LBEC

Louisiana Bankers

EDUCATION COUNCIL

Simply Banking

Teacher Version

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Introduction

The Louisiana Bankers Education Council (LBEC) is the educational outreach division of the Louisiana Bankers Association (LBA). The mission of this group of middle management bankers is to promote financial education among bankers and students throughout Louisiana. Providing banking study guides to Louisiana high school students has been part of the financial literacy outreach program for many years.

Simply Banking was developed by the 2003 Louisiana Young Bankers' Council to present the basics about banking to high school students and adult learning groups. Increasing the financial literacy of young consumers is a primary concern for bankers, who are interested in serving customers of all ages.

How to Use This Guide

Simply Banking was designed to be used in the classroom, for home schooling, or for independent learning. Seven sections in this teaching guide present simple facts bankers believe new customers need to understand, along with activities to help learners process the information presented and put it into practice. Each section also includes assistance for teachers including: learning objectives, content standards/benchmarks, and evaluation activities. Learning activities and worksheets may be duplicated for classroom use.

"*SimplyBanking*", a separate version of this guide without teaching assistance, activities and answer key, is also available on the web. Teachers may instruct students with classroom web access to use that text-only version.

Thank you to all those who took part in preparing Simply Banking:

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2009 Louisiana Bankers Education Council
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Simply Banking

The History of Banking

Learning Objectives

After studying this section, students should be able to:

1. Identify laws that have governed the banking industry in the United States.

2. Explain the role of the Federal Reserve System.

Louisiana Benchmarks (Social Studies/Economics)

High School (9-12)

E-1A-H7 Analyzing the roles of money and banking in an economic system.

E-1A-H8 Applying economic concepts to understand and evaluate historical and contemporary issues.

E-1C-H2 Explaining how interest rates, investments, and inflation/deflation impact the economy.

E-1C-H4 Explaining the basic concepts of United State fiscal policy, monetary policy, and regulations and describing their effects on the economy.

Middle School (5-8)

E-1A-M7 Describing the various institutions, such as business firms and government agencies, that make up economic systems.

E-1A-M9 Using economic concepts to help explain historic and contemporary events and developments.

E-1B-M4 Identifying the costs and benefits of government policies on competitive markets.

E-1B-M7 Describing historical and economic factors that have contributed to the development and growth of the national, state, and local economies.

National Standards for Family and Consumer Sciences Education

2.3 Analyze policies that support consumer rights and responsibilities.

Jumpstart Coalition for Personal Financial Literacy Standards

MM-8 Explain how to use money-management tools available from financial institutions.

S&I-7 Explain how agencies that regulate financial markets protect investors.

THE HISTORY OF BANKING

Banking has come a long way since it began in the 1700's. The banking community has evolved into the system we know today by many acts of the government. Banking plays a big part in any economy. Banks help people start businesses and help people buy things they cannot afford to pay cash for, like houses and cars. When banks first opened in the 1700's, there were only state banks (banks governed by state constitutions). In 1791, the first national bank was opened and it was called The First Bank of the United States. The national banks are governed by the federal government.

1863: National Bank Act

One of the first banking acts passed came in 1863, the National Bank Act, is still in effect today. The act produced major changes in the banking systems. The act was needed because banks were unsafe and the government had no control over the banking system. The National Bank Act of 1863 did the following things for the banking community:

1. Established the office of Comptroller of the Currency (which is still used today). The Comptroller of the Currency had to approve any bank before opening.
2. Established the national bank note – the predecessor to today's "dollar" bill.
3. Established reserve requirements which forced banks to keep cash in reserve. Banks could not lend out 100% of deposits.

1913: Federal Reserve Act

In 1913, the Federal Reserve Act was passed. The act established 12 Federal Reserve districts. The 12 Federal Reserve districts were placed throughout the United States and checks from all banks must go through this system. This helped reduce the time it took to collect cash from checks. The act established local control of reserve requirements, and established that bank notes did not have to be backed by government securities.

Glass-Steagall Act of 1933 and Federal Deposit Insurance Act of 1935

During the depression in the 1930's, the Banking Acts of 1933 and 1935 were passed with the following results:

1. Commercial Banks could not pay interest on checking accounts.
2. The Federal Reserve could set the maximum interest rate on time deposits.
3. Investment banks could not take deposits and commercial banks could not participate in investments.
4. Authorized the Federal Deposit Insurance Corporation (FDIC) to set standards for operations and examinations of banks to reduce bank failures and set standards to protect deposits.

1980: DIDMCA

The Depositary Institution Deregulation and Monetary Control Act (DIDMCA) was passed in 1980 for deregulation of the banking industry. A number of banks in the 1970's failed. This act lifted the legal ceiling on the interest rates that banks could pay on deposits. The deregulation promoted competition between financial institutions. The act also extended Federal Reserve requirements to commercial banks. Finally, the act raised the FDIC insurance, which protects customer's deposits, from $40,000 to $100,000. Currently, there is legislation pending that could raise the insured deposits again. . In 2011, the Dodd-Frank Act increased the insured deposits again to $250,000 per depositor.

1989: Financial Institutions Reform, Recovery and Enforcement Act (FIRREA)

This act reformed and consolidated the federal deposit insurance system to restore the public's confidence in the savings and loan industry.

1999: Gramm-Leach-Bliley Act

In 1999, the Gramm-Leach-Bliley act was passed, which gave bank holding companies the opportunity to invest in non-banking companies. Before the Gramm-Leach-Bliley act, bank holding companies could only invest in banks, but once the act was passed it gave bank holding companies the freedom to invest in non-banking companies.

There are many other acts and regulations that affect the banking industry. The few listed here give an overview of the evolution of the system.

The Federal Reserve System

The Federal Reserve is the central bank for the United States. The Federal Reserve came about in the The Federal Reserve Act of 1913, to help with issues that were unresolved in the banking industry. The system has 12 Federal Reserve Bank Cities. These cities are: Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. Louisiana is split between two different Federal Reserve districts. South Louisiana is a member of the Atlanta district and north Louisiana is a member of the Dallas district. Each member bank in the district owns stock in the Federal Reserve Bank. Although the banks own stock in the system, they do not have a vote on the decisions that are made by the Federal Reserve.

Seven members rule the Federal Reserve System, which make up the Board of Governors. The President of the United States appoints each member of the Board of Governors for a 14-year term. Terms expire every two years, spreading appointments out among different presidents. The Board of Governors is a very powerful group. The decisions that the board makes affect the whole United States economy.

The Federal Reserve is responsible for the following:

1. Clearing checks.
2. Setting interest (discount) rates on loans the Federal Reserve makes to banks.
3. Holding and setting reserve balances.
4. Furnishing coins and currency.
5. Transferring funds from one bank to another.

When a check from bank A is deposited in bank B, the Federal Reserve is the vehicle that bank B would use to collect the cash from bank A. This is a way of ensuring bank B that they can collect the money from bank A.

The Federal Reserve uses the interest (discount) rate to affect borrowing. If the Federal Reserve is trying to increase the money supply, they reduce the interest (discount) rate and encourage borrowing. If they are trying to decrease the money supply, they increase the interest (discount) rate and discourage borrowing.

When banks receive deposits, they can only lend a portion of the money out and must keep a portion of the money in reserve. This money is kept at the Federal Reserve. The Federal Reserve also can adjust the amount required to be kept in reserve as it sees fit.

The Federal Reserve furnishes new coins and currency for banks. Shipments are made to banks at regular intervals to take old money (that will be destroyed) out of circulation and to make new money available to customers. This insures that currency and coins are replaced regularly.

If a customer of bank A needs to pay someone at bank B they can transfer money from one bank to the other. The Federal Reserve is the way that the money would be transferred from one bank to the other.

The Federal Reserve is the central bank for the United States. The Federal Reserve System fills many voids that were in the banking industry before the Federal Reserve Act of 1913 was passed. The Federal Reserve System helps banks and also assists the customers of the banks. The Federal Reserve System helps make the United States banking system one of the strongest in the world.

The History of Banking

Learning/Evaluation Activities

Terms to Know:

1. _________________________________ has to approve any bank before opening.

2. ________________ insurance that protects deposits up to $250,000 per customer.

3. ________________________the central bank for the United States.

4. _______________________ rate used to affect borrowing.

5. _______________________ predecessor to today's "dollar" bill.

Fill-in-the-Blank:

1. Banks help people _______________businesses and buy______________________.

2. In __________(date), the first national bank was opened.

3. ______________________ force banks to keep cash, not lending out 100% of deposits.

4. South Louisiana is a part of the _________________ Federal Reserve District.

5. North Louisiana is a part of the _________________ Federal Reserve District.

6. ___________________________appoints each of the ____ members of the Board of Governors who rule the Federal Reserve System for a 14-year term.

Short Answer:

A. The Federal Reserve is responsible for:
   1.
   2.
   3.
   4.
   5.

B. How does the Federal Reserve increase the money supply and encourage borrowing?

C. How does the Federal Reserve decrease they money supply and discourage borrowing?

Matching:

Place the letter of the corresponding banking act
from the right column in the blanks below.
Acts may be used more than once.

_____1. Established the national bank note (dollar bill).

_____2. Deregulation of the banking industry to promote competition between financial institutions.

_____3. Gave bank holding companies the opportunity to invest in non-banking companies.

_____4. Authorized standards to reduce bank failures and protect deposits.

_____5. Established reserve requirements.

_____6. Established 12 districts in the U.S.

A. 1863: National Bank Act

B. 1913: Federal Reserve Act

C. 1933 and 1935: Glass-Stegall Act and FDIC Act

D. 1980: DIDMCA

E. 1999: Graham-Leach-Bliley Act

Bank Products

Learning Objectives

After studying this section, students should be able to:

1. Identify a variety of products offered by banks.

2. Evaluate the benefits and costs of bank products and services.

Louisiana Benchmarks (Social Studies/Economics)

High School (9-12)

E-1A-H7 Analyzing the roles of money and banking in an economic system.

E-1A-H8 Applying economic concepts to understand and evaluate historical and contemporary issues.

E-1C-H2 Explaining how interest rates, investments, and inflation/deflation impact the economy.

Middle School (5-8)

E-1A-M2 Analyzing consequences of economic decisions in terms of additional benefits and additional costs.

E-1A-M7 Describing the various institutions, such as business firms and government agencies, that make up economic systems.

E-1A-M8 Differentiating among various forms of exchange and money.

E-1A-M9 Using economic concepts to help explain historic and contemporary events and developments.

National Standards for Family and Consumer Sciences Education

2.3 Analyze policies that support consumer rights and responsibilities.

2.4 Evaluate the impact of technology on individual and family resources.

2.5 Analyze the interrelationship between the economic system and consumer actions.

Jumpstart Coalition for Personal Financial Literacy Standards

MM-8 Explain how to use money-management tools available from financial institutions.

S&C-1 Compare the benefits and costs of spending decisions.

S&C-2 Evaluate the information about products and services.

S&I-1   Explain the relationship between saving and investing.

BANK PRODUCTS

Savings Accounts

A savings account is a type of banking account that allows you to deposit money and earn interest. It has no stated maturity and the funds can be deposited and withdrawn at will. Interest is money that is paid to you by the banking institution for the use of your money. One of the biggest advantages of a savings account is that the bank will pay you for keeping your money with them. Another advantage is that your money is in a safe place. If you leave your money at home, you may lose it, spend it or forget where you put it. By having your money in a savings account you can take time to plan and to spend it wisely. You can take money to your banking institution and deposit it or withdraw it at any time. Savings accounts are insured by the Federal Deposit Insurance Corporation up to a maximum amount per customer.

Certificate of Deposit

Another way to save is with a Certificate of Deposit (CD). A CD will usually pay more interest than a savings account. The difference in a savings account and a CD is that you have to deposit a minimum amount of money into a CD for a set period of time. This time frame can be 30 days to five years or more. Once the money is deposited into the CD the money cannot be withdrawn until the set time is up (maturity date). On the maturity date, the bank will pay you your money along with the interest.

Checking Accounts

One of the most popular services provided by a bank is a checking account. A check is a small piece of paper printed with the account holder's name, address, account number and the banking institution on it. We write checks to pay our bills or to purchase items without carrying a large amount of cash. The check usually cannot be for more than the amount of money in the account. When the check is cashed, the bank takes the money out of the owner's account. Checks are safer to send through the mail than cash. Once a deposit of money is made into a checking account, it can be taken out by writing a check or using an automated teller machine or by a draft from a company to pay bills. See Checking Account section for more detail.

Interest Bearing Checking Accounts

Interest bearing checking accounts pay you interest for retaining a minimum balance on the account and not using more than a maximum number of transactions. The interest rate and minimum balance varies with each institution. An interest bearing checking account can be used for the same purpose as a non-interest bearing checking account.

Money Orders

A money order is an order for the payment of an amount of money, usually issued and payable at a bank or post office. People typically use money orders if they do not or cannot have a checking account. Money orders are safer to send through the mail than cash. A fee is paid for each money order at the time of purchase.

Cashiers Checks

A cashiers check is also known as an official check. The cashiers check is issued by a customer and bought at the bank. The customer pays for the cashiers check when they buy it. Because a cashiers check is an official bank check, many companies require that customers pay with a cashiers check. Banks often use cashiers checks to pay their own obligations. These checks may also be sold to customers who require an official check of the bank.

Certified checks

A certified check is the bank's promise to pay. A certified check is a customer's check that the bank has stamped with the word CERTIFIED and added a signature. Through certification of a check, the bank guarantees that sufficient funds have been set aside from the customer's account to pay the check.

Travelers checks

Travelers checks are sold by banks in different denominations for the convenience of people who do not wish to carry cash. These checks can be used as cash. Funds can be recovered if lost or stolen. There is usually a fee to purchase. The checks are able to e used around the world. Today, Travelers cards are used, also. These cards are "loaded" with a dollar amount chosen by the customer to use as they see fit.

Safe Deposit Box

A safe deposit box is usually a metal box that is rented to customers for safe keeping of personal valuables. The boxes are typically kept in a heavy steel cabinet. Customers who rent safe deposit boxes are issued a key to the box and the bank manager retains a key. When a customer wants to get into their box at the bank both keys must be used. The use of two keys is for added protection. Items in a Safe Deposit Box are not insured by the bank.

ATM

Automated Teller Machines (ATM) are electronic machines that dispense cash, take deposits, transfer money or give balances. They may be located inside, outside or apart from the bank. They allow 24 hour access to the funds in your accounts. You must have a personal identification number (PIN) to use the card.

Debit Card

A card issued by a bank to allow customers access to their funds electronically and that allows a customer to withdraw funds from a deposit account. It acts like a check. Debit cards are usually branded with MasterCard or VISA and are accepted worldwide.

Wires

Wire transfer funds are electronically moved from one bank to another and/or from account to account, upon a customer's instruction. Typically, there are fees associated with wires.

Internet or Online Banking

The Internet allows customers, especially those who enjoy the convenience of banking from the privacy of their own homes, the option of completing their banking from a computer. Customers can view their accounts, make transfers among accounts, pay bills and even receive statements. There are strict regulations that help keep the information secure.

Automated Clearing House (ACH)

ACH allows the electronic transfer of bank items such as deposits and withdrawals to and from bank accounts. This nationwide electronic network has been used since the mid 1970s.

Other Products Offered Today

- Reloadable money cards
- Gift cards
- Youth cards
- Virtual Vaults
- Remote Deposit Capture

Investment Products

Mutual Funds pool money from lots of small investors to invest in a large portfolio of stocks and bonds with many investments. To be successful in mutual fund investing you must be patient and use the fund as a long-term investment. Mutual funds come in many varieties. A mutual fund is also known as an open-end investment company, meaning that there is a continuous offering of new shares and redemption of outstanding shares.

Stocks are shares of ownership in a company purchased by investors. The value of the stock is related to how well the company is doing. As a shareholder you may receive dividends. This means you are paid part of the company's profit each year.

Bonds are basically a loan to a company. Bonds pay a fixed amount of interest every year until they mature, at which time the amount of the bond may be cashed in.

Retirement Accounts

401K retirement plans are offered by employers. A certain percentage of your salary can be deducted from your paycheck before taxes, and placed into an investment of your choice. Often your employer will match a percentage of the money you put in. You cannot cash in your investment until retirement age without paying a penalty.

IRA or Individual Retirement Accounts let you save for retirement and the savings is typically tax-deductible. One advantage of an IRA over 401K is the additional freedom. With a 401K you choose from your employer's plans and the money is automatically deducted from your paycheck. With an IRA you invest when you want, with whom you want. You cannot cash in your investment until age 59 1/2 without paying a penalty. There are annual limits of IRA deposits that can be tax deductible and the tax deductibility depends on your other retirement plans you may have with your employer. There are various types of IRAs including traditional, ROTH and Education.

Loan Products

Banks may offer several types of loans for many different purposes. Some of the basic types of loans include: installment, revolving and mortgage loans.

Installment Loans are loans in which a lump sum of money is issued to the borrower for a specific purpose and repaid over a specified period of time, including: auto loans, personal loans and student loans.

Revolving Loans, the borrower has the ability to borrow up to a certain dollar amount on an ongoing basis. As the balances of revolving loans are repaid, the borrower may continue to borrower up to the set dollar amount. A Credit Card is an example of Revolving Loan.

Home Loans or Mortgage Loans are installment loans used to purchase houses and land. Repayment of home loans is generally longer than that of an installment loan, typically, 15 to 30 years. There are a variety of home loan types depending upon the specific need of the home owner/purchaser. See Loans and Credit sections for more detail.

Insurance Products

Banks may offer several types of insurance in conjunction with loans to protect yourself, your family, and your investment. These types of insurance are Credit Life, Property and Casualty, and Accident and Health insurance.

Credit Life Insurance: This is an optional insurance that is purchased through your bank when you take out a loan. This insurance will payoff your loan in the event that the insured borrower should die. Upon receipt of written proof of death, the insurance will pay the amount required to payoff the debt.

Property and Casualty Insurance: This insurance is required by the bank to protect the items for which you are borrowing money. This insurance is taken out as a separate policy to protect your home or vehicle from any damages they may receive. If you do not take out your own policy, the bank has the right to buy an insurance policy for your loan.

Accident and Health Insurance: This is optional insurance that is purchased through your bank when you take out a loan. This insurance will cover your payments in the event that you are sick or injured and out of work for more than 30 days. Upon written proof from your doctor, the insurance will pay the amount of your monthly note until you return to work.

Bank Products

Learning/Evaluation Activities

Fill-in-the-Blank:

1. A ______________________ is a type of banking account that allows you to deposit money and earn interest.

2. _________________ is money that is paid to you by the banking institution for the use of your money.

3. A ______________________________ earns more interest than a regular savings account, but you have to leave your deposit money for a set period of time.

4. A ______________ is a small piece of paper printed with the account holder's name, address, account number and the banking institution on it used to purchase items.

5. A ______________________ is an order for the payment of an amount of money, usually issued and payable at a bank or post office.

6. A ______________________ is also known as an official check that is issued by a customer and certified by the bank.

7. Funds from _________________________ , sold by banks in different amounts for the convenience of people who do not wish to carry cash, can be recovered if lost or stolen.

8. A _________________________________ is a metal box that stores valuables such as birth certificates, expensive jewelry, and social security cards at the bank.

9. ____________ are electronic machines that provide cash and take deposits located inside, outside or apart from the bank.

10. _______________________ funds are electronically moved from one bank to another and/or from account to account, upon a customer's instruction.

11. ________________________ pool money from lots of small investors to invest in a large portfolio of stocks and bonds with many investments.

12. ______________ are shares of ownership in a company purchased by investors.

13. ______________ are basically a loan to a company that pay a fixed amount of interest every year.

14. __________ retirement plans are offered by employers who automatically deduct funds from your paycheck and sometimes match your savings, adding more to your investment.

15. For _______________________ loans, a lump sum of money is issued to the borrower for a specific purpose to be repaid over a specified period of time.

16. As the balances of __________________ loans are repaid, the borrower may continue to borrower up to the set dollar amount.

17. ___________________ or home loans are installment loans used to purchase houses and land.

18. _____________________________ will payoff your loan in the event that the insured borrower should die.

19. ______________________________ is taken out as a separate policy to protect your home or vehicle from any damages they may receive.

20. Upon written proof from your doctor, ___________________________ will pay the amount of your monthly note until you return to work.

Short Answer:

1. List two advantages of having a savings account:

2. Name three ways interest bearing checking accounts may be different than regular checking accounts.

3. What is a certified check and what does it do?

4. How has technology and the use of machines changed banking?

5. Name two types of investment/savings accounts that cannot be withdrawn until retirement without paying a penalty.

Checking Accounts

Learning Objectives

After studying this section, students should be able to:

1. Apply responsible checking account management practices, including: completing a signature card, maintaining a checkbook register, writing sample checks and deposit slips, and reconciling or balancing a checking account with a sample bank statement.

2. Compare checking account fees, terms and conditions.

3. Identify benefits and responsibilities of maintaining a checking account.

Louisiana Benchmarks

Social Studies/Economics

High School (9-12)

E-1A-H5 Explaining the basic features of market structures and exchanges.

E-1B-H2 Analyzing how changes in supply and demand, price, incentive, and profit influence production an distribution in a competitive market system.

E-1C-H2 Explaining how interest rates, investments, and inflation/deflation impact the economy.

Middle School (5-8)

E-1A-M2 Analyzing consequences of economic decisions in terms of additional benefits and additional costs.

Mathematics/Numbers

High School (9-12)

N-5-H Selecting and using appropriate computational methods and tools for given situations (e.g., estimation, or exact computation using mental arithmetic, calculator, symbolic manipulator, or paper and pencil).

Middle School (5-8)

N-4-M Demonstrating a conceptual understanding of the meaning of the basic arithmetic operations (add, subtract, multiply and divide) and their relationships to each other

N-5-M Applying an understanding of rational numbers and arithmetic operations to real-life situations

N-7-M Selecting and using appropriate computational methods and tolls for given situations involving rational numbers (e.g., estimation,or exact computation using mental arithmetic, calculator, computer, or paper and pencil).

National Standards for Family and Consumer Sciences Education

2.6 Demonstrate management of financial resources to meet the goals of individuals and families across the life span.

Jumpstart Coalition for Personal Financial Literacy Standards

MM-8 Explain how to use money-management tools available from financial institutions.

S&C-2 Evaluate the information about products and services.

S&C- 3 Compare the advantages and disadvantages of different payment methods.

CHECKING ACCOUNTS

Opening

Opening a checking account is easy at the bank of your choice. The person who opens your account is typically called a New Accounts Representative or a Customer Service Representative. You will generally be asked for a picture ID such as a driver's license. You will need to provide the new accounts representative with your Social Security Card and Number. You will need an initial deposit when opening your account; the amount varies by bank. The bank will then perform an account verification to identify your history of using checking accounts. The system that is used keeps track of other checking accounts you have had in the past. It reports things like checks you may have written on other checking accounts you had, when you didn't have money in that account. If you have a history of writing checks on accounts with no money, the bank might not be willing to open an account for you. The bank will also perform an identification check in an effort to prevent identity theft. The bank will compare your name to a globally provided list, provided by the government. After verification is complete you will sign a signature card, which is used to verify your signature on checks and withdrawals in the future. Signing the signature card means you accept the fees, terms and conditions of the account.

At the time of opening an account, you will receive temporary checks to use until the checks that you have ordered with your name, address, and preprinted account number come in the mail. The checks that you order from the bank will cost money. The price varies by the type of checks you buy. You may also apply for an ATM card or Debit card. Congratulations, you have just opened your checking account!

Maintaining

It is your responsibility to maintain your checking account after it is opened. You will receive a check register with your checks and deposit slips. As deposits are made and checks are written, each transaction needs to be recorded in the check register. (Turn to the check register on page #28 in your book). Let's go over each column in the check register.

1. **CHECK NUMBER**: If you are writing a check, the check number goes here. Otherwise, leave it blank.

2. **DATE:** Record the date you wrote the check, made a deposit or withdrawal, or recorded a service fee.

3. **DESCRIPTION OF TRANSACTION:** Record information to which you made the check payable, the deposit or withdrawal source (such as ATM, debit card, direct deposit. Direct deposit is when your payroll check is sent directly to the bank from your employer through electronic means).

4. **PAYMENT/DEBIT** (-): Record the amount of checks written, ATM withdrawals, automatic withdrawals, or debit card transaction. Money coming out of your account is recorded here.

5. **FEE:** Record any fees charged, such as a monthly maintenance fee or an ATM fee.
6. **DEPOSIT/CREDIT** (+): Record any deposits or automatic deposits made to your account.

7. **BALANCE:** In this column, add any deposits or credits and subtract any fees and payments or debits to your account.

Check Writing

Now that we have opened a checking account, we are going to learn how to use money from our checking account. Remember a check is a written contract between you and your bank. When you write a check, you are asking the bank to take money from your account and give it to someone else. The first step before writing a check is to make sure you have enough money in your account. It is against the law to issue a check when there is not enough money in your account to cover the check. This is called issuing a NSF (non-sufficient funds) check. Depending on the amount of the NSF check, this may be a felony, which would give you a criminal record. How do you keep this from happening? It is important to record every transaction in your check register and reconcile your checkbook regularly, so you know the balance you show is correct. Write our opening deposit of $50.00 in the register now.

Let's write a check. You are buying groceries and the price is $32.25. First you need to look in your register to see if you have enough money to write a check for the groceries. If you do then you can proceed writing the check. (Turn to your sample checks in the back of this chapter) To write your checks, you will need to fill in:

1. The date
2. The Pay to the Order line. This is where you write the name of the person or company to whom you are writing the check.
3. The dollar amount of the check in numbers such as $32.25 in our example.
4. The dollar amount of the check in words such as Thirty-two and 25/100. After writing the check, draw a line to the end. This prevents anyone from adding an additional amount after what you have written.
5. The memo section. This is where you can write a description of why the check was written.
6. The signature line.

Checks also have other information on them.

7. Your name and address. Your phone number is sometimes included.
8. The check number. This number is used to identify each check written.

9. Codes for the state where the bank is located and the regional Federal Reserve Bank that will handle the check.
10. Your bank's name and branch.
11. Routing numbers. The bank's computer identification numbers and your account number.

If you make a mistake writing your check, write the word 'VOID' across the check and tear-up the check. You need to record the check in your check register. Write your check and enter the information in your register at this time. You need to enter all withdrawals from your account such as ATM and Debit Cards.

Depositing Into Your Checking Account

We are going to add money to our account by depositing money into the account. (Turn to the deposit slip at the back of this chapter) You are going to deposit $30.00 cash and a $15.00 check.

1. Write in the date.
2. In the currency section write $30.00
3. In the check section write $15.00, if you had more then one check you would put the total of all checks here, with the listing on the back.
4. Add up the total of cash and checks and write in the net deposit section $45.00
5. You need to write this transaction in your check register.

Balancing Your Account

As you write checks and make deposits, you have been entering the transactions in the register. At the end of the statement period you will get a bank statement that you will have to balance against. It is important to balance your register with the bank statement so you can make sure you did not forget to enter a transaction or that the bank didn't make a mistake. This will keep you from writing the NSF checks that were previously talked about. When you get your bank statement, there will probably be a difference in the balance that the bank shows and the register balance that you have because of checking account statement dates or fees, etc. When we find the differences in these balances it is called reconciling your account or balancing. Most bank statements will have instruction on balancing your statement, and we will practice balancing our account.

We started our account with $50.00 and wrote a check for $32.25. We also had a deposit of $45.00, so we show a balance of $62.75. Our bank statement shows a balance of $10.75, which is different from our register balance; let's find the difference. On the back of the statement, write in the bank balance of $10.75. We don't have an outstanding check (checks we have written but are not on the bank statement). If we did, we would subtract them from the bank total. Add any deposits that are outstanding. In our case we have one -- our $45.00 deposit. We now have a reconciled balance of $55.75, which still does not balance our register, but remember there is a bank fee of $7.00 for this account. We need to enter this into our register and then we will have a register and account that equals or balances.

Fees

When you open your account you will get information from the bank listing all of the possible fees that you may incur using your checking account. You need to be aware of these fees and to register them into your check register in order to balance your checkbook.

When you open your account, the bank may give or offer you overdraft privileges. In the event your account balance drops below zero, the bank will automatically cover your overdraft up to a pre-determined limit, usually based on account type. Be aware that there is a fee for this service you must be completely aware of the amount of fees that could be assessed to your account.

Congratulations, you now have the knowledge to open and maintain a checking account!

Checking Accounts

Learning Activities/Evaluation

1. Use the following forms to practice procedures described text:

   A. Signature card

   B. Checkbook register

   C. Sample checks

   D. Deposit slip

   E. Bank Statement and Reconciling worksheet

2. Using the chart provided, collect information from three local banks to compare terms and costs of checking accounts. For classroom activity, divide class into three groups or groups of three to make shopping research assignments.

Discussion Questions

1. Why do banks perform account verification using your Social Security number before opening new checking accounts?

2. List four types of payments/debits or fees that may be subtracted from your checking account balance:

3. Define "non-sufficient funds" check. How do you keep this from happening?

Signature Card

Account owner(s) name and address:

Type of account:
- ❑ Individual
- ❑ Joint

Date opened:

Initial deposit:

Home telephone#
Driver's license #
Social Security #

Mother's maiden name:

Signature: Joint owner signature:

Terms and conditions of account:

The undersigned acknowledges receipt of a copy of account terms and agrees to the terms stated.

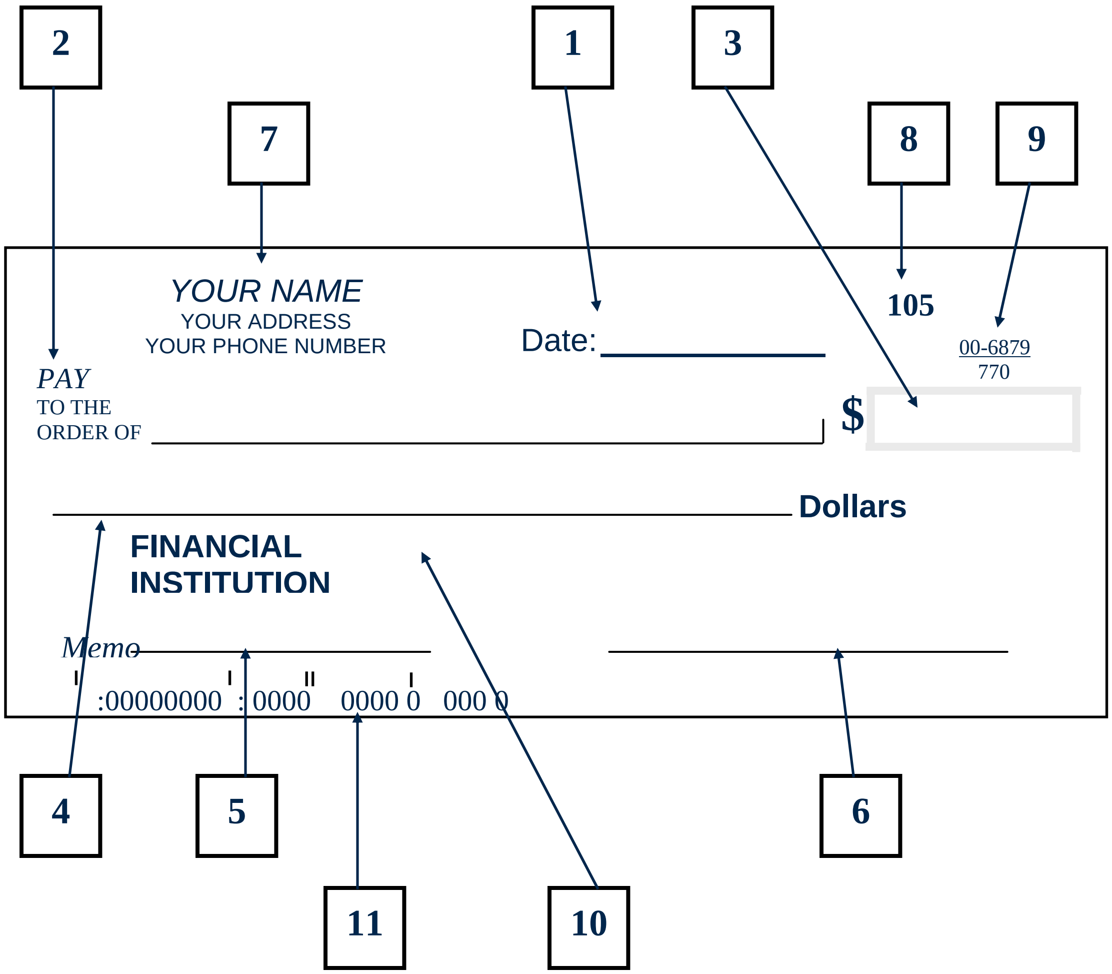
"Easy" Checking:
$50 minimum deposit to open this account.
No per-check charges.
No monthly service charge assessed.
Check copies may be obtained for $1 each.
$27 Overdraft/nonsufficient funds fee (each item)
Preprinted check prices vary ($15 to $25)
$5 (per month) dormant account fee if balance below $200
$10 (per hour) account reconciliation fee

Check Register

1	2	3	4		5		6		7	
Check Number	Date	Description of Transaction	Payment/ Debit (-)		Fee		Deposit/ Credit (+)		Balance	

Reference: FDIC Money Smart Program

Sample Check



Reference: FDIC Money Smart Program

Sample Checks

Write one of these checks incorrectly and then void it.
Remember to write the number in your checkbook register.

You may want to write the other to a payee of your choice, and
treat it as an outstanding check when you balance your checkbook.

YOUR NAME
YOUR ADDRESS
YOUR PHONE NUMBER

106

Date: ______________

00-6879
770

PAY
TO THE
ORDER OF ____ $ [ ]

____ **Dollars**

**FINANCIAL
INSTITUTION**

Memo ____________________ ____________________________

:00000000 : 0000 0000 0 000 0

YOUR NAME
YOUR ADDRESS
YOUR PHONE NUMBER

107

Date: ______________

00-6879
770

PAY
TO THE
ORDER OF ____ $ [ ]

____ **Dollars**

**FINANCIAL
INSTITUTION**

Memo ____________________ ____________________________

:00000000 : 0000 0000 0 000 0

Sample Deposit Slips

Deposit Ticket

Your Name and Address

DATE:

DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL

SIGN HERE IF CASH RECEIVED FROM DEPOSIT

YOUR FINANCIAL INSTITUTION
YOUR CITY, STATE Zip Code

DO NOT USE FOR AUTOMATIC PAYMENT OR CHECK TRANSACTIONS

:00000000 : 00000 00000.:

CURRENCY			
COIN			
CHECKS			
OR TOTAL FROM REVERSE			
SUBTOTAL			
LESS CASH RECEIVED			
NET DEPOSIT			

Back of Deposit Slip

Checks List singly	**Dollars**	**Cents**
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
TOTAL		

Reference: FDIC Money Smart Program

Checking Account Statement

1 2 3 4

Your Bank Street Address City, State Zip	Your Name Street Address City, State Zip Account Number 0000000000

Summary of Account Activity

For period ending	3/20
Date of last statement	2/20

Date	Transaction Description	Withdrawal/ Deposit Amount	Balance
2/20	Opening Balance Deposit	50.00	50.00
2/26	Check #105	-32.25	17.75
3/18	Monthly Fee	-7.00	7.00

5

6

7

Cleared Checks

Check #	**Amount**
105	32.25

Summary

Previous Balance	Total Deposits	Total Withdr.	No. of Checks	No. ATM Transactions	No. of Deposits	Service Charge	New Balance
$50.00	$0	$32.25	1	1	0	$7.00	$10.75

Reference: FDIC Money Smart Program

Reconciling Your Account

Use your checking account statement and checkbook register to complete this worksheet, usually found on the back of your checking account statement.

WITHDRAWALS OUTSTANDING - NOT CHARGED TO ACCOUNT		Bank balance shown on this statement	$
Check Number	Check Amount		
		Subtract withdrawals outstanding	$
		Total	$
		Add deposits outstanding	$
			$
			$
		Balance	$
		* This balance should agree with balance in your check register	
Total	$		

Reference: *FDIC Money Smart Program*

Checking Accounts
Costs and Terms

Compare the costs of several types of checking accounts at three different local banks. Which bank and type of account would you choose if you were opening an account today? Why?

	Bank A	Bank B	Bank C
Name of bank			
Low-cost checking ❑ **Monthly fee?** ❑ **Number of free checks per month?** ❑ **Minimum initial deposit?**			
ATM-checking ❑ **Paycheck direct deposit?** ❑ **Monthly fee?** ❑ **Fee for teller services?** ❑ **Unlimited check writing?**			
Regular checking ❑ **Minimum balance?** ❑ **Monthly fee?** ❑ **Unlimited check writing?**			
Interest-bearing checking accounts ❑ **Minimum balance?** ❑ **Monthly fee?** ❑ **Amount of interest?** ❑ **Transaction restrictions?**			
Overdraft charges?			
Copy of cancelled check fee?			
Stop payment fee?			

Reference: FDIC Money Smart Program

Savings

Learning Objectives

After studying this section, students should be able to:

1. Discuss the importance of and reasons for saving.

2. Calculate monthly savings amounts required to meet savings goals.

3. Identify bank savings and investment products.

4. Compare savings account benefits and costs from several local banks.

Louisiana Benchmarks

Social Studies/Economics

High School (9-12)

1. Apply fundamental economic concepts to decisions about personal finance (E-1A-H1)
2. Identify factors that drive economic decisions (e.g., incentives, benefits, costs, trade-offs, consequences) (E-1A-H1)
3. Analyze an economic choice at the personal, family, or societal level to determine its opportunity cost (E-1A-H1)
4. Analyze the role of banks in economic systems (e.g., increasing the money supply by making loans) (E-1A-H7)
5. Compare and contrast credit, savings, and investment services available to the consumer from financial institutions (E-1A-H7)
6. Predict the consequences of investment decisions made by individuals, businesses, and government (E-1C-H2)
7. Predict how interest rates will act as an incentive for savers and borrowers (E-1C-H2)
8. Explain the role of the Federal Deposit Insurance Corporation (FDIC) (E-1C-H4)

Middle School (5-8)

E-1A-M2 Analyzing consequences of economic decisions in terms of additional benefits and additional costs.

E-1A-M3 Analyzing the consequences and opportunity cost of economic decisions.

Mathematics/Numbers

Middle School (5-8)

N-5-M Applying an understanding of rational numbers and arithmetic operations to real-life situations

National Standards for Family and Consumer Sciences Education

2.6 Demonstrate management of financial resources to meet the goals of individuals and families across the life span.

3.3 Analyze factors in developing a long-term financial management plan.

Jumpstart Coalition for Personal Financial Literacy Standards

MM-7 Design a plan for earning, spending, saving, and investing.

MM-8 Explain how to use money-management tools available from financial institutions.

S&I-1 Explain the relationship between saving and investing.

S&I-2 Describe reasons for saving and reasons for investing.

S&I-3 Compare the advantages and disadvantages of different payment methods.

S&I-5 Explain how different factors affect the rate of return of investments.

SAVINGS

Saving money is planning ahead for a person's future. As students, you may not realize how important it is to have savings. What will you use as a down payment when you are ready to buy a car? Savings is your personal insurance on all of life's "what ifs" and on your retirement. Savings can pave the way for you to have the things you want and need in the future to reach your goals.

Once you are ready to start to saving, familiarize yourself with the different types of savings. What best fits your needs? Institutions vary on interest rates paid on savings accounts, and interest can be calculated in different ways.

The Truth in Savings Act created Regulation DD which requires that account information be given to you disclosing interest rates, interest computation methods, and balances on which payments will be based in uniform terms. Using uniform terms helps customers compare account benefits from one type of account or bank to another.

Certificates of Deposit

Certificates of deposit (CD's) can be issued in varying amounts for varied lengths of time. Some CD's have a fixed interest rate for the life of the CD. Others have an interest rate that can be adjusted. Usually, higher interest rates are paid on CD's that have a longer maturity date. Banks may charge a penalty if money is withdrawn from the certificate of deposit before the maturity date.

Regular Savings Accounts

The regular savings account is probably the most common type of savings. There is usually a minimum balance required to open a savings account. Some banks may also set limitations on the number of withdrawals allowed within a given period without paying a penalty. If there is no activity on an account for a certain length of time, some banks may begin charging dormant account fees.

Club Accounts

Some banks offer checking accounts that have other services tied to them; such as, insurance products, discounts on trips, rental cars, etc., lost key service and many other such items. Typically, the club account holders pay a fixed monthly fee for the checking account along with the additional services.

Investment Accounts

Many banks offer brokerage accounts. These accounts invest in products that are housed in the stock market and not in the bank. The accounts are not insured by the Federal Deposit Insurance Corporation. This type account gives the customer choices of investment in addition to the bank accounts.

Interest Bearing Checking Accounts

Interest bearing checking accounts are becoming popular alternatives for consumers. These accounts allow consumers to earn interest on their deposits while maintaining the convenience of writing checks. Financial institutions often require consumers to maintain a minimum balance in this type of account.

IRA Accounts

Individual Retirement Accounts (IRA) are accounts where customers can save for retirement. There are limits on the amount a customer can put in this account each year. The account may be tax deductible depending on other retirement benefits the customer has. Early withdrawal penalties may be assessed if money is withdrawn from the account before reaching age 59 ½ because the money is designated for retirement purposes.

Compound Interest

Compounding is when the interest that you earned on your account is added to the principal of your account. Interest earned from this point forward will be calculated on this new higher balance. There are different ways in which interest can be compounded on your account and each way will have a different effect on your annual percentage rate.

Federal Deposit Insurance Corporation (FDIC)

The FDIC promotes public confidence in the United States financial system b insuring deposits in banks and thrift institutions for a maximum amount. The FDIC was created in 1933 as a result of the wide spread failure of financial institutions during the late 1920s and early 1930s. Since the creation of the FDIC, no depositor at a FDIC-insured institution has lost a single penny of insured funds as a result of a failure.

Savings

Learning Activities/Evaluation

1. Calculate savings needed to fulfill goals using the worksheet included.

2. Collect information from local banks using the worksheet included.
   Compare savings account benefits and decide which one is best for you.
   For classroom activity, divide class into three groups or groups of three to make shopping research assignments.

3. Learn how compound interest can make savings grow using charts on the worksheet included.

4. Complete the Savings crossword puzzle using information from text and learning activities included in this section.

Reaching Savings Goals

1. How much would you need to save each month to be able to put a $2,000 down payment on the purchase of a car you would like to buy

   A. In one year?

   B. In two years?

2. How much will you need to save each month to have $1,500 college tuition to pay two times each year for fall and spring semesters, if you save—

   A. January through June to pay for fall?

   B. July through November to pay for spring?

3. How much would you need to save from your allowance each week, starting with a January 1 New Year's resolution, to have $400 to buy Christmas gifts?

Savings/Investment Accounts
Costs and Terms

Compare the benefits and costs of several types of accounts at three different local banks. Which bank and type of account would you choose if you were opening an account today? Why?

	Bank A	**Bank B**	**Bank C**
Name of Bank			
Regular Savings Account ❑ **Minimum initial deposit?** ❑ **Number of withdrawal limits?** ❑ **Insured?** ❑ **Interest computation methods?**			
Certificate of Deposit ❑ **Minimum deposit?** ❑ **Maturity date?** ❑ **Interest rate?** ❑ **Insured?**			
Christmas Club Savings ❑ **Interest rate?** ❑ **Automatically deposited funds?** ❑ **Minimum weekly or bi-weekly deposits?**			
Interest-bearing Checking Account ❑ **Minimum balance?** ❑ **Monthly service charge?** ❑ **Interest earned”** ❑ **Transaction restrictions?**			
Investment Account ❑ **Interest rate?** ❑ **Insured?**			
Dormant account fee?			
Other service charges?			

The Magic of Compound Interest

Learn what compounding interest can do by using the chart above each set of questions

	5 Years	10 Years
No Interest	$1,000	$1,000
Annual Compounding at 5%	$1,276	$1,629
Monthly Compounding at 5%	$1,283	$1,647
Daily Compounding at 5%	$1,284	$1,649

1. The chart above shows how your money will grow if you save $1,000 and earn compound interest using different computation methods.

   How much will your $1,000 be worth in *5 years* if you save it at home earning *NO* interest?

   How much will you have in your account if you deposited $1,000 *ten years* ago in a savings account earning 5% interest compounded *daily*?

Saving $1 A Day

	No Interest	5% Daily Compounding
Year 1	$365	$374
Year 5	$1,825	$2,073
Year 10	$3,650	$4,735

Saving $5 A Day

	No Interest	5% Daily Compounding
Year 1	$1,825	$1,871
Year 5	$9,125	$10,366
Year 10	$18,250	$23,677
Year 30	$54,750	$127,077
Year 20	$10,950	$25,415

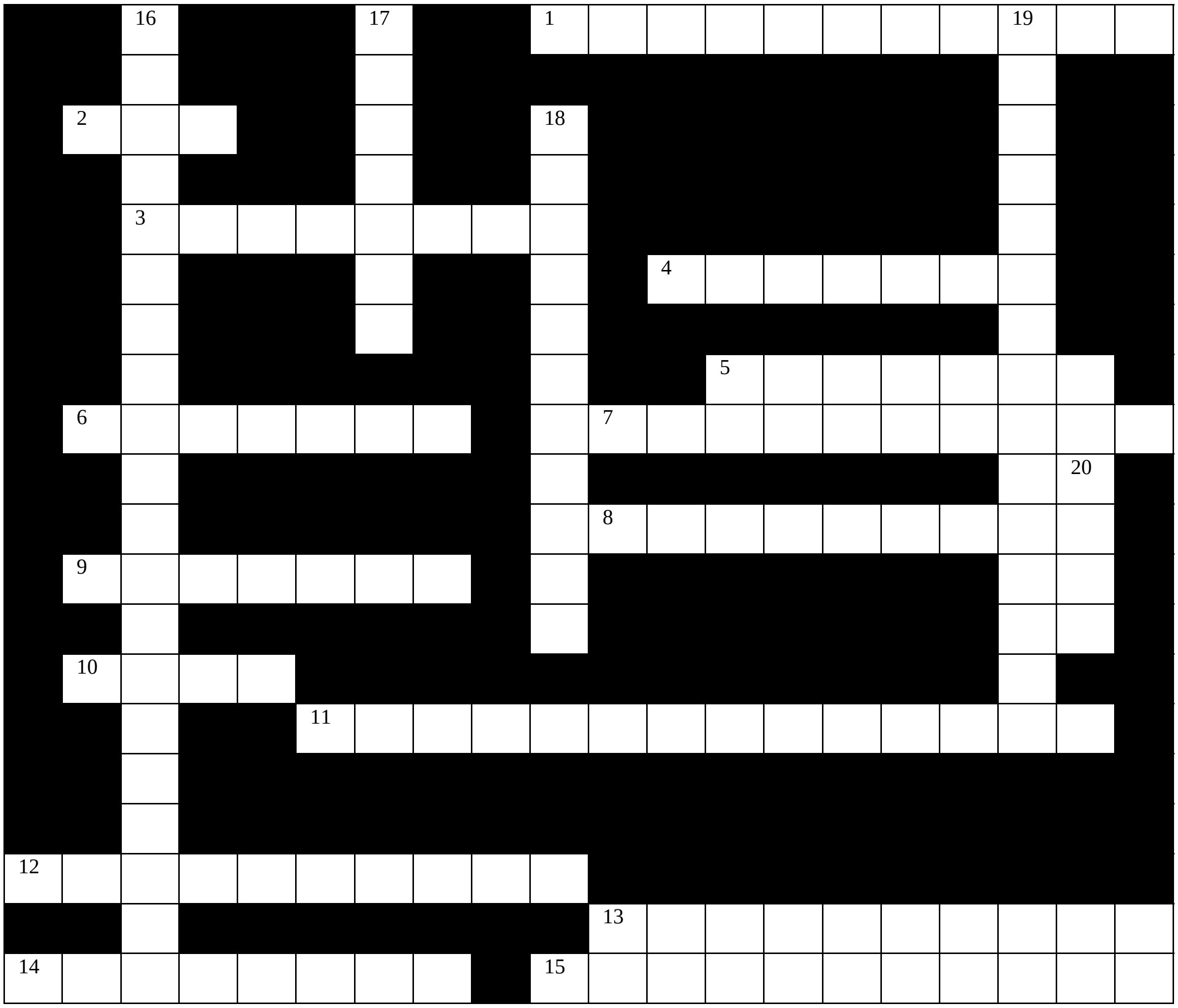
2. The charts above show what compound interest can do when you save just $1 or $5 a day.

   If you save *$1 a day* at 5% interest compounding daily for *10 years* and never make a withdrawal, how much will you have in your savings account?

   If you could save *$5 a day* for *20 years*, how much would you have if you saved at home earning *NO interest*? How much would you have in your account if you saved at the bank for *20 years* at 5% compounding daily?

Reference: *FDIC Money Smart Program*

Savings Crossword Puzzle



ACROSS:

1. Occurs when interest you earned is added to the principal in your account, increasing the balance on which additional interest will be calculated.

2. Abbreviation for Individual Retirement Account.

3. Money paid to you for leaving your money in a bank savings account.

4. The _____________ on which interest payments will be based must be stated in uniform terms.

5. Must be paid if money in an IRA is withdrawn before retirement age.

(Crossword Puzzle ACROSS continued)

6. Some people save to accumulate a down _____________ to buy a house or car.

7. Individual Retirement Accounts may be tax __________________, depending on a customer's other retirement benefits.

8. The balance on your savings account on which interest is calculated.

9. Type of account fees that may be charged if there is no activity on a bank account for a certain period.

10. Insures accounts up to $100,000 for each customer.

11. Law that requires disclosure of interest rates paid and calculation methods on savings accounts in uniform terms.

12. Account information must be given to you ________________ interest rates, interest computation methods, and balances on which payments will be based in uniform terms.

13. Type of savings account housing money in the stock market and not the bank.

14. Longer ____________ dates may be required for CD's paying higher interest rates.

15. Interest_________________ methods may vary and are required on account information disclosure statements so consumers can shop around and compare savings accounts.

DOWN:

16. Savings accounts that pay a higher rate of interest because of a longer maturity date.

17. Brokerage accounts are not ___________ by the FDIC.

18. The number of these allowed within a given period without paying a penalty may be limited.

19. Type of checking account earning interest like a savings account, but also offering the convenience of check-writing.

20. Accounts that may have other service tied to them, such as discounts on trips.

Loans

Learning Objectives

After studying this section, students should be able to:

1. Identify factors of creditworthiness.

2. Discuss why banks and consumers engage in loans and the risks involved.

3. Describe three main types of loans made by banks.

4. Identify factors affecting monthly loan payments.

Louisiana Benchmarks

Social Studies/Economics

High School (9-12)

E-1A-H1 Analyzing the impact of scarcity of productive resources and examining the choices and opportunity cost that result.

E-1B-H2 Analyzing how changes in supply and demand, price, incentives, and profit influence production and distribution in a competitive market system.

E-1C-H2 Explaining how interest rates, investments, and inflation/deflation impact the economy.

Middle School (5-8)

E-1A-M2 Analyzing consequences of economic decisions in terms of additional benefits and additional costs.

E-1A-M3 Analyzing the consequences and opportunity cost of economic decisions.

Mathematics/Numbers

High School (9-12)

N-6-H Constructing, using, and explaining procedures to compute and estimate with rational numbers employing mental math strategies.

Middle School (5-8)

N-5-M Applying an understanding of rational numbers and arithmetic operations to real-life situations

National Standards for Family and Consumer Sciences Education

2.6 Demonstrate management of financial resources to meet the goals of individuals and families across the life span.

Jumpstart Coalition for Personal Financial Literacy Standards

MM-8 Explain how to use money-management tools available from financial institutions.

S&C-1 Compare the benefits and costs of spending decisions.

S&C-2 Evaluate information about products and services.

S&C-3 Compare the advantages and disadvantages of different payment methods.

S&C-4 Analyze the benefits and costs of consumer credit.

S&C-5 Compare sources of consumer credit.

S&C-6 Explain factors that affect creditworthiness and the purpose of credit records.

S&C-7 Identify ways to avoid or correct credit problems.

LOANS

A loan is when a bank lends money to a person, and the person pays it back over time with interest. Loans are used to purchase high cost items or services that a person cannot afford to pay for all at once. Loans are usually needed to purchase items such as automobiles, homes and boats, or to pay for services such as school tuition and home improvements.

To qualify as a bank, the bank is legally required to make commercial loans. Banks issue loans as a benefit to customers. In order to issue loans, banks must raise deposits. Banks try to keep an equal balance between loans and deposits.

The loan process starts when a person has a need for money. The person contacts a bank and inquires about borrowing the money. The person must first fill out a loan application, which usually consists of questions such as the amount and purpose of loan as well as information such as monthly income, job history, monthly bills, and assets owned. Merely applying for a loan does not guarantee approval for a loan. Banks use the application to determine if the loan requested is reasonable for the purpose of the loan, and to judge the ability of the customer to repay the loan.

In addition to the loan application, the bank will order a credit report on the person or persons applying for the loan. As you will learn in the credit section of this study guide, your personal credit history is one of the most important items banks examine in the credit approval process. Your credit report lists your current loan obligations and shows the bank how you have handled your loan responsibilities in the past.

The information the bank obtains from your application and credit report helps to determine if you qualify for the loan. In reviewing this information the bank looks for five basic things, which is sometimes referred to as the **“Five Cs of Credit”.**

Character: Character is a very important factor banks use to consider a loan request. Your character is evaluated by looking at how you have handled you money and loans in the past. Your Credit Report is the primary tool banks use to determine your character. A good credit history showing payments made on time usually tells the bank that a person is a good credit risk.

Capacity: Your capacity is the measure a bank uses to determine if a person has the ability to repay the loan as agreed. A person’s monthly income and expenses are items banks look at in measuring a person’s capacity.

Capital: Capital is the money or assets a person owns or has access to. A person with limited capital may be required to provide a **co-signer** on the loan. In the event a person does not repay the loan as agreed, the bank may call upon the co-signer to repay the loan.

Collateral: Collateral is some form of security or assets that are pledged to the loan and can be used in case the borrower does not repay the loan. An example of collateral is a title to a car. If a person does not repay the loan as agreed, the bank may take possession of (or repossess) the collateral and sell it to pay on the loan.

Conditions: Conditions include what is happening that may affect the borrower's ability to repay the loan in the future. The key questions are what can go wrong, from job changes to illness and accidents to family status changes, and how this may affect the repayment of the loan.

After your loan application and credit report are reviewed, the bank then determines the worthiness of the loan you are requesting. At this point the bank will then approve or decline the loan.

Types of Loans

Banks offer many different types of loans, which may be used for a variety of purposes. You may remember some of them from the bank products section you studied earlier. Most banks offer these three basic types of loans:

Installment Loans

For an installment loan, a lump sum of money is issued to the borrower for a specific purpose and repaid over a specified period of time. Installment loans may be secured (collateral is pledged to the bank) or unsecured (no collateral) and typically have a fixed interest rate for the term (time or length) of the loan. The following are examples of installment loans:

- Auto Loan (secured by automobile)
- Personal Loan (usually unsecured loans such as Student Loans)

Revolving Loans

With a revolving loan, the borrower has the ability to borrow up to a certain dollar amount on an ongoing basis. As the balances of revolving loans are repaid, the borrower may continue to borrower up to the set dollar amount. Like installment loans, revolving loans may also be secured or unsecured. A credit card is an example of revolving loan.

Home Loans or Mortgage Loans

Home Loans are installment loans used to purchase homes. The collateral for these loans is the home being purchased. Repayment of home loans is generally longer than that of an installment loan. Typical repayment periods range from 15 to 30 years. Serveral types of home loans may be offered, depending upon the specific need of the home owner/purchaser.

Some examples of home loans include:

- Home Purchase

- Home Equity Loans

  Home Equity loans are issued to homeowners and are collateralized by the equity in their home. Home Equity is defined as follows:

  Value of Home
  - Debt on Home (how much you still owe on home loan)

  Home Equity Amount

- Home Loan Refinance

  Home Owners will sometimes refinance (obtain a new loan to payoff an existing loan) their home. The primary reason for refinance is to lower the interest rate on the loan.

Loan Payments

Monthly loan payments are affected by three main factors or variables related to the loan: original balance, interest rate, and term. The original balance of the loan is simply the amount of money borrowed at the loan's inception. The interest rate is determined by the bank and/or negotiated by the borrower (see loan pricing below). The term of the loan is the length of time over which the payments will be made. The loan's term is typically related to the purpose of or collateral securing it. For instance, a new car loan might be repaid with 60 equal monthly installments. This term is roughly equal to the useful life of the automobile. However, since a used car has a useful life less than a new one, the term for a used car loan may be only 36 months. Alternatively, a person's home has a much longer useful life than their automobile; therefore, home loans typically have terms of 15 to 30 years.

Loan Pricing – Interest Rates

A loan is an investment a bank makes with the expectation of receiving income. Banks make money from interest charged on loans, among other things. The amount of interest the bank charges depends on a number of factors or types of risk including: the risk associated with the loan, the amount of time taken to repay the loan (or term), the cost of funds being loaned, and other rates available in alternative investments. These factors are discussed here in more detail:

Credit Risk

Higher rates of interest are charged for loans that have a historically higher rate of non-payment than for those that have a better track record. Typically, loans with greater perceived risk require a greater return on investment for a bank to be willing to loan the money to the borrower. In other words, the higher the risk that the customer will not pay back the entire loan, the higher the interest rate charged for that type of loan. This type of risk is called credit risk.

Interest Rate Risk and Cost of Funds Being Loaned

The length of time it takes to repay a loan affects the interest rate because banks never know what will happen to the interest rate they have to pay for the money they use to make loans. Interest rates change continually. They may be higher or lower on any given day. The longer it takes to repay a loan, the greater the risk the bank will not be able to re-invest their money at a more attractive (higher) interest rate if rates should rise. This risk is compounded by the fact that most bank depositors do not invest in long-term deposit products. Therefore, the cost to the bank of funds used to make loans is very important when establishing interest rates for loans. This is called interest rate risk.

Rates Available in Alternative Investments

Federal, state, and local government bonds are investment alternatives available to banks (another way for banks to make money). Since most of these investments have less perceived risk (U.S. Government bonds are said to have no risk), banks must earn a rate higher than those available with these investments to make it worthwhile to make a loan. Therefore, these rates act as a floor for loan rates with similar maturities.

Loans

Learning Activities/Evaluation

Discussion:

1. Why do banks make loans to customers?

2. Why do customers need loans?

3. Discuss two ways banks get information on customers who apply for loans, including specific types of information collected in these two ways.

   A.

   B.

Further Investigation:

1. Find a mortgage loan estimation chart or calculator on-line or in a home buyer magazine (free local advertisements available in some grocery stores or restaurants) to estimate the monthly payment required to pay back a 30 year mortgage at 6% interest (or the current local rate, if you choose) for a $100,000 loan.

2. Use the Wall Street Journal and your local newspaper to obtain and compare rates on the following investment alternatives for banks:

A. 60-month Auto Loan
What interest rate could a bank earn by making auto loan to a customer?

B. 60-month U.S. Treasury Bond
What could a bank earn by investing in a federal bond?

C. 60-month State of Louisiana Bond
What could a bank earn by investing in a state bond?

Loans Matching:

Place the letter of the corresponding answer from the right column in the blanks below. (Hint: Number 14 has 3 correct answers)

_____1. Credit "C" determined by evaluating how well you have handled credit in the past.

_____2. Credit "C" measure used to determine if a person has the ability to repay the loan as agreed.

_____3. Credit "C" measured by the money or assets a person has.

_____4. Credit "C" involving assets pledged as security on a loan.

_____5. Credit "C" including what is happening that may affect the borrower's ability to pay the loan in the future.

_____6. Type of loan used to purchase a home.

_____7. Type of loan that includes credit cards.

_____8. Type of loan that includes auto loans.

_____9. Type of loan that include student loans.

____10. The length of time over which loan payments are made.

____11. Amount of money borrowed at a loan's inception.

____12. Banks' risk that a loan won't be repaid.

____13. Banks' risk that involves the cost of funds used to make loans.

____14. Affect monthly loan payments.

A. Installment (secured)

B. Interest rate

C. Interest Rate Risk

D. Mortgage

E. Original balance

F. Revolving

G. Term

H. Unsecured installment

I. Capacity

J. Capital

K. Character

L. Collateral

M. Conditions

N. Credit Risk

Remember, # 14 has 3 correct answers!

Your Credit Report

Learning Objectives

After studying this section, students should be able to:

1. Analyze a sample credit report to evaluate customer creditworthiness.

2. Explain the benefits and responsibilities of using credit.

3. Describe how one might begin establishing a good credit history.

4. Calculate debt-to-income ratio

Louisiana Benchmarks

Social Studies/Economics

High School (9-12)

E-1A-H1 Analyzing the impact of scarcity of productive resources and examining the choices and opportunity cost that result.

Middle School (5-8)

E-1A-M2 Analyzing consequences of economic decisions in terms of additional benefits and additional costs.

E-1A-M3 Analyzing the consequences and opportunity cost of economic decisions.

Mathematics/Numbers

High School (9-12)

N-6-H Constructing, using, and explaining procedures to compute and estimate with rational numbers employing mental math strategies.

Middle School (5-8)

N-4-M Demonstrating a conceptual understanding of the meaning of the basic arithmetic operations (add, subtract, multiply and divide) and their relationships to each other.

N-5-M Applying an understanding of rational numbers and arithmetic operations to real-life situations

National Standards for Family and Consumer Sciences Education

2.3 Analyze policies that support consumer rights and responsibilities.

2.4 Evaluate the impact of technology on individual and family resources.

2.6 Demonstrate management of financial resources to meet the goals of individuals and families across the life span.

Jumpstart Coalition for Personal Financial Literacy Standards

MM-1 Explain how limited personal financial resources affect the choices people make.

MM-2 Identify the opportunity cost of financial decisions.

MM-3 Discuss the importance of taking responsibility for personal financial decisions.

S&C-1 Compare the benefits and costs of spending decisions.

S&C-4 Analyze the benefits and costs of consumer credit.

S&C-6 Explain factors that affect creditworthiness and the purpose of credit records.

S&C-7 Identify ways to avoid or correct credit problems.

S&C-8 Describe the rights and responsibilities of buyers and sellers under consumer protection laws.

YOUR CREDIT and YOUR CREDIT REPORT

When you apply for a loan at a bank, the bank will have you fill out a loan application to find out what you do for a living, how much money you make, and to ask for a list of your other creditors. Usually, the next thing a bank will do is download your credit report from a credit bureau (credit reporting agency). Your credit report is a history of how well you have repaid your debts in the past. Your credit report may be the most important factor the bank will use to decide if they should loan you money.

Your Credit Report

Credit reports contain four main types of information: personal identification, public records, account payment history, and inquiries. Credit reporting agencies collect the information from their lender-customers who share information from loan applications and current accounts. Banks and other lenders use this information to make lending decisions, so it is important that you understand how your behavior can affect your credit report.

Personal Identification

Personal information included in your credit report may include: your name, Social Security number, current address and how long you have lived there, former address, current job and how long you have been employed, former job, and spouse. Lenders want to make loans to stable people who stay in one place and at one job long enough (2 years or more) to pay off their debts.

Public Records

Credit reports show public record information like collection accounts, bankruptcies, foreclosures, tax liens, and civil judgments. These are collected from court records, as well as from lenders. Most information stays in your credit report for 7 years; however, Chapter 7 Bankruptcy stays for 10 years. You can see why your current credit behavior can have such a long-term effect on your credit history!

Account Payment History

Your credit report shows how well you are repaying your credit card debt and how much you owe. It shows all of your loans from banks and your repayment history. It also shows your record on loans from car dealerships and other finance companies. Past due bills like electricity, phone, doctor or cable bills are included, as well. In summary, your report shows how much you have borrowed and if you were ever late paying it back. It shows each time you get behind on payments, and how far behind you were each time. It shows each debt, and whether you paid it back in full, or if you still owe the money.

Inquiries

Credit reports also show who has requested and received your credit report. Each time you apply for credit, the lender will make an inquiry or request to see your credit report. This information is important to creditors, who want to know how much other credit you have. If you apply for too much credit in a short period of time (within just a few months), lenders might be afraid that you cannot afford all of that credit and may decline your application for a loan.

Establishing A Good Credit History

What is Good Credit?

Banks want to loan money to people with steady jobs, with enough income to repay all of their debts, and with good credit. So what is good credit? A good credit report shows that you are repaying all of your debts on time every month. Your credit gets better each month you pay your credit cards and bank loans on time. It gets better with each bank loan you borrow and pay back over time.

For example, someone who has paid all bills on new credit cards in full for the first six months has some good credit. Someone who has had credit cards for seven years and has never missed a payment has better credit. To explain further, someone who borrowed $1,000 from a bank and paid it back on time every month for one year to pay it off has a good start on establishing some good credit. Someone who has borrowed and paid back several loans of $4,000 for a four-wheeler, $15,000 for a boat, and $23,000 for a car on time during the last 8 years has better credit. A numbering system, called credit scoring, may also be used to determine your credit risk.

Does good credit mean I can never miss making a payment on time? The answer is no. Banks know different things happen in people's lives that can make money tight at times. The most important thing you can do is when you see money is tight, and you might have trouble making a bank or credit card payment on time, is to call your creditor right away. They usually will work with you, and might be able to help keep your credit history clean. It is very impressive; however, if your report shows you were never late. It shows how serious you take your obligations of debt to others. If you are applying for a new loan, and your credit report shows you were a little late a few times over the last few years, be prepared to explain each situation. Understand though, being late all the time is a different issue.

Debt-to-Income Ratio?

How much debt can you afford? Remember that banks want you to have enough income to repay all of your debts. That means that you could have a perfect payback record on your credit report, but your report might show you owe so much money to so many different creditors that your current income might not allow you to borrow any more money until you pay down some of your debt.

Lenders calculate your debt-to-income ratio to compare how much money you make with how much debt you already have. You can divide the dollar amount of your total debts by your income to get this ratio (percent of your income spent on debt). Typically, banks would like you to have no more than a 36% debt-to-income ratio, including your home mortgage. This ratio is different for different banks and for different types of loans. If you do not have a mortgage, the total debt-to-income ratio for personal revolving credit (cards) and other installment loans may need to be under 20% (including the new credit for which you are applying) to be approved.

No Credit?

What if I have no credit? No credit is okay; everyone with credit today started in the same spot. To start building a good credit history, you might get a credit card and pay it on time every month. You might take out a small loan at a bank, and pay it back on time every month. In the beginning, an easy way to start is to borrow a little money, but use that money as collateral. For example, borrow $500, and put in a savings account and let the bank hold the money for collateral. When you have paid your loan back in full, you get the $500 and you have established a good credit history.

Another easy way to borrow money at a bank might be with a co-signer. This is when you borrow money, but someone with good credit also signs the loan with you. They promise to pay if you cannot, so the bank feels better, but you also get the good credit on your credit report when you pay it back on time.

It is good advice to get to know a banker, and develop a relationship over the years borrowing money from him/her. It will help to have someone who knows you and your family's financial needs. Also, if you need credit, do not apply to every bank or credit card company in the world at the same time. It is okay to shop around for the best deal, but decide on one (or two) you would like to do business with and only officially apply for credit with them. Remember, your report shows who has downloaded your credit file. It may appear that you are trying to get too many loans or cards at the same time. If banks or credit card companies see you have applied for credit all over the place at once, it may make them nervous and unsure about approving your loan.

Why?

Why do I need good credit? Unless you make enough money to buy everything you ever need with cash, including cars and houses, you need good credit. Many companies check credit histories before opening accounts with you. Take every bill seriously and pay it on time. Many young people think it is no big deal to be a little late on a small credit card bill or not to pay the last payment on the cell phone bill since the service was changed months ago. What they do not realize is that, if they are not responsible enough to pay those back, how will a bank believe they are responsible enough to pay back a much larger loan for a vacation, boat, truck, or house? Good credit is an asset that can help you throughout your life since it follows you wherever you go, and bad credit will cause difficulties at every turn. Begin establishing good credit when you are young, and make sure to protect it throughout your lifetime.

Your Credit and Your Credit Report

Learning/Evaluation Activities

Calculating Debt-to-Income Ratio

1. Calculate the debt-to-income ratio for a consumer who earns $1,700 per month, has a $250 car note, a $25 monthly payment for a jewelry store purchase, and now wants a personal loan that will require an additional $100 monthly payment.

   If you were the banker trying to make the decision, would you approve the additional personal loan for this customer, who has rented an apartment, worked locally, and been a good customer of your bank for the last three years? Explain why or why not?

2. Can a person who earns $3,000 per month afford a monthly home mortgage payment of $1,000 if the family has no other debts? Can they afford the house if they already have a $300 monthly car note? Explain why or why not for both parts of this question.

Use the Sample Credit Report included in this section to complete the following questions.

1. What is the consumer's name?

2. How long has he lived at his current address?

3. Do you think he is stable and will remain in the Baton Rouge area? Why?

4. How long has he worked on his current job? Does his job/career appear stable? Why?

5. Are there any public records or other types of derogatory information that would look bad to you if this customer came to your bank to apply for a used car loan? Explain.

6. Although the customer may have had some problems in the past, how has he been paying his debts in the last two years? Is he past due on any current accounts?

7. What the current balance on his credit card? What is the monthly payment (terms)?

8. What is the current balance on his car? How much is his monthly car note?

9. How much did he originally borrow to purchase his car (high credit)?

10. Calculate this customer's current debt-to-income ratio.

12. How many inquiries are listed? For what kind of credit does it appear he has applied?

Discussion

Write a letter, explaining why it is so important to establish good credit to a young friend.

Sample Credit Report

John P. Consumer
3505 Lone Pine
Baton Rouge, LA 70814 Since 6/5/2000

Social Security Number: 022-22-2222
Date of Birth: 1/11/1960

Previous Address 133 Third Avenue, Baton Rouge, LA 70802 1/3/1989 to 6/5/2000

Employment History

City Café Restaurant	Location: Baton Rouge, LA	Employment Date: 2/1/2001-present	Verified Date: 1/3/2003
Good Eats Cafeteria	Location: Baton Rouge, LA	Employment Date: 01/3/1989-2001	Verified Date: 01/3/2003

Public Records

No bankruptcies, liens, or judgments on file

Collection Accounts

No collections on file.

Credit Information

Company Name	Account Number and Whose Account	Date Opened	Last Activity	Type of Account and Status	High Credit	Items as of Date Reported Terms	Balance	Past Due	Date Reported
Auto Credit Service	40404XXXX JOINT ACCOUNT	03/2007	12/2008	Installment REPOSSESION	$16933	$430	$9077	$128	2/2008

Prior Paying History

30 days past due 07 times; 60 days past due 05 times; 90+ days past due 03 times

INVOLUNTARY REPOSSESION AUTO

Capital One	412174147128XXXX INDIVIDUAL ACCOUNT	10/2007	01/2009	Revolving PAYS AS AGREED	$777	$15	$514		12/2008

Prior Paying History

30 days past due 01 times; 60 days past due 00 times; 90+ days past due 00 times

CREDIT CARD

City Credit Finance Co.	503830276150XXXX INDIVIDUAL ACCOUNT	11/2001	12/2003	Installment PAYS AS AGREED	$17146	$401	$4058		12/2003

Prior Paying History

AUTO

Companies that Requested your Credit File

06/16/2008 Associates National Bank

05/18/2007 American Bank Card

Cards

Learning Objectives

After studying this section, students should be able to:

1. Explain how to use various types of cards available from financial institutions.

2. Compare the benefits and costs of card products from several banks.

3. Evaluate information about card products and services.

Louisiana Benchmarks

Social Studies/Economics

High School (9-12)

E-1A-H1 Analyzing the impact of scarcity of productive resources and examining the choices and opportunity cost that result.

E-1A-H7 Analyzing the roles of money and banking in an economic system.

E-1C-H2 Explaining how interest rates, investments, and inflation/deflation impact the economy.

Middle School (5-8)

E-1A-M2 Analyzing consequences of economic decisions in terms of additional benefits and additional costs.

E-1A-M3 Analyzing the consequences and opportunity cost of economic decisions.

Mathematics/Numbers

High School (9-12)

N-6-H Constructing, using, and explaining procedures to compute and estimate with rational numbers employing mental math strategies.

Middle School (5-8)

N-5-M Applying an understanding of rational numbers and arithmetic operations to real-life situations

National Standards for Family and Consumer Sciences Education

2.4 Evaluate the impact of technology on individual and family resources.

2.6 Demonstrate management of financial resources to meet the goals of individuals and families across the life span.

Jumpstart Coalition for Personal Financial Literacy Standards

MM-3 Discuss the importance of taking responsibility for personal financial decisions.

MM-8 Explain how to use money-management tools available from financial institutions.

S&C-1 Compare the benefits and costs of spending decisions.

S&C-2 Evaluate information about products and services.

S&C-3 Compare the advantages and disadvantages of different payment methods.

S&C-4 Analyze the benefits and costs of consumer credit.

S&C-5 Compare sources of consumer credit.

S&C-7 Identify ways to avoid or correct credit problems.

S&C-8 Describe the rights and responsibilities of buyers and sellers under consumer protection laws.

CARDS

In today's financial world there are many tools made available to assist with consumer spending. If used correctly these tools can be a great benefit to consumers and merchants. The instruments that we will be discussing in this section are credit cards, debit cards, and ATM cards.

Credit Cards

A credit card can be described as a plastic card authorizing the account holder to charge purchases or borrow money against a pre-approved credit line. Banks, thrift institutions, retailers, gasoline companies, and other credit grantors issue credit cards. Credit cards are generally accepted all over the world.

You may have heard a lot of negative information concerning credit cards and their usage, but the fact is that if used wisely, credit cards can be one of the most important financial tools that you will ever use. Credit cards can be carried instead of cash on vacations, to purchase major goods, for emergencies, on business trips, and in many other situations. The most important thing about using credit cards is to remember how much you spend so you can be prepared for the bill when it arrives.

Credit card companies have several different means of earning profits. The most significant profit earner for credit card companies is the interest customers are charged for the use of their cards as money. These interest rates can range from 8.0% to 25%, depending on the customer and the company. Other income producers for credit card companies include fees charged fees for late payments ($29.00), over-limit fees ($29.00), cash advances (1% of advance) and transfer balances (1% of balance transferred). In recent years, credit card companies have reported that 25 % of their net profit came from fees.

Credit cards can be a great tool for consumers. They can be used for a quick supply of cash, for purchases, to hold reservations, and for many other occasions. Wise consumers do their homework to compare costs and terms before choosing a card and then use self-discipline to use them properly.

Debit Cards

A debit card is a plastic card issued by a bank that allows a customer to withdraw funds from their deposit account. These withdrawals usually come in the form of purchases made by the consumer. Purchases made with debit cards are withdrawn directly from the customer's checking or saving account, like writing a check. In fact, debit cards are sometimes referred to as a check cards or a cash card. A debit card usually carries a Visa or a MasterCard logo just like a credit card, which allows customers to use the card in many locations throughout the World. Debit cards are slowly taking the place of the "old handwritten check". When a customer makes a purchase with his debit card, the funds are taken directly from either his checking or savings account. That is why it is so important that every transaction be logged into your registry so that the account can always be balanced. Your debit card may also be your ATM card.

ATM Cards

An Automatic Teller Machine (ATM) card is a plastic card issued to customers by banks to allow access to their deposit accounts during and after normal business hours. An ATM card may also be used to withdraw funds through another financial institution's Automated Teller Machine.

ATM cards allow consumers to travel without carrying excessive amounts of cash. Networks such as Gulfnet, Cirrus, and Pulse link Automated Teller Machines. The linkage of these machines allows customers to access their accounts from all over the world for a nominal fee. These usage fees can range from $1 to $10, depending on the transaction. It is important to remember that both the bank supplying the ATM and the bank that holds your deposit account can charge fees. ATM's and ATM cards have revolutionized the banking industry allowing the convenience of banking at any hour of the day in any city throughout the world.

Cards

Learning/Evaluation Activities

1. Explain how credit cards are different from debit cards.

2. List several types of businesses that issue credit cards.

3. What are the advantages of having and using credit cards?

4. Describe how the use of debit cards and ATM's have revolutionized the banking industry for consumers. Be sure to include all of the ways cards can be used.

5. Explain how a customer can make sure that they always have enough money in their bank account to cover debit purchases?

6. Collect information from local banks using the worksheets included.
   Compare card benefits and decide which ones are best for you.
   For classroom activity, divide class into three groups or groups of three to make shopping research assignments.

Comparing Credit Card Costs and Terms

Compare the costs of credit cards at three different local banks.
Which would you choose if you were opening an account today?
Why?

	Bank A	Bank B	Bank C
Name of Bank			
Name of Credit Card (Visa, MC)			
Annual Percentage Rate Interest (APR) Fixed or Variable?			
Annual Fee (for having the card)			
Late Fee			
Over-the-Limit Fee			
Cash Advance Fee			
Transfer Balance Fee			
Grace Period			
Credit Limit			
Benefits earned (points, premiums)			
Other Terms			

Reference: FDIC Money Smart Program

Compare the costs of debit and ATM cards at three different local banks.
Which would you choose if you were opening an account today?
Why?

	Bank A	**Bank B**	**Bank C**
Name of Bank			
Type of Card (Visa, etc.)			
Network Access			
Annual Fee			
Minimum Balance			
Monthly Fee			
Transaction Fee			
Detailed Transaction Statement?			
Card Replacement Fee			
Overdraft charge			
Inquiry Fee			
Other Terms			

Reference: FDIC Money Smart Program

Answer Key:

The History of Banking
Terms to Know:1. Comptroller of Currency, 2. FDIC, 3. Federal Reserve, 4. interest or discount, 5. national bank note
Fill-in-the Blank: 1. start, things they cannot afford to pay cash for, 2. 1791, 3. reserve requirements, 4. Atlanta, 5. Dallas, 6. The President of the U.S., seven.
Short Answer: A. Clearing checks, Setting discount rates, Setting reserve balances, Furnishing coins and currency, Transferring funds, B. Reducing the discount rate, C. Increasing the discount rate.
Matching: 1. A, 2. D, 3. E, 4. C, 5. A, 6. B.

Bank Products
Fill-in-the-Blank: 1. savings account, 2. interest, 3. certificate of deposit, 4. check, 5. money order, 6. cashier's, 7. traveler's checks, 8. safe deposit box, 9. ATM's, 10. wired, 11. mutual funds, 12. stocks, 13. bonds, 14. 401K, 15. installment, 16. revolving, 17. mortgages, 18. credit life insurance, 19. property and casualty insurance, 20. accident and health insurance.
Short Answer: 1. earn interest, safer, 2. pays interest, minimum balance and maximum transactions requirements, 3. bank's promise to pay, guarantees sufficient funds set aside, 4. Internet banking, ATM's, electronic transfers and wires, 5. 401K and IRA.

Checking Accounts
1. Your history of using checking accounts, including bad checks and other negative information will be checked to decide if the bank is willing to accept you as a customer.
2. checks, ATM or debit card withdrawals, automatic withdrawals, and monthly maintenance fees. 3. Bad check written when there is not enough money in your account to cover the amount of the check. Always record payment/debits in your checkbook register and balance your records with the bank statement monthly to know exactly how much is available in your account.

Savings
Reaching Savings Goals 1. A. $2,000 % 12 mo. = $167,
B. $2,000 divided by 24 mo. = $84, 2. A. $1,500 divided by 6 mo. = $250 per month,
B. $1,500 divided 5 months = $300 per month, 3. $400 divided by 48 weeks = $8.34,
4. Answers will vary. The Magic of Compounding Interest 1. $1,000 and $1,649,
2. $4,735, $10,950, $45,415.
Crossword Puzzle 1. Truth in Savings Act, 2. investment, 3. withdrawal, 4. Certificate of Deposit, 5. insured, 6. club, 7. compounding, 8. interest bearing, 9. penalty, 10. computation, 11. disclosing, 12. principal, 13. FDIC, 14. balance, 15. interest, 16. payment, 17. dormant, 18. maturity, 19. IRA, 20. deductible.

Answer Key (continued)

Loans
Discussion 1. To make money or earn income, and it is required to qualify as a bank,
2. To purchase high cost items such as cars, homes, school tuition or home improvements,
3. A. Loan applications ask income, job, bills and assets, B. Credit reports show current obligations and how you have handled past loans.
Further Investigation- Answers from current local information will vary
Matching 1. K, 2. I, 3. J, 4. L, 5. M, 6. D, 7. F, 8. A, 9. H, 10. G, 11. E, 12. N, 13. C, 14. BGE.

Your Credit Report
Calculating Debt-to-Income Ratio
1. $250 + $25 + $100 = $375 divided by $1,700 = .22 or 22% The ratio is above 20%, high consumer debt for someone who also has to pay rent and other expenses; however the customer does appear stable. Answers may vary on whether to approve or deny the loan.
2. $1,000 debt divided by $3,000 income = 33% which may qualify with no other debts. The car note may make the ratio too high, 43%, causing mortgage loan denial.
Sample Credit Report 1. John P. Consumer, 2. Since 6/5/2000, 3. He lived in BR previously and doesn't appear to move around too frequently, 4. Since 2/1/2001, more than 2 years, appears stable, 5. No public records; however, there was a voluntary repossession of an auto at the end of 1999, several years ago, 6. He is not past due now. He has pays as agreed. 7. $514 balance, terms are $15 minimum payment, 8. He still owes a $4,058 balance on his car with a $401 monthly payment, 9. The highest credit he has had for the auto loan was the original amount borrowed, $17,146, 10. Monthly payments $15 + $401 = $416 divided by $4,500 income listed on application = .09 or 9% ratio.
12. Inquires show that he applied for two bank credit cards within a short time.
Discussion (letter) should include why people use credit and businesses that use credit reports.

Cards
1. Cash must be available in a bank account to cover debit card purchases, also known as check cards because they work like writing a check. When you use the card, money is withdrawn from your bank account. Credit card purchases are like loans. You pay the amount of the purchase in the future, along with interest charged if you already have a balance owed on the card. 2. Banks, thrifts, retailers, gas companies, 3. safer than cash for vacations or business trips, emergency cash or purchases, hold reservations, purchase major goods, often accepted where checks are not, 4. Debit or ATM cards allow customers to withdraw money from their account by using a machine, even when the bank is closed or when they are in another location traveling. Businesses that do not accept checks, but do accept credit cards, usually accept debit cards, 5. Always record every transaction in your bank account register and subtract to keep track of the balance in your account. Balance your register with your bank statement every month.

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