

Chapter 5 – Banking

I-Summary

This chapter teaches you about financial services, how they work, and how you can make informed decisions to serve your financial goals.

There are three primary types of financial services:

- 1. Savings**
- 2. Payment services**
- 3. Borrowing**

Commercial banks, savings and loan associations, mutual savings banks, and credit unions are financial institutions that accept secure deposits and provide transfer and lending services. Life insurance companies and investment companies accept customers' funds, provide financial security for dependents, and invest and manage funds. Finance companies and mortgage companies offer loans.

Bank savings plans offer the lowest interest rates with the best liquidity. CDs, or certificates of deposit, do offer higher interest rates, but they also must remain on deposit for a specified time. Money market accounts and U.S. Savings Bonds are not as liquid as bank savings accounts but often provide greater returns.

When evaluating the features of a savings plan, keep these four factors in mind:

- 1. The rate of return compared with the rate of inflation**
- 2. Tax considerations**
- 3. Liquidity**
- 4. Restrictions and fees**

There are three categories of checking accounts: regular, activity, and interest-earning. Keep in mind that some checking accounts require minimum balances and/or fees for transactions, and some pay interest on deposits.

When using your checking account, it is very important to write checks carefully, endorse the checks you deposit, and reconcile your checkbook against bank statements.

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I-Quiz

1. What form can you use to account for differences between your bank statement and a checkbook balance?
 - A. a deposit tracking form
 - B. a bank reconciliation form
 - C. a monthly balance form
2. What type of card allows you to pay for purchases directly from your checking or savings account?
 - A. a debit card
 - B. a checking card
 - C. a transaction card
3. What is the amount of interest that a deposit would earn after compounding for one year?
 - A. annual interest
 - B. annual percentage yield
 - C. savings accrual
4. Which item should NOT be included when you write a check to someone else?
 - A. the date
 - B. your signature
 - C. your endorsement
5. What type of savings plan carries an interest rate that varies from month to month?
 - A. a certificate of deposit
 - B. a money market account
 - C. a U.S. Savings Bond

Answer Key

1. B
2. A
3. B
4. C
5. B