# Video 3 - **Get Banked**

## VIDEO SUMMARY

This video introduces banks as safe places to keep money. It focuses on the benefits afforded to bank customers – making deposits, using checks and debit cards, online banking and so on. It points out the high costs of using other sources of financial services, such as check-cashing services, payday loan establishments and non-bank businesses that issue money orders and wire funds. It also focuses on the idea that having a bank account is one step in a plan to achieve financial independence. It is important for students to feel comfortable in the financial arena. The most basic way to do this is by establishing a relationship with a bank. This is a responsibility, but it is not something that is difficult to do. It is possible to begin by setting up a checking account, learning to manage the check register as checks are written, getting an ATM card to withdraw money when you need it, and balancing your checkbook so you don't have overdraft fees.

Although banks have many advantages, a high percentage of Americans, as many as 25 million households in the United States, are unbanked; that is, they do not have a relationship with a bank. This means they can't take advantage of either the lower fees banks charge for various services or the interest that can pay on their accounts. Being unbanked is costly. Check-cashing facilities and payday loan establishments provide some of the services offered by banks but charge much higher fees.

Many people are wary of banks because they do not understand that there are different types of accounts and fees. Most banks are interested in a long-term relationship and support the consumer's long-term goals by offering a range of services that are important to that consumer at various stages of his or her life. This enables people over time to move from a pure checking account to saving accounts, to invest in their retirement, and potentially establish a borrowing relationship for big-ticket items like college and housing.

A bank account is the first step toward achieving financial independence. It is important to have a checking and savings account to build a relationship with a bank and to take advantage of other bank services such as credit cards, auto and college loans, retirement savings accounts and credit card services. As a consumer you need to determine your needs and shop around for the best deal to suit your lifestyle. Consider several banks before making your choice. And be sure that it is FDIC-insured. Bank deposits in FDIC-insured institutions are guaranteed by the federal government up to $100,000.

It's easy to save if it becomes a regular part of your money management plan. Having savings goals will help you plan for the future.

# Lesson 3.1 - **Why Keep Your Money in a Bank?**

## BACKGROUND INFORMATION

Financial institutions are intermediaries that help channel savings to economic investment. Savers set aside income to protect themselves against "rainy days," including risks such as illness, unemployment and lower income in retirement. They also save to purchase "big-ticket" items such as homes, cars, education and vacations. Borrowers pay interest for the funds they borrow. Most of the interest they pay is used to make interest payments to depositors (those who save), who indirectly provide the funds that are used to make loans. The rest of the interest payments is a source of income to lending institutions, used to cover their costs of operation and, if they are successful, to provide profit. Thus savers, borrowers and financial institutions have strong incentives to make good, careful decisions.

Banks provide a place for individuals to keep funds in checking and savings accounts. Banks compete for these deposits by providing convenient ways for customers to make deposits and withdrawals and by paying competitive interest rates. Banks also compete for borrowers, partly by charging competitive interest rates on loans that are considered "good risks." This process of channeling funds from one group of people to others is important to the overall economy because people use loans to start or expand businesses; to invest in new factories, machines and technologies; to invest in their human capital through education and training programs; and to purchase homes and expensive durable goods such as cars and large appliances.

In our economy, financial institutions play an important role in helping individuals and groups accomplish their goals. For a variety of reasons, some people are unable or unwilling to use the services of financial institutions to help achieve their goals. Providing the students with information about the services that financial institutions provide, and with the tools to analyze the best ways in which they might use these services, will help the students have successful financial lives.

## VOCABULARY

**Financial institutions** – intermediaries that help channel funds from savers to borrowers

**Bank** – a company chartered by state or federal government to offer numerous financial services, such as checking and savings accounts, loans and safe deposit boxes. The Federal Deposit Insurance Corporation (FDIC) insures accounts in federally chartered banks and most state-chartered banks.

**Checking account** – a financial account into which people deposit money and from which they withdraw money by writing checks or using debit or ATM cards

**Savings account** – an interest-bearing deposit account at a banking establishment that is not typically used for transactions and has no maturity date

**Lender** – one who lends; may be an individual, a business or a government

**Borrower** – an individual, business or government that has received and used something belonging to somebody else, with the intention of returning or repaying it – often with interest in the case of borrowed money

**Interest** – the price associated with using someone else's money. Banks pay savers interest to encourage them to make deposits. Banks charge interest to borrowers, who pay this interest as a cost of using someone else's money. In general, banks earn profits when the interest payments made on loans are larger than the interest used to attract savers to make deposits.

## MATERIALS

✓ Visual 3.1.1
✓ One copy of Activities 3.1.1 and 3.1.2 for each student

## PROCEDURE

**Prior to viewing the video:**

**1.** Display Visual 3.1.1. Explain that these are statements about financial institutions and the services they provide. Ask the students to indicate on a sheet of paper whether each statement is true or false. Explain that the class will discuss their responses after viewing the video.

**2.** Distribute a copy of Activity 3.1.1. Explain that this is a list of financial terms used in the video or important to understanding the video. Encourage the students to take notes on the handout for later discussion.

**3.** Show the video.

**After viewing the video:**

**4.** Display Visual 3.1.1 again, and refer students to their responses to the statements. Discuss the following:

- **Statement "A":** The statement is false. According to the Federal Deposit Insurance Corporation, in 2000 there were seven bank failures in the United States. There were four in 2001, 11 in 2002, two in 2003 and four in 2004. Banks are heavily regulated to protect consumers from bank failure and fraud. If people do not trust that their money is safe in banks, they will not keep their money there.
- **Statement "B":** The statement is false. Although this may happen in other countries, in the United States neither local, state nor the federal government has access to depositors' funds.
- **Statement "C":** The statement is false. Banks charge significantly lower interest rates than payday-loan or car-title loan organizations. Borrowers pay competitive interest rates when they borrow from banks. However, borrowers pay extremely high rates of interest when they borrow from payday-loan or car-title loan organizations – as much as 390% annual interest.
- **Statement "D":** The statement is true. The Federal Deposit Insurance Corporation (FDIC) was established to protect bank customers against loss when banks fail. Consumers should choose banks that are members of the FDIC (there are very few banks in the United States that are not members of the FDIC; however, with the availability now of Internet banking, it is important that people confirm that a virtual bank is legitimate and FDIC-insured). If a bank is a member of the FDIC and the bank fails, the bank customers are guaranteed their full deposits up to $100,000 per account. This does not mean that bank customers are insured against losses that result from all bank activities. These days, many activities undertaken by banks (such as selling mutual funds or offering brokerage services) are not insured by the FDIC, so it is important that people confirm that their deposit accounts are covered by FDIC insurance.
- **Statement "E":** The statement is true. Banks offer their customers many services at no fee or at a reduced fee. This is one of the benefits of having a bank account. Bank customers can wire money through their bank, purchase money orders or cashier's checks and pay bills online, usually at no fee or a nominal fee. Additionally, if someone has an account with a bank, it is easier for that person to obtain a loan.

**5.** Ask the students to explain why, given the benefits of having a checking or savings account, some people might choose not to have a bank account. ***Answers will vary, but might include that people don't have the necessary information or that people come***

***from a country in which banks couldn't be trusted and are unaware of the safeguards in place in financial institutions in the United States. Also, they may not understand that, even where there are bank fees or minimum balance requirements, these fees may be less than those charged by non-bank check cashing services.***

**6.** Review the vocabulary from Activity 3.1.1 with the class. Distribute a copy of Activity 3.1.2 to each student. Instruct the students to use the handout to survey an adult member of their household (someone over 18) or a neighbor. Have the students bring their completed surveys to the next class.

**7.** Have the students compile the information from the surveys. Based on this information, have the students write a paragraph on how they would persuade people who do not have savings or checking accounts to open one. Instruct the students to focus on the benefits of having a savings or checking account.

## SUPPLEMENTAL ACTIVITIES

"Financial Systems" from *Focus: Institutions and Markets,* National Council on Economic Education, New York, NY, 2003.

"Saving, Investing, and the Invisible Hand" from *Focus: High School Economics,* Second Edition, National Council on Economic Education, New York, NY, 2001.

"Showtime on Wall Street" from *Learning from the Market: Integrating The Stock Market Game™ across the Curriculum,* National Council on Economic Education, New York, NY, 1997.

# Visual 3.1.1 -

## Please respond "true" or "false" to each of the following statements.

A. Each year, hundreds of banks fail. As a result, thousands of bank customers lose the money they have deposited in banks.

B. It is normal for governments (local, state and federal) to legally seize money in peoples' bank accounts.

C. Banks and payday loan organizations charge about the same amount of interest on loans.

D. If a bank is a member of the Federal Deposit Insurance Corporation (FDIC), its customers' checking and savings accounts are insured up to $100,000.

E. If you have a checking or savings account at a bank, you will pay less for money orders and to wire money than you would if you bought money orders at a convenience store or wired money through another source.

# Activity 3.1.1 - Vocabulary

**Financial institutions -** intermediaries that help channel funds from savers to borrowers

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**Interest –** the price associated with using someone else's money. Banks pay savers interest to encourage them to make deposits. Banks charge interest to borrowers, who pay this interest as a cost of using someone else's money. In general, banks earn profits when the interest payments made on loans are larger than the interest used to attract savers to make deposits.

# Activity 3.1.2 - Banks and Banking Services

1. **Do you think it is important to have a savings and/or a checking account at a bank?**

______________________________________________

2. **Why do you think some people choose not to have a bank account?**

______________________________________________

______________________________________________

______________________________________________

3. **Which bank services do you think are useful? Check all that apply.**

| | |
|---|---|
| ____ **debit card** | ____ **wire transfer** |
| ____ **bank-issued credit cards** | ____ **ATM** |
| ____ **online banking** | ____ **access to bank loans** |
| ____ **money order** | ____ **traveler's checks** |

____ **Other**______________________________

# Activity 3.1.2 - (continued) Banks and Banking Services

4. If someone did not have a bank account:

A. Where do you cash checks?

______________________________________________

B. How would they pay bills?

______________________________________________

C. What do you think are safe places to keep money?

______________________________________________

D. Why do you think they would have chosen to not use a bank?

______________________________________________

E. How would they obtain loans without a bank account?

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