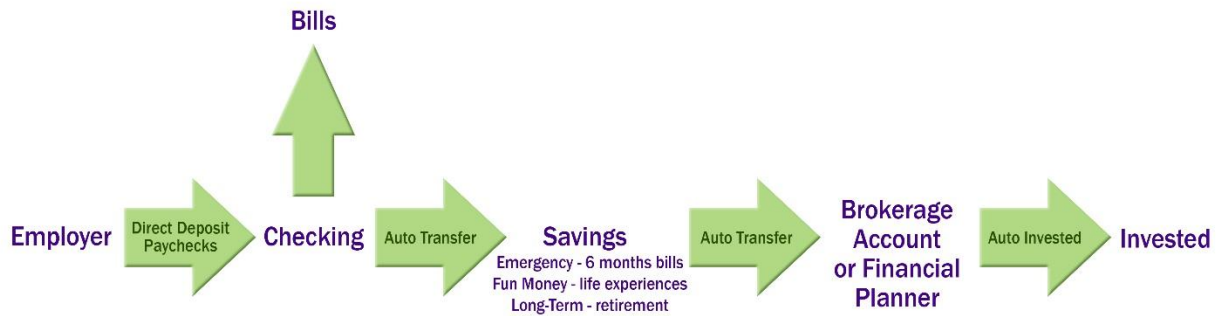
Your savings account is where you will keep your **EMERGENCY FUND**—enough cash set aside to cover six months of your expenses. Your long-term savings also will rest in your savings account before it's moved into an investment.

You also want to have money set aside for fun. It helps to keep your **FUN FUND** separate from your long-term account (as long as the fees for having a separate savings account are minimal). Separating your savings deliberately lets you know exactly how much you have left over to spend on vacations, toys, and clothes for you, and gifts for others.

Savings and checking accounts can be linked to allow easy money transfers between accounts. Ideally, set up your accounts to automatically transfer a set portion of your money each month from checking to savings. That way saving money becomes easy and automatic.

# Banking Essentials

Keep on top of your account balances so you know how much money you have available to spend at any time. In the past you may have balanced or seen someone balancing a checkbook by hand; that's what people had to do 40 years ago. In today's age the online banking feature balances your accounts for you.



Use online banking feature to write checks, pay bills, and transfer money. The system will do the math for you, but be sure never to spend more money than you have in the account. When you spend more money than you have, your account becomes overdrawn. Banks charge hefty fees for being overdrawn, so make sure you have enough money to cover your bills.

There's no time like the present to get in the habit of keeping your finances organized and paying your bills on time. Using automatic online bill pay makes banking a breeze. The bank automatically sends a check for you, each month, for a given amount and on the date you choose.

Online bill pay has many advantages:

- **PROFESSIONALISM.** The checks are typed out by the bank, instead of hand-written.
- **TIMELINESS.** Payments are sent like clockwork.
- **ACCURACY.** The bank keeps accurate records and up-to-the-minute reporting.
- **TIME-SAVING.** Your accounts are balanced automatically, which saves you time.

Check your bank statement *every month*. Just one mistake—by the bank, by you, or by a third party—might cost you hundreds of dollars or more! The sooner you catch mistakes, the easier they are to fix. In cases of fraud, identifying the fraudulent charges early saves you money too.

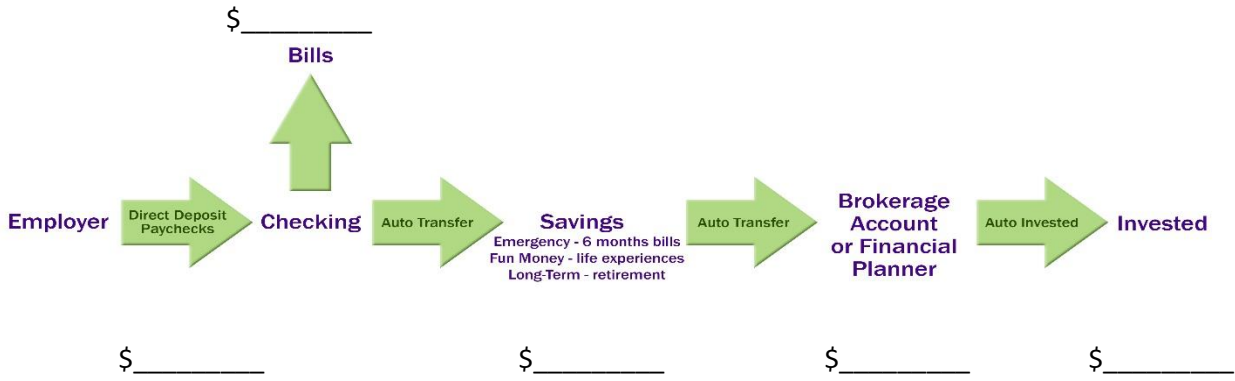
Developing a long-term bank relationship and using the latest online technology lets you handle your banking in a businesslike manner. Your bills will be paid on time with little effort. Your accounts will be automatically balanced and your outgoing checks will look professional.



## Lesson Activity: Let's Bank

**SCENARIO 1:**

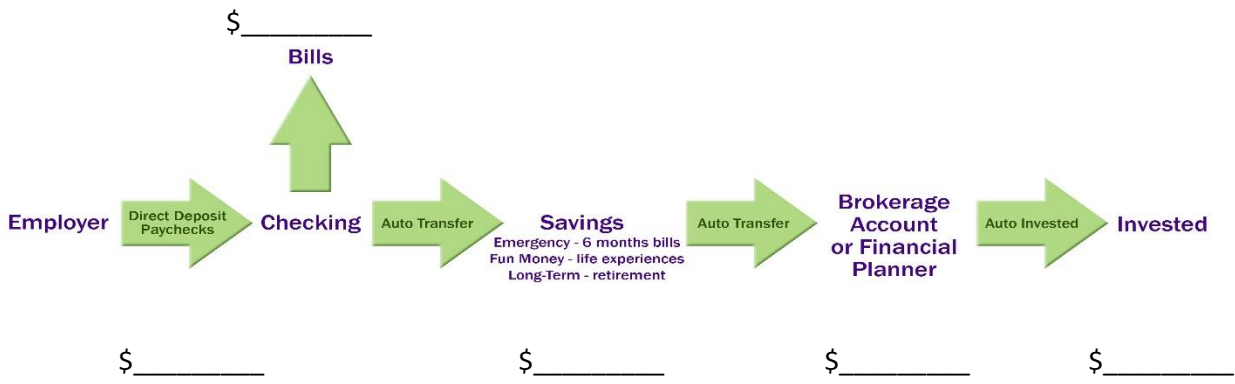
- You have an income of \$4,000 per month.
- You want to set up \$1,500 worth of bills on auto-pay each month.
- You want to save \$9,000 this year. Be sure to set up enough money to be automatically deposited into your savings each month to achieve this goal.
- You also want to save and invest some money each month.



Remaining Funds: \$ \_\_\_\_\_

**SCENARIO 2:**

- You have an income of \$5,500 per month.
- You want to set up \$2,500 worth of bills on auto-pay each month.
- You want to save \$12,000 this year. Be sure to set up enough money to be automatically deposited into your savings each month to achieve this goal.
- You also want to save and invest \$500 each month.



Remaining Funds: \$ \_\_\_\_\_

## Lesson Activity: Concept to Practice

The following are two activities for you to complete on your own that will help you get your automated finances started.

**Activity #1:** Locate a bank with which you want to do business. Remember that when you open a bank account, you are potentially establishing a relationship that may last quite a few years. Large national banks offer many services, some of which you may not use now but may need in the future. Building a long-term relationship with a bank means one day you will receive preferred treatment.

Make sure the bank you choose offers online banking. It simplifies your life and makes all your banking transactions available at the click of a button. It also gives others the impression that your bills are handled by a professional accountant. Use the steps we went through earlier to help you decide on the bank that's best for you.

**Activity #2:** Once you have chosen the bank that best suits your needs, do the following:

1. Open a checking account and a savings account.
2. Set up direct deposit with your employer.
3. Set up the automatic bill payment system.
4. Set up an automatic savings plan.
5. If you have money to invest, set up an automatic investment plan.



## Lesson Questions

1. Which type of bank account is typically the one you use to pay your bills?
  - a. Savings account.
  - b. Checking account.
  - c. Investment account.
  - d. Automatic online bill-pay account.
2. What is the role of an emergency fund?
  - a. To have money set aside for wants.
  - b. To invest in the stock market, real estate, or a business enterprise.
  - c. To fall back on in case of a job loss or unexpected expenses.
  - d. All of the above.
3. A checking account is
  - a. A savings account that pays the depositor a high rate of interest.
  - b. A credit account.
  - c. A transactional account that allows the account holder to make deposits and withdrawals.
  - d. An investment account.



## Essential Questions

What's the purpose of a bank? \_\_\_\_\_  
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What conveniences do ATMs provide? \_\_\_\_\_  
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What is a checking account? \_\_\_\_\_  
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What is a savings account? \_\_\_\_\_  
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\_\_\_\_\_

## Debit Cards vs. Credit Cards

### Warm-Up Activity

Take a minute to reflect on the following quote:

“The only reason a great many American families don’t own an elephant is that they have never been offered an elephant for a dollar down and easy weekly payments.” *Mad Magazine*

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### Debit Cards

A debit card works like a plastic check. Just like when a check clears, using your debit card deducts money automatically from your checking account. The money is automatically withdrawn at the time of the transaction—unlike a credit card, where the charge is placed on a bill that you’re asked to pay later.

Your bank or credit union can issue you a debit card. Debit cards from a bank have one drawback: you can be charged over-limit fees if your purchases exceed the amount in your checking account.

Private organizations also issue debit cards, which can be a great way to start out. Private debit cards require cash deposits that are applied to the card, so the card would be denied if you tried to make purchases beyond the amount of your deposit. Private debit cards let you learn how to use your “plastic” without worrying about incurring over-limit fees.

### Credit Cards

No discussion about money management is complete without addressing credit cards.

Using a credit card is basically the same as a loan. The credit card company lends you money and charges you fees (interest) to borrow their money. The interest rate is determined from your credit history (your past record of paying bills and handling credit). For instance, let’s say you borrow \$1,000 and your interest rate is 25%. If you don’t pay the loan off until a year later, you would owe \$1,250.

# Debit Cards vs. Credit Cards

## It's All about Convenience

Credit cards are convenient; most businesses accept them and they're easier to carry than cash. Credit cards can be a handy tool for purchasing clothes and groceries as long as you pay the bills in full each month. Avoid carrying the costs and paying sizable interest fees. When faced with an emotional or impulse purchase, pulling out the plastic can be far too easy to do. If money is tight, it's easy to talk yourself into thinking "charging it" is no big deal. But if you don't take spending seriously, receiving that credit card bill can be a painful experience.

- A new pair of shoes that were on sale at a great price = \$68
- A friend came in town for the weekend and you had no cash = \$75
- A dinner out with the family = \$48

While those expenses might not seem large individually, together they total *\$191*. If you don't have the money this month, how can you expect to have enough to pay off the bill when it arrives next month? And if you don't pay it off in full, the credit card company will start adding finance charges. The longer you carry a balance, the farther down you get toward spiraling out of control. Use an online 'debt payoff calculator' to illustrate how fast credit card debt can multiply.

## Be a Bad Customer

The best way to manage a credit card is to be the company's worst customer. Credit card companies make their money when customers carry a balance from month to month. Plan and budget for your purchases properly so you can pay your credit card bills in full each month.

Carrying a small debt for two, maybe three months is not ideal, but is not the end of the world. If you start carrying balances longer than three months, that can be a good indicator that you're developing a debt management problem.

## "Cut it out"

If you can't handle credit card debt, you need to literally "cut it out"—snip your plastic cards into pieces before you get into real trouble!

Whether your balance is \$300 or \$3,000, at 24% interest, the interest is working against you—undercutting your financial freedom. Trouble typically begins when people make common mistakes with credit cards:

### COMMON MISTAKES WITH CREDIT CARDS

- Disorganized bill paying (common late fees are \$35 or more).
- Paying only the minimum payment.
- Not having a budget in place.
- Lacking financial and savings goals.
- Overspending.
- Not understanding how to most effectively pay off debt.



## ► Credit Cards Do Have Advantages

If you understand the dangers of using credit cards, you can learn how to use them to your advantage. For instance, traveling with a credit card is much safer than carrying a pocketful of cash. Credit cards allow you to rent cars easily and, in an emergency, a credit card can be a lifesaver.

However, it is suggested that you not apply for a credit card until you have your emergency fund in place. Before you put credit cards to work for you, you must prove to yourself that you can live successfully within a budget.

When you have no credit history, a good option is to get a *secured credit card*. Secured cards often have high interest rates, but they do offer you the convenience of a credit card while you work on building a credit history.

**How do secured cards work?** You secure the card by depositing cash in the credit card company's bank. This balance you cannot touch unless you choose to close your credit card. Your cash deposit serves much like collateral for a loan. For example, deposit \$300 with the credit card company and you'll be approved for a \$300 limit on the credit card. If you decide to close the card, you receive your initial \$300 back. And after you have established a proven track record of managing the card, you can apply for an unsecured card (one that does not require a cash deposit as collateral).

Your first step should be to use a credit card each month and pay off the balance in full. After as little as six months, you will have begun building a solid credit history. Note that you do not need to carry a balance to build a credit history. Use the card, pay off the balance each month, and pay on time: that's how you build a positive credit history.

Of course, as you build your credit status, credit card offers will begin flooding your mailbox. Credit card offers vary wildly, so read them carefully. Just because they send you a "pre-approved" application with a huge credit limit doesn't mean you should apply.

## ► Minimum payments

You may think it's okay to pay just the minimum payment the credit card company calculates for you. That's a common misunderstanding. In fact, the minimum payment just represents the minimum amount that will keep your account active. It's not enough to actually retire the debt in a reasonable time. Here's an example:

- Let's say you sign up for a credit card with a low limit. You handled your credit card responsibly so the company quickly raises your credit limit to \$1,500.
- You decide it would make your life easier if you purchased a more reliable car; you find a used car for \$1,800 with body damage but it runs great.

# Debit Cards vs. Credit Cards

- To avoid emptying your savings account, you decide to pay \$500 in cash and put the \$1,300 balance on the credit card. Although your credit limit will now be maxed, you really want the car.

You receive the first credit card bill and see that your minimum payment is \$33; your interest rate is 24%. Take a look at what happens if you pay only the minimum. It will take you **six years and eight months** to pay off the debt, and it will cost you a total of **\$2,640**. See how much that great, unbeatable deal cost you? The car probably won't be around in six years—but the debt will.

So what happens if you commit to \$100 a month instead of just making the minimum payment? It will take **16 months** to retire your debt and it will cost a total of **\$1,600**.

So what happens if you make the purchase with cash? This scenario looks a whole lot better, but you still paid an extra \$300 for the car. And if you continue using the card before the balance is paid off, it'll take even longer.

Minimum Payment:

\$1,300 original debt

\$1,340 interest

**\$2,640 Total**

Pay \$100 a month:

\$1,300 original debt

\$ 300 interest

**\$1,600 Total**

Save for 12 months:

\$1,800 purchase price

\$ 150 save per month

\$ 30 interest earned

## Lesson Activity: Using Credit Cards

Follow the directions given by your instructor to complete the activity.

You will receive a specific dollar amount of fake money in a debit account (either \$200 or \$500) and you will also have a credit card with a \$500 limit to use for purchases, with a 28% interest rate each month. These amounts should be written on the first two lines of the table.

After reviewing the list of choices, check the box next to the item you want and write the cost in the Amount column.

Item	Amount
Starting Debit Funds	
Available Credit	
<input type="checkbox"/> Dinner for two	\$75
<input type="checkbox"/> Brand new outfit	\$150
<input type="checkbox"/> Three DVDs	\$60
<input type="checkbox"/> Day at amusement park	\$100
<input type="checkbox"/> Lunch with friends	\$35
<input type="checkbox"/> Four video games	\$200
<b>Total Spent:</b>	

- Decide what you can afford to purchase with your **debit card** based on the starting debit funds you were given. Write the cost in the “Amount” column; total the column when you’re done shopping.
- Can you purchase more than one item within the funds you have?  Yes  No  
Would you consider purchasing one or more items with your credit card?  Yes  No  
Why or why not?

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- Can you think of a time when it would be appropriate to use credit?  

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## Lesson Questions

1. Which statement is NOT true about debit cards?
  - a. They are also called ATM cards.
  - b. They give users a loan with arrangements to make payments.
  - c. They are alternatives to cash.
  - d. They allow you to withdraw money directly from your bank account.
2. Which statement is TRUE about credit cards?
  - a. The credit card company lends you money to make a purchase.
  - b. They are linked to bank accounts.
  - c. You may not make a purchase for more than the available balance.
  - d. You can ask for cash back with your purchase.

# Debit Cards vs. Credit Cards

## Essential Questions

What is a debit card? \_\_\_\_\_  
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\_\_\_\_\_

What is a credit card? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What are some differences between debit and credit cards? \_\_\_\_\_  
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Why is it important to recognize the differences between debit and credit cards?  
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