

CHAPTER 5

Figure 5.1

Financial Services

Financial Services for Short-Term Needs

- Daily purchases
- Living expenses
- Emergency fund

Daily Cash Needs

- Check cashing
- Automatic teller machines (ATMs)
- Prepaid cards

Savings

- Regular savings account
- Money market account

Checking

- Regular checking account
- Online payments
- Automatic preauthorized payments
- Payment by phone
- Cashier's checks
- Money orders

Credit Cards

Financial Services for Long-Term Goals

- Major purchases
- Long-term financial security

Savings

- Certificates of deposit (CDs)
- U.S. savings bonds

Credit Services

- Cash loans for cars, education
- Home loans

Investment Services

- Mutual funds
- Financial advice

Other Services

- Tax preparation
- Insurance
- Budgeting

PLANNING AHEAD

You may think that you need only cash and perhaps checking services at this point in your life. *Why would it be a good idea to start now to save even a small amount regularly?*

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Figure 5.3

Savings Alternatives

Type of Account	Benefits	Drawbacks
Regular savings accounts	<ul style="list-style-type: none"> • Low minimum balance • Ease of withdrawal • Insured 	<ul style="list-style-type: none"> • Low rate of return
Certificates of deposit (CDs)	<ul style="list-style-type: none"> • Guaranteed rate of return for time of CD • Insured 	<ul style="list-style-type: none"> • Possible penalty for early withdrawal • Minimum deposit
Money market accounts	<ul style="list-style-type: none"> • Good rate of return • Some check writing • Insured 	<ul style="list-style-type: none"> • Minimum balance • No interest and possible service charge if below a certain balance
U.S. Savings Bonds	<ul style="list-style-type: none"> • Good rate of return • Low minimum deposit • Guaranteed by the government • Free from state and local taxes 	<ul style="list-style-type: none"> • Lower rate of return when cashed in before bond reaches maturity date

SO MANY CHOICES

Each of the main types of savings plans has pros and cons that you should consider. *Which types would be best for a person who wants to save frequently but with small amounts?*

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Go Figure...

INTEREST COMPOUNDED MONTHLY

Example: You deposit \$100 in a savings account. The bank is paying you 6%, which is compounded monthly. How much interest will you earn for the year?

Formula: A. Find the interest earned for the first month.

$$\frac{\text{Principal} \times \text{Annual Interest Rate}}{12} = \text{Interest Earned for First Month}$$

$$\text{B. } \frac{(\text{Principal} + \text{Previously Earned Interest}) \times \text{Annual Interest Rate}}{12} \\ = \text{Interest Earned for a Given Month}$$

Solution:	Month	Calculation
	1	$(100.00 \times 6\%) \div 12 = \0.50
	2	$(100.50 \times 6\%) \div 12 = \0.50
	3	$(101.00 \times 6\%) \div 12 = \0.51
	4	$(101.51 \times 6\%) \div 12 = \0.51
	5	$(102.02 \times 6\%) \div 12 = \0.51
	6	$(102.53 \times 6\%) \div 12 = \0.51
	7	$(103.04 \times 6\%) \div 12 = \0.52
	8	$(103.56 \times 6\%) \div 12 = \0.52
	9	$(104.08 \times 6\%) \div 12 = \0.52
	10	$(104.60 \times 6\%) \div 12 = \0.52
	11	$(105.12 \times 6\%) \div 12 = \0.53
	12	$(105.65 \times 6\%) \div 12 = \0.53
		\$6.18

At the end of the year, you will have \$106.18 (\$100.00 + \$6.18 = \$106.18). You earned \$6.18 in interest for the year.

Go Figure...

RATE OF RETURN

Example: You deposit \$100 in a savings account. The bank is paying you 6%, compounded monthly. After one year, the account has earned \$6.18 in interest. What would your rate of return be for one year?

Formula: $\frac{\text{Total Interest Earned}}{\text{Original Deposit}} = \text{Rate of Return}$

Solution: $\frac{\$6.18}{\$100} = 0.0618 = 6.18\%$

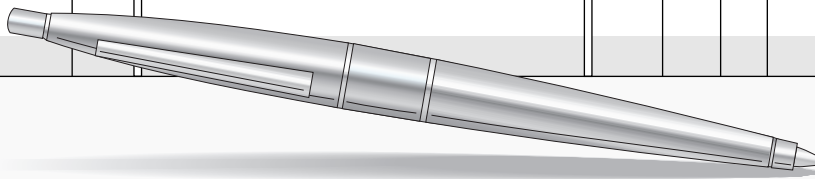
Your rate of return is 6.18%.

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Figure 5.4

Check Register

NUMBER	DATE	DESCRIPTION OF TRANSACTION	PAYMENT/DEBIT (-)	✓ T	FEE (IF ANY) (-)	DEPOSIT/CREDIT (+)	BALANCE	
							\$	
							\$	218 00
106	7/15	Bob's Service Station oil change	\$ 25 00		\$	\$		-25 00
								193 00
107	7/15	Cutler Enterprises magazine subscription	14 00					-14 00
								179 00
108	7/16	Motor Vehicles Department driver's license	30 00					-30 00
								149 00



KEEPING TRACK

This sample check register shows how to keep track of checks as you write them. *What else should you record in your check register?*

Figure 5.5

A Personal Check

Printed name and address of depositor: **KENNETH BUCKLEY**
7828 CARL DRIVE
WESTOVER, OR 98123

Payee: **Bob's Service Station**

Check number: **106**

Name of financial institution (drawee): **Oregon State Employees Credit Union**

Magnetic ink characters: 000000000 1505 303079 106

Depositor's account number: 1505 303079

Check number: 106

Check details: **July 15** 20 **03**
PAY TO THE ORDER OF **Bob's Service Station** \$ **25.00**
Twenty-five and 00/100 DOLLARS
MEMO **oil change** **Kenneth Buckley**

PERSONAL CHECK

Never write a check in pencil, and always write legibly. *Why do you have to write the amount both in words and in numerals?*

Your Financial Portfolio

Comparison Shopping for Banking Services

Enrique is ready to open some bank accounts and is looking for the bank that best suits his needs. He is deciding between the local bank and the credit union where he works.

Enrique's Savings Search

Name of Institution	Kensington Bank	Acme Credit Union
Savings		
Annual interest rate	1.8%	2.5%
Minimum balance required	\$100	none
Certificate of Deposit (CD) interest rate 1 year	6.40%	6.70%
Checking		
Monthly service charge	\$8.50	\$6.00
Minimum balance for "free" checking	\$3,000	\$1,000
Fees for ATM	Free	no ATMs
Cost of checks	\$10.00	\$8.75
Overdraft protection	yes	none
Banking hours	Mon.–Sat. 9–6, Closed Sun.	Mon.–Fri. 9–6, Closed Sat. & Sun.

Enrique decided to open a checking account at the bank because he needed the convenience of using the ATM. He opened a savings account at the credit union because it pays higher interest. When he has enough money, he will also purchase a CD at the credit union.

Compare In your workbook or on a separate sheet of paper, list the banking services that are important to you. Then call or visit several banks in your area and compare services, costs, and interest rates that are available to you.

What services are most important to you? Which bank would you choose? Explain why.