

The American Center for Credit Education

✓ *CheckWise*

Promotional Copy

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Introduction

A checking account is much more than a method to pay for goods and services. Checking accounts are essential financial building blocks and great tools to help you manage your money. They can help you to achieve financial stability and get more of the things you want. What's more, checking accounts make conducting financial business more convenient, safer, and can offer you cost savings, among other advantages.

CheckWise is a comprehensive guide to managing a checkbook, starting with the basics of choosing a financial institution to work with and selecting a checking account that meets your needs. It covers topics such as learning how to write checks, using online bill pay, reconciling your account, and offers other tips and tools to help you manage your account.

To be successful with your finances, you need to handle your checking account responsibly. CheckWise can help you learn how.

Chapter 1

Developing a Relationship with a Financial Institution

Sal and his wife, Amy, live in a small apartment in the heart of the city. They dream of someday owning a home where they can have a yard for their children to play, maybe even plant a small garden to grow fresh cucumbers and tomatoes.

Claire leaves for work each morning, wondering if this will be the day that her car is going to leave her stranded. It's been making a strange clicking sound and leaking oil for months, but she has learned from her mechanic that the necessary repairs will cost her \$1600, far more than the car is worth. She will soon need to buy a new car.

Rita has always wanted to return to college. She started taking classes five years ago, but she had to quit school after her second baby was born. Now she is ready to begin school again and is thinking about how to finance her education.

Jared wants to travel overseas and meet some of his distant relatives. He has researched his options and has found a great deal on a round-trip flight. Now he just needs to find a way to pay for his vacation.

What do all of these people have in common? They have wants and needs, necessities to pay for, and dreams to fulfill. Yet they can't afford to pay cash for all of them. Homes and cars, an education, or a trip abroad are typically too expensive for most people to pay cash. That's when you may find yourself in the position of needing a loan. This can happen at several points in your life.

Borrowing money for things that you may want in the future requires that you take steps now—before you actually need the money. This is where the importance of building a relationship with a bank or credit union comes in. You are probably thinking, a relationship—what do you mean by “build a relationship” with a bank or credit union? Relationships involve getting to know someone you are interested in, not financial institutions like banks or credit unions.

Maybe you view banks and credit unions as buildings filled with men and women who carry calculators and wear little black suits and not in any way connected to relationships. Yet a relationship is exactly what will help you get the loan you want from a bank or credit union.

Okay, so if you need a relationship with a bank or credit union in order to get a loan, you might be wondering, “How do I establish this relationship?” (No, you don't need to send flowers to the loan officer.)

One of the best and easiest ways to begin developing a relationship with a bank or credit union is to take advantage of simple financial tools they have available to you. One of these tools is a checking or share draft account. (The terms checking account and share draft account have the same meaning, though this book will use the term checking account.) In fact, when you want to get a loan from a bank or credit union, one of the first things they want to know is whether you have a checking (or savings) account with them.

Really? All you need to do is open an account to start building a relationship with a bank or credit union? Yes, it really is that simple. Banks and credit unions view checking accounts as essential financial building blocks because this service connects you to their financial institution. When asked where they conduct their financial business, most consumers will give you the name of the bank or credit union where they have their checking account.

Banks and credit unions are in business to provide financial services, and they want you to think of them for your financial service needs. When you have a checking account, and you handle it responsibly, banks and credit unions view this favorably. You want the bank or credit union to view you favorably—so you can get the loan you want or need.

While being able to get a loan when you want or need one is an important reason to develop a relationship with a bank or credit union, the benefits reach far beyond getting loans. Your relationship with a bank or credit union will also:

- ◆ allow you greater flexibility and convenience;
- ◆ help you to keep your money safe;
- ◆ help your money grow;
- ◆ provide cost savings for you;
- ◆ provide you with personal financial advice from a banker or credit union representative and give you access to many other services.

Convenience

Conducting financial business can be much easier and more convenient when you have a relationship with a bank or credit union. And who couldn't use more convenience in their life?

Without a checking account, you either have to pay with cash or purchase a money order to pay many of your bills. If paying with cash, you cannot mail your money. Instead, you must travel to the utility company or meet the landlord to pay your bill. (With the price of gas, who needs the added expense of driving around?) You will need to get a receipt and keep track of it so you have proof you have made your payment.

Growing Your Money

When you have a relationship with a bank or credit union, you have the opportunity to see your money grow. Money sitting at home will never increase, but when you deposit it at a bank or credit union, you can earn interest—a payment made to you based on a percentage of the total funds held in your account. (Earning money, earning interest, is always a good thing.)

Cost Savings

Without a checking or savings account, every time you get paid you will have to pay someone to cash your paycheck or any other check you receive. You may have to pay a flat fee, ranging from \$4 or \$10, or it can be a percentage of your check (possibly as high as 10%).

Consider this: if you are paid every other week, then you have 26 pay periods in a year. If you make \$8 an hour and work forty hours a week, your gross pay would be \$320. If you have two weeks in a pay period, your gross pay would be \$640. For the purposes of this example, let's say that your take-home pay is \$550. If you went to cash your check, and the business charged you 5%, you would be paying \$27.50 to cash it. Over a year, that adds up to \$715. Even if you choose a place that only charges you \$4 per check, you will still spend \$104 in a year's time.

On the other hand, if you had a free checking account at a bank or credit union, the only thing you would need to purchase is a box of checks for around \$12. The financial institution would not charge you to cash your check if you have an account with them, and if you handle your account responsibly, you would incur no other fees.

The choice is simple when you look at it this way: \$12 for a box of checks is far more cost effective than paying fees of more than \$700 a year to have your paycheck cashed.

Let's look at one more example. Example 1.1 details the difference between paying fees and earning interest.

Example 1.1

Person	Fees per Paycheck	Total Monthly Fees	Interest Earned	1 Year of Fees	2 Years of Fees	5 Years of Fees	10 Years of Fees
A	\$27.50	\$55.00	0%	\$660.00	\$1,320.00	\$3,300.00	\$6,600.00
Person	Amount Saved per Paycheck	Monthly Amount Saved	Interest Earned	1 Year Saved	2 Years Saved	5 Years Saved	10 Years Saved
B	\$27.50	\$55.00	4%	\$672.24	\$1,371.86	\$3,646.44	\$8,098.74

Choosing and Opening an Account

You've learned that developing a relationship with a bank or credit union has many benefits and that opening a checking account is a good place to start. Where you choose to open an account will depend on your particular needs and circumstances. You should choose a bank or credit union where you feel comfortable and that provides the products and services you need. You might also want to consider whether the location of the bank or credit union and the hours of operation are convenient for you. Some banks and credit unions have multiple locations and extended hours that can make it easier for you to conduct your financial business.

The Difference Between a Bank and Credit Union

Banks are community, regional, or national for-profit business corporations. Banks are owned by private investors and governed by a board of directors. Credit unions are owned by their members and governed by a voluntary board of directors who are members of the credit union. Credit unions are not-for-profit financial cooperatives that offer services to individuals sharing a common bond or affiliation, such as a common employer.

Of course, you aren't limited to working with just one bank or one credit union. In fact, you may find it valuable to have a relationship with both a bank and credit union as your needs change. One may offer a higher savings rate, while another may offer a lower car loan rate. One may have a national network, and another may provide great local service.

Whether you choose to conduct your financial business with a bank or credit union, you will find that you have a wide variety of products and services available to you. Feel free to ask the bank or credit union representative to explain their services in more detail for you (that's their job). Again, think of it as a relationship. In order for a relationship to be successful, it has to work both ways. Just as bank or credit union representatives may ask you questions, you also have the right to ask them questions regarding their products or services.

Basic Services Available Through Your Bank or Credit Union

Savings Accounts

By opening a savings account, you have the opportunity to save for a variety of wants and needs, while earning interest at the same time. Earning interest, which is basically a payment you receive for storing your money at a bank or

Notes

credit union, is always a good thing. When you leave your money and interest in the bank long enough, you begin earning interest on the interest. This is called compound interest and will allow your money to grow even more quickly. (Earning interest on interest—now that’s a great thing.)

A savings account will typically earn a higher rate of interest than a checking account (if the checking account even pays interest), and it offers you quick and easy access to your money.

Depending on the institution you choose to conduct your financial business with, you may have to deposit a minimum amount in order to open an account. You may also have to maintain an average monthly balance to avoid paying fees on your account. Remember that paying fewer fees is always to your benefit. While \$5 here or there may not seem like much, wouldn’t you rather spend that same \$5 on lunch or a latte or something else you would enjoy? You could also be earning interest on that \$5, rather than paying your bank or credit union a fee.

Money Market Accounts

A money market account is an interest-earning savings account that offers many of the same benefits as a traditional savings account. (Again, earning interest is a good thing.) Like a basic savings account, money market accounts let you withdraw your money whenever you want, but they typically offer a higher rate of return. Money market accounts require higher minimums than traditional savings accounts and have limitations on the number of transactions you can make each month. Most money market accounts will provide limited check writing privileges—typically three checks a month.

You will typically be subject to a fee (somewhere around \$5) if you don’t maintain a certain balance in your money market account, and there may also be a fee (typically around \$5-10) for every withdrawal in excess of the maximum the bank or credit union allows each month.

Because of these possible fees, you should always shop around and compare money market accounts available through various banks and credit unions before you decide where to open one.

Certificates of Deposit

A certificate of deposit, or CD, allows you to save or invest a fixed amount of money for a set period of time—three months, six months, one year, five years, or more. In return, the issuing bank or credit union pays you interest. The rate of interest paid on a CD is normally higher than you can earn on a savings account, though CD’s typically require a higher minimum balance than a regular savings account. (Earning more interest is always a good thing.)

Who Are You: Verifying your Identity

Following the events of 9/11 and the passage of the Patriot Act, banks and credit unions are now held responsible for verifying the identity of any person wishing to open an account. This means that you will need to provide your name, date of birth, address, and Social Security number or government issued photo identification document to the bank or credit union when you go to open an account. You may also need to provide information about your employer, your income, and the source of the money you are using to open the account. The bank or credit union may even pull a credit report or a ChexSystems report on you before they determine whether they will open an account for you, or they may use this information to decide what kind of account you can open.

Deposits

In addition to supplying the bank or credit union with personal information to open an account, you will also need to be ready to make an **opening deposit**. The amount of your opening deposit will vary, depending on the type of account you are opening and where you are opening the account. Make sure you know the requirements for your first deposit and bring along enough cash.

To make your opening deposit, you will need to fill out a deposit slip or ticket. For your first deposit, the bank or credit union will have blank slips on hand for you to complete. Once you have checks printed with your personal information, your name and account number will already be on the deposit slips found at the back of your checkbook. If you need additional deposit tickets, your bank or credit union can supply you with them.

When you make a deposit, you will need to fill out a deposit slip; in return, you will receive a deposit receipt that you will need to keep until you receive your monthly statement and reconcile your account.

Deposit Slips

Deposit slips from banks and credit unions are all similar in design. Example 2.1 details the various sections that you will need to complete when you wish to make a deposit into your checking account.

Protecting Your Checking Account and You

Keeping your Checking Account and Debit Card Safe

Your checking account statements provide you with valuable information about deposits made and checks written, detailing transactions that affect your financial life and your taxes. Because of this, it is important to keep your statements permanently and to store them in a safe and secure place, such as in a locked filing cabinet.

Any time you throw away receipts with your account numbers on them, you need to shred the statements first. Identity thieves often go through the trash to gather information to steal. If they have your address and account numbers, they could make fraudulent charges on your accounts, creating serious problems for you that can take months, even years to clear up.

If you find that someone has stolen your checks, immediately report the theft to your bank or credit union, and then file a police report. Your bank or credit union will need to verify your account information and will ask you to recall the last businesses or individuals to whom you wrote checks. Obtaining this information will allow your bank or credit union to clear checks that you wrote, while preventing those written by the thief from clearing.

You should also report a lost or stolen debit card immediately. Under the Electronic Fund Transfer Act, you will only be liable for up to \$50 if you notify your bank or credit union within two days of finding out that your debit card is missing. If you wait longer than that, your liability can increase to \$500.

In cases where you misplace your checkbook, you will need to call your bank or credit union. They will ask you for identifying information, your account number, and the checks you last wrote. Your bank or credit union will work with you to decide whether to close your account and open a new one or to keep it open and start with a new set of blank checks.

If You Mishandle Your Account

Banks and credit unions like providing services to their customers who handle their accounts responsibly. However, if you mismanage your checking account, you can lose your ability to have one. Banks and credit unions incur many losses due to check abuse and fraud. Don't be surprised to find that if you mishandle your account, your account is closed.

Appendix

Chapter 1 Activities

Activity 1.1 Goal Setting

Why do you want to develop a relationship with a financial institution? What is the end result you want? Specifically, what are your goals? Fill out the following form:

Example

<p>Goal:</p> <ol style="list-style-type: none">1. Open a checking account.2. Make sure the balance in your checking account never goes below ____ (List a dollar amount here.)3. Purchase a car4. Buy a home5.
--

<p>My Goals:</p> <ol style="list-style-type: none">1. _____2. _____3. _____4. _____5. _____

Activity 1.2 What Should you Ask?

You are considering opening an account at a bank or credit union. List a minimum of four things you might ask their representative.

1. _____
2. _____
3. _____
4. _____

Chapter 6 Activities

Activity 6.1 Writing, Recording, and Reconciling

Mia Beroke chooses to do most of her banking online. Mia wants to set two of her creditors up for monthly automatic payments using online bill pay. Her rent and her car payment are due the same time every month, and the payment amount does not change.

Fill in the template with the following information:

Rent is paid to P.Uni Condos for \$630.00. Payment is due on the first of February (in the current year) and the first of each month thereafter. The address for P. Uni Condos is 99 Reststop Road, Nomansion, US 88111. The phone number is 555-955-9876. The account number is 2 Morrow Lane. The account is in Mia's name.

ON-LINE BILL PAY	
Name of Payee or creditor:	<input type="text"/>
Address of Payee:	<input type="text"/>
Phone number of payee:	<input type="text"/>
Account Number:	<input type="text"/>
Account Number re-verified:	<input type="text"/>
Name the Account is in:	<input type="text"/>
Payment amount:	<input type="text"/>
Reoccurring Payment:	<input type="checkbox"/> YES <input type="checkbox"/> NO
If yes:	<input type="checkbox"/> Daily <input type="checkbox"/> Weekly <input type="checkbox"/> Bi-monthly <input type="checkbox"/> Monthly
Payment due date:	<input type="text"/>
<input type="button" value="SUBMIT PAYMENT"/>	