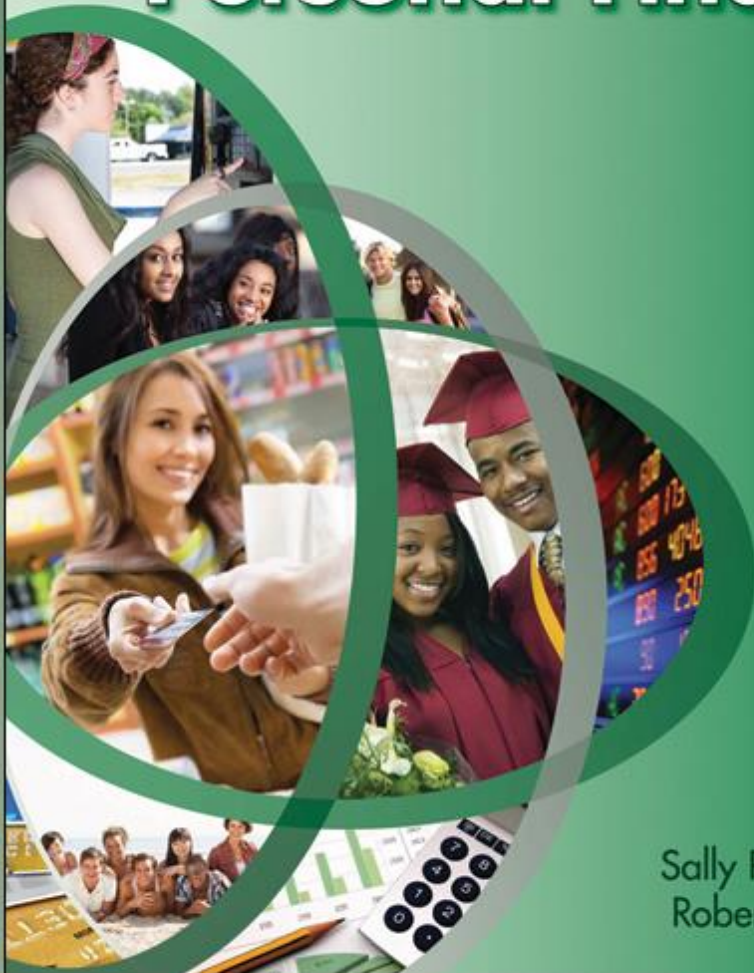


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Foundations of Personal Finance

Ninth Edition



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PowerPoint Presentations for

Foundations of Personal Finance

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Chapter 4

Financial Institutions and Services

Section 4.1

BANKING SYSTEMS

Objectives

- Identify different types of financial institutions.
- Describe the services of financial institutions.
- Explain special services offered by financial institutions.

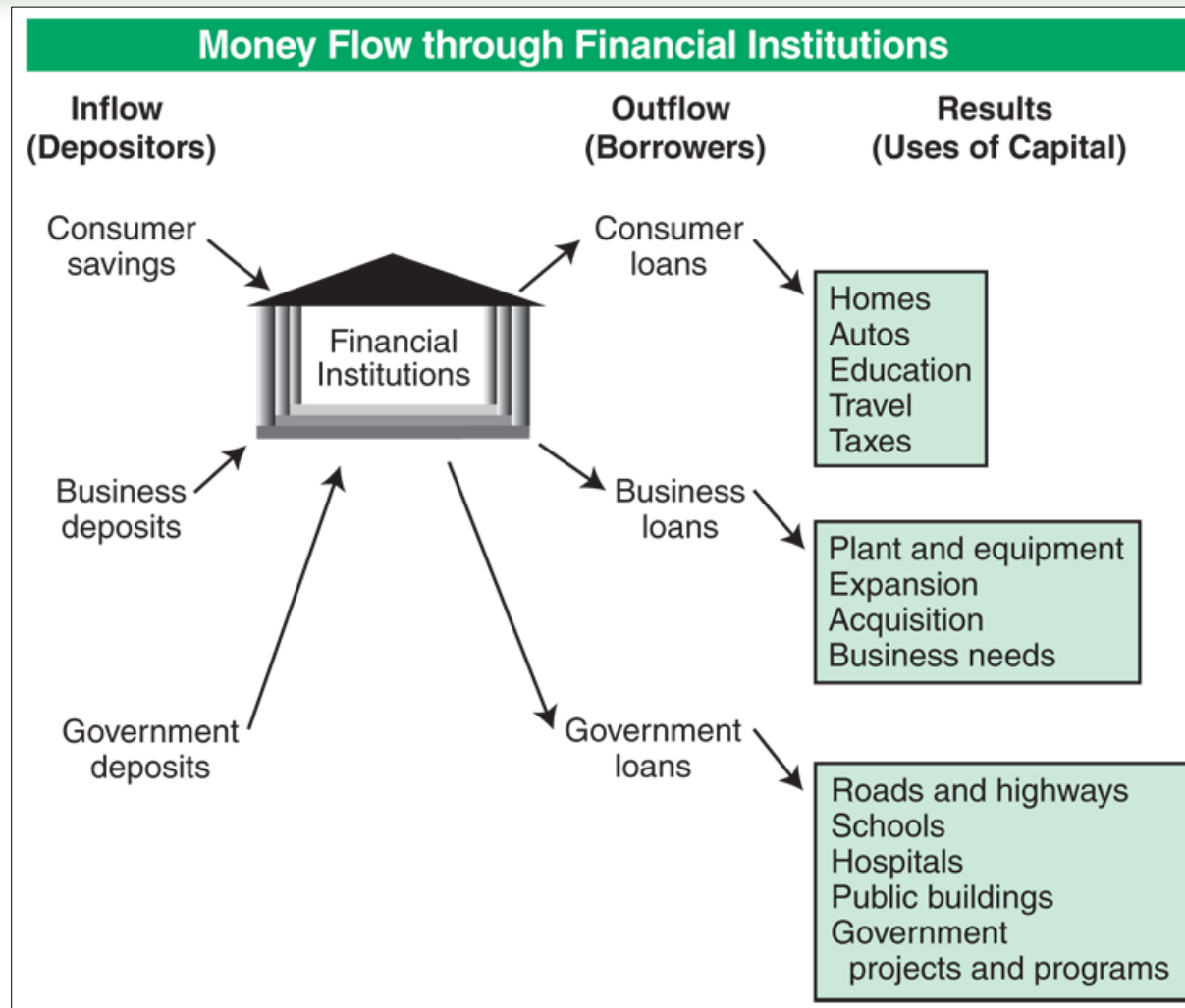
Terms

- commercial bank
- charter
- Federal Deposit Insurance Corporation (FDIC)
- community bank
- savings and loan association (S&L)
- credit union
- mutual savings bank
- electronic funds transfer (EFT)
- debit card
- ATM card
- overdraft
- cashier's check
- certified check
- money order
- traveler's check

Types of Financial Institutions

- **Commercial bank** is a for-profit financial institution owned by investors
- A **charter** is the state or federal license authorizing a bank to operate
- **Federal Deposit Insurance Corporation (FDIC)** insures accounts in banks enrolled with FDIC
- A **community bank** is locally owned and operated (insured by FDIC)

Types of Financial Institutions (Continued)



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Types of Financial Institutions (Continued)

- **Savings and loan association** offers most banking services as commercial banks (FDIC)
- A **credit union** is a nonprofit cooperative owned and operated for the benefit of its members (state or federal charter)
- The *National Credit Union Administration* grants federal charters and insures accounts
- A **mutual savings bank** is owned by depositors, chartered by the state, exists in only 17 states

Services of Financial Institutions

- Online banking allows bank customers to conduct financial transactions on bank's secure website
- Mobile banking uses a smartphone app for banking transactions
- **Electronic funds transfer (EFT)** is the movement of money electronically from one financial institution to another

Did You Know?

It costs the US government \$1.03 to issue a paper check. It costs only about \$0.11 to issue an EFT payment.

Automated Teller Machines

- *Automated teller machines (ATM)* can be used to make withdrawals and deposits, transfer money between accounts, and check balances
- There is usually a charge to use an ATM unless it is affiliated with your financial institution

Bank Cards

- **Debit card** is swiped at a point-of-sale (POS) terminal to make purchases with the amount automatically deducted from your account
 - Most debit cards can also be used at an ATM
 - Dual purpose debit cards can be used for credit purchases

Bank Cards (Continued)

- **ATM cards** can be used only at an ATM for cash withdrawals and deposits
- Credit cards are used to make credit purchases for most consumer items and cardholder receives a monthly bill

Discussion

Should you write your PIN on the back of your bank cards?

Services of Financial Institutions

- **Overdraft** is writing a check for more money than you have in your account
- *Insufficient funds fee* is a fee charged by your bank for each overdraft
- Overdraft protection is provided by the bank which will honor your overdraft checks (up to a specified amount) for an annual fee

Special Services

- Stop payment is a request for your bank to refuse to honor a check you wrote if it has not cleared your account (fee will apply)
- **Cashier's check** is a special type of check that the bank guarantees to pay
 - Prepared by a teller
 - Signed by a bank official
 - Paid with money from your account
 - Some businesses require them for very large purchases
 - Fee may apply

Special Services (Continued)

- **Certified check** is a personal check that your bank certifies is genuine and that there is enough money in your account to cover the check
 - It will be stamped “*certified*” and signed by a bank official
 - The money is immediately deducted from your account to ensure payment of the check
 - A fee will usually apply

Special Services (Continued)

- **Money order** is a payment order for a specific amount of money payable to a specific payee
 - Sold at financial institutions, post offices
 - People without checking accounts may use them to send payments by mail
- **Traveler's check** is a form of check that functions as cash at many places around the world and can be replaced if lost or stolen

Special Services (Continued)

- Peer-to-peer payments (P2P) allow immediate transfer of money from one person to another by logging on and sending a virtual check
 - Transfer can be made using e-mail or cell phone
 - Recipient will get an e-mail notification or text with a code from the P2P system to transfer the money into an account

Review 4.1

- What is the amount of money that is insured by the FDIC for each customer in a given bank?
 - \$250,000
- Who are the owners of a credit union?
 - A credit union is owned by the members it serves

Section 4.2

CHECKING ACCOUNTS

Objectives

- Describe personal checking accounts.
- Explain how to open and use a checking account.

Terms

- checking account
- check
- check register
- endorsement
- postdated check
- bank statement

Personal Checking Accounts

- **Checking account** is a bank account that allows you to make deposits, write checks, and withdraw money
- A **check** is a written order for the bank to pay a specific amount to the person to whom it is written (also called a *demand deposit account*)

In Your Opinion

Is a checking account a safe place to keep your money?

Accounts and Services

- Consider the following features when selecting a checking account at a financial institution:
 - Restrictions and penalties
 - Fees and charges
 - Interest rates
 - Convenience services

Checking Account Types

- A *basic checking account* usually requires a minimum balance to avoid service charge, may have a monthly service charge and per check fee.
- An *Interest-bearing checking account* earns interest (“share drafts” at credit unions, and “NOW accounts” at banks and S&Ls)
- A *lifeline checking account* requires a low minimum-deposit, minimum balance requirements, low monthly fees, and limits of number of checks

Opening a Checking Account

- If you are under 18, your bank may require a parent or guardian to be on the account
- If you share an account, it is a *joint account*
- Your bank will need your Social Security number, birthdate, and address
- Your bank will also ask for an ID to confirm your identity
- You will need to sign a signature card for the bank's records

Personal Checking Accounts

- **Check register** is a record of account deposits, withdrawals, checks, fees, and interest
- An **endorsement** is a signature on the back of a check for cashing or depositing a check
 - Blank endorsement – only the payee’s signature
 - Restrictive endorsement – write “for deposit only” and the name of your bank
 - Special endorsement – write “pay to the order of” the name of the party, then sign your name

Personal Checking Accounts (Continued)

● ENDORSE HERE

Amy Adams

DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE
RESERVED FOR FINANCIAL INSTITUTION USE

Blank Endorsement

● ENDORSE HERE

For Deposit Only

First National Bank

Amy Adams

DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE
RESERVED FOR FINANCIAL INSTITUTION USE

Restrictive Endorsement

● ENDORSE HERE

Pay to the order of

Kayla Reynolds

Amy Adams

DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE
RESERVED FOR FINANCIAL INSTITUTION USE

Special Endorsement

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Personal Checking Accounts (Continued)

- **Post-dated check** is a check written with a future date
- A **bank statement** is a record of checks, ATM transactions, deposits, and charges on your account

Did You Know?

- If you bounce a check and close your account without repaying it, you may not be able to open a checking account at another bank for five to seven years
- Most banks use a database network which allows a bank to see how you have managed other accounts in the past

Review 4.2

- If there is an error between the amount of check in numbers and the amount of the check in words, for which amount can it be cashed?
 - The amount of the check in words
- What type of endorsement would you use if you need to sign the check to another person?
 - Special endorsement