

Personal Banking and Investments

Section 19.1

Personal Banking



How do the banking products offered by financial institutions help individuals manage their money?

Objectives

After completing this section, you will be able to:

- **Identify** personal banking products and services commonly offered by financial institutions.
- **Describe** electronic banking options offered by financial institutions.
- **Explain** how to open and use a personal checking account.

Section 19.1 Review

Check Your Understanding

1. What are the variety of products and services offered to customers by financial institutions called?

Answer: The variety of products and services offered to customers by financial institutions are called banking products and services.

2. What are three common types of checking accounts?

Answer: The three common types of checking accounts are basic, interest-bearing, and lifeline.

3. Describe three ways to endorse a check.

Answer: The three ways to endorse a check are blank endorsement, which requires only the signature of the payee; restrictive endorsement, which may be used only for the specific purpose stated in the endorsement; and special endorsement, which is used to transfer a check to another party.

4. List the six items that must be filled in on a check.

Answer: Date, name of payee, amount of check in numbers, amount of check in words, reason on the Memo line, and signature.

5. What information is typically included on a bank statement?

Answer: A bank statement usually begins with a summary of the account. It shows the beginning balance, total amount of checks and other payments, total of deposits and credits, and ending balance. There will also be a detailed listing of checks paid with the date, number and amount of each one; withdrawals, fees, and bills that were authorized for payment; and deposits and credits with the dates, descriptions, and amounts.

Build Your Vocabulary

As you progress through this course, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add it to your personal glossary.

savings plan

Answer: Strategy for using money to reach important goals and to advance financial security.

overdraft

Answer: Check written for an amount greater than the balance of the account. Also known as a *bounced check*.

stop-payment order

Answer: Request for a financial institution to refuse to honor a check written, if the check has not already cleared the account and been paid.

cashier's check

Answer: Special type of check that the bank guarantees to pay.

certified check

Answer: Personal check that the bank certifies is genuine and that there is enough money in the account to cover the check.

money order

Answer: Payment order for a specific amount of money payable to a specific payee.

traveler's check

Answer: Special form of check that functions as cash.

endorsement

Answer: Signature on the back of a check

payee

Answer: Person, business, or organization to whom a check is written.

postdated check

Answer: Check written with a future date.

bank statement

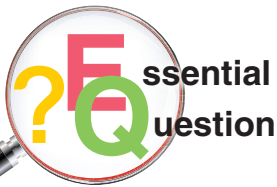
Answer: Record of checks, ATM transactions, deposits, and charges on an account.

reconcile

Answer: Comparison of the check register to balance the checking account.

Section 19.2

Savings and Investments



What are the options available for personal saving and investing?

Objectives

After completing this section, you will be able to:

- **Differentiate** the various types of savings plans.
- **Explain** the concept of investments.
- **Describe** the function of estate planning.

Section 19.2 Review

Check Your Understanding

1. List examples of types of savings accounts.
Answer: Different types of savings accounts include interest-bearing savings accounts, high-yield savings accounts, money market accounts (MMA), and certificate of deposit (CD) accounts.
2. Identify examples of securities.
Answer: Examples of Securities include stocks, bonds, mutual funds.
3. What are some valuable goods considered as investments?
Answer: Collectibles, precious metals, and gemstones.
4. What are two types of retirement plans?
Answer: Employer sponsored programs and personal retirement programs.
5. What is estate planning?
Answer: Estate planning is the active management of these assets with directives for managing and distributing them when the owner dies.

Build Your Vocabulary

As you progress through this course, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add it to your personal glossary.

interest-bearing savings account

Answer: Type of demand deposit account that pays interest and allows for regular deposits and withdrawals.

high-yield savings account

Answer: Account that pays a higher interest rate than basic savings accounts.

money market account (MMA)

Answer: Type of savings account that requires a higher minimum balance than regular savings accounts, but offers a higher interest rate.

certificate of deposit (CD)

Answer: Savings account that requires a fixed deposit amount for a fixed period of time, or term; also called a *time deposit* or *time account*.

investing

Answer: Purchasing a financial product or valuable item with the goal of increasing wealth over time in spite of possible loss.

personal investment plan

Answer: Plan to develop investment growth.

investment portfolio

Answer: Collection of securities and other assets a person owns.

diversification

Answer: Process of spreading risk by putting money in a variety of investments.

mutual fund

Answer: Investment created by pooling the money of many people and investing it in a collection of securities.

individual retirement account (IRA)

Answer: Personal retirement investment account created by a person.

traditional IRA

Answer: Individual retirement account that allows individuals to contribute pre-tax income to investments that grow tax deferred.

Roth IRA

Answer: Individual retirement account in which individuals contribute after-tax income and qualified withdrawals are not taxed.

annuity

Answer: Contract with an insurance company that provides regular income for a set period of time, usually for life.

estate

Answer: Consists of the assets and liabilities a person leaves when he or she dies.

executor

Answer: Person appointed to carry out the terms outlined in a will.

will

Answer: Legal document stating a person's wishes for his or her estate after death.

Chapter Summary

Section 19.1 Personal Banking

- Financial institutions offer a variety of services to customers known as ***banking products and services***. Banking products include checking accounts, bank cards, and savings plans. Banking services are available only to bank customers and may include safe-deposit boxes, loans, and special payment services.

- Electronic banking is a popular banking product offered by most financial institutions. Products include online banking and mobile banking options which offer account access via the Internet. Electronic funds transfer (EFT), peer-to-peer payments (P2P) and automated teller machines (ATMs) are other examples.
- Financial institutions offer a variety of checking accounts with different features, restrictions, and fees. After opening a checking account, it is important to manage the money in the account responsibly and reconcile bank statements regularly.

Section 19.2 Savings and Investments

- Savings accounts are bank accounts used by depositors to accumulate money for future use. Financial institutions offer several types of savings accounts, including interest-bearing savings accounts, high-yield savings accounts, money market accounts, and certificate of deposit (CD) accounts.
- Investing is purchasing a financial product or valuable item with the goal of increasing wealth over time in spite of possible losses. An investment portfolio is a collection of securities and other assets a person owns. Investments include stocks, bonds, mutual funds, real estate, and valuable goods. There are certain investments that are specifically for retirement planning. These include 401(k) plans, 403(b) plans, IRAs, simplified employee pension plans, Keogh plans, and annuities.
- Estate planning is part of an overall financial plan. Through the process of estate planning, a person can decide how assets should be managed after his or her death, provide for any dependents, minimize tax liabilities, name an executor, assign a power of attorney, prepare a will, and prepare a trust.

Review Your Knowledge

1. Identify banking products and services commonly offered by financial institutions.

Answer: Checking accounts, bank cards, savings plans, safe-deposit boxes, loans, and special payment services.

2. Give an example of an advantage and disadvantage of using a debit card.

Answer: An advantage of using debit cards is the convenience that they provide. Carrying a debit card is safer than carrying cash and more convenient than writing a check. A disadvantage of a debit card is that when used as cash, the money is immediately withdrawn from the checking account. There is no grace period so the user has to be careful not to overdraw.

3. Describe electronic banking options offered by financial institutions

Answer: Electronic banking options can include online banking, which allows bank customers to conduct financial transactions on a secure website; mobile banking, which allows bank customers to use a digital device for banking transactions; electronic funds transfer, which is the movement of money electronically from one financial institution to another; peer-to-peer (P2P) payments, which immediately transfer money from one person to another; and automated teller machines, which can be used to check account balances, make cash withdrawals and deposits, and move money from one account to another.

4. Describe the steps in opening and maintaining a checking account.

Answer: Opening a checking account requires only a few simple steps. The customer must complete an application and provide the bank with personal information, supply a personal ID, sign a signature card, answer security questions, and accept or decline a credit, debit, or ATM card. Maintaining an account is done by keeping record of transactions and reconciling monthly bank statements.

5. Explain how to reconcile a bank statement.

Answer: The account owner should compare the canceled checks on the statement with those recorded in the check register; compare the deposits on the statement with those recorded in the check register, ensure that ATM transactions and fees recorded in the register match those on the statement; check for ATM transactions and deposits made, but not yet on the statement; confirm debit card purchases; and subtract services charges from the balance shown in the register.

6. Differentiate the various types of savings plans.

Answer: Different types of savings accounts include interest-bearing savings accounts, which are demand deposit accounts that pay interest and allow for regular deposits and withdrawals; high-yield savings accounts, which pay higher interest rates than basic savings accounts and require a larger initial deposit and higher minimum balance; money market accounts, which pay higher interest rates, require a much higher minimum balance, and pay a flat rate of interest regardless of the balance; and certificate of deposit (CD) accounts, which require a deposit of a fixed amount of money for a fixed period of time or term.

7. Explain the concept of investments.

Answer: Investing is purchasing a financial product or valuable item with the goal of increasing wealth over time in spite of possible loss. Investments generally offer greater returns of profit on money than savings accounts. However, they also present an element of risk. Investments are not insured and are considered financial risks.

8. Describe popular investments that are also considered securities.

Answer: The most popular investments that are securities are stocks, bonds, and mutual funds. Stocks are shares in the ownership of a corporation. A bond is a certificate of debt issued by a corporation or government. Mutual funds are investments created by pooling the money of many people and investing it in a collection of securities.

9. Explain four common retirement plans.

Answer: A 401(k) plan is an employer-sponsored retirement plan funded with before-tax salary contributions and often matched with contributions from the employer. A 401(b) plan is a retirement plan available to employees of nonprofit organizations and functions very similar to a 401(k). An individual retirement account (IRA) is a personal retirement investment account that holds the chosen investments. An annuity is a contract with an insurance company that provides regular income for a set period of time.

10. What is the purpose of estate planning?

Answer: Estate planning is the active management of personal assets with directives for managing and distributing them when the owner dies. Through the process of estate planning, a person can decide how assets should be managed after his or her death, provide for dependents, minimize tax liabilities, name an executor, assign a power of attorney, prepare a will, and prepare a trust.

Apply Your Knowledge

1. Create a chart with three columns. In column one, list the following banking services: credit cards, debit cards, online banking, mobile banking, EFT, and ATM. In column two, write the advantages of each banking service listed. In column three, write the disadvantages of each banking service listed. Analyze each service considering its advantages and disadvantages.
Answer: Student answers will vary. Evaluate each response individually.
2. If a person prefers to pay for everything in cash, is having a checking account necessary? Explain your reasoning.
Answer: Student answers will vary. Evaluate each response individually.
3. Alex's bank statement shows a beginning balance of \$573.28 and the following transactions:
 - three deposits: \$25, \$150, and \$30
 - posted checks: number 110 for \$45.00, number 111 for \$500, and number 113 for \$10.75
 - ATM withdrawal of \$10.00
 - service fee of \$2.00Her checkbook also lists a deposit for \$300 and check number 112 written for \$54.87. Using the bank reconciliation worksheet in Figure 19-7 as an example, reconcile her bank statement and find her ending balance.
Answer: Student answers will vary. Evaluate each response individually.
4. Review the process of opening a checking account in Section 19.1. The process of opening a savings account is similar. Make a list of all the information you need to provide to open a checking account. Can you provide all the required information?
Answer: Student answers will vary. Evaluate each response individually.
5. Using the steps to create an investment plan in Figure 19-8, create your own investment plan. Be specific in your financial goals, the amount of money involved, and the steps you will take to reach your goal or goals.

Answer: Student answers will vary. Evaluate each response individually.



You Do the Math

Communication and Representation

When solving an equation, it is important to make sure the units match. For example, when calculating fuel economy in miles per gallon (MPG), the final unit must be miles over gallons. So, the equation must be the number of miles divided by the number of gallons. If the equation is incorrectly expressed as the number of miles *times* the number of gallons, the final unit would be mile-gallons, not miles/gallon.

Solve the following problems.

1. A business must calculate the number of sales dollars generated per sales representative (\$/rep). Is this the correct equation for this calculation: dollars \times reps? If this is not the correct equation, what is?

Answer: No. The correct equation is dollars \div reps.

2. What is the final unit for this equation: 12.8 feet \times 3.6 feet \div 7.6 seconds?

Answer: 12.8 feet \times 3.6 feet = 46.08 ft²

46.08 ft² \div 7.6 seconds = 6.06 ft²/sec

The final unit is square feet per second (ft²/sec).

3. A shipping box is rated to hold 65 pounds. The company ships products that each weigh 1.3 pounds. It uses this formula to determine how many products can be placed in one box: pounds per product \times pound per box. Is this the correct equation? If this is not the correct equation, what is?

Answer: No. The correct equation is pounds per box \div pounds per product.

65 pounds per box \div 1.3 pounds per product = 50 products per box