Standard 3: **The student will describe the functions and uses of banks and other financial service providers.**

Finding Financial Services

Dorey has a checking account at a bank close to her house. She uses her debit card and the bank's online services to monitor her balance. She saves money by using her debit card because her bank charges 20¢ for every check she writes, but has no charges for debit card transactions.

Mino has a checking account at a credit union affiliated with the company where his dad works. He prefers to write checks instead of using a debit card because it is easier to track his spending. The credit union has online banking, but Mino does not use it.

Martin does not like banks. He thinks they charge too much, and he is not sure that his money is safe there. Besides, he only has a part-time job and does not make a lot of money. He uses a check cashing service for cashing his check, money orders for payments, and cash for local purchases.

Lesson Objectives

⇒ Identify the most common types of financial service providers.
⇒ Explain the services offered by different financial institutions.
⇒ Determine which kinds of financial services providers and services are appropriate for different situations.
⇒ Weigh the costs and benefits of using financial services.

Personal Financial Literacy Vocabulary

ATM (automatic teller machine): An electronic machine that bank customers and credit union members can use to withdraw cash and make other financial transactions.

Automatic deposit and payment: The deposit of wages or other income directly into a customer's bank account.

Bank: A state or federally chartered, for-profit business owned by stockholders that provides savings accounts, checking accounts and other financial services to its customers.

Check cashing services: An institution that cashes checks immediately for a fee.

Checking account: A bank or credit union account that allows withdrawals by writing a check.

Credit card: A plastic card authorizing the delivery of goods and services in exchange for future payment with interest.

Credit union: A state or federally chartered, not-for-profit financial cooperative that provides financial services to its member-owners who have met specific requirements.

Debit card: A plastic card used to deduct a purchase amount directly from your checking account; also called a check card.

Financial services: The different kinds of services provided by financial institutions such as banks, credit unions, insurance companies and other similar businesses.

Financial institution: Any business providing financial services.

Insurance company: A company that guarantees compensation for specific forms of loss, damage, injury, or death.

Investment bank: A business that participates in buying and selling stocks, corporate bonds and government bonds.

Money transfer: The process of moving money from one account to another account.

Mortgage company: A company that make loans for the purchase of a house or other real estate.

Online banking: The process allowing customers to make financial transactions on a secure web site operated by their financial institution; also called Internet banking.

Overdraft: A description of what happens when a withdrawal (checks, ATM, etc.) is greater than the amount of money in a checking account.

Overdraft protection: A checking account feature that provides an automatic loan from their financial institution to cover overdrafts.

Safety deposit box: A protected location in a secure bank vault where individuals can store valuables for a small fee.

Savings account: An interest-bearing account at a financial institution.

Stock brokerage: Individuals and companies who buy and sell stocks for investors.

Introduction

"**Financial service providers**" is a term used to describe all of the different types of businesses similar to a bank. The world of money and banking has become extremely complex, primarily due to hi-tech opportunities. Using just one word "bank" or just "bank account" targets a specific kind of financial service provider and a specific kind of financial service. While banks are the most common type of financial service provider, they are only one part of the entire financial industry in the United States today.

Lesson

The financial services industry includes many different kinds of organizations that provide many different kinds of financial services for their customers. Some of these organizations are banks, credit unions, credit card companies, insurance companies, stock brokerages, mortgage companies, and investment banks. Why are there so many? Because customers today want a variety of services! The rapid growth of technology has changed the way financial institutions do business, and it has increased the level of competition for customers.

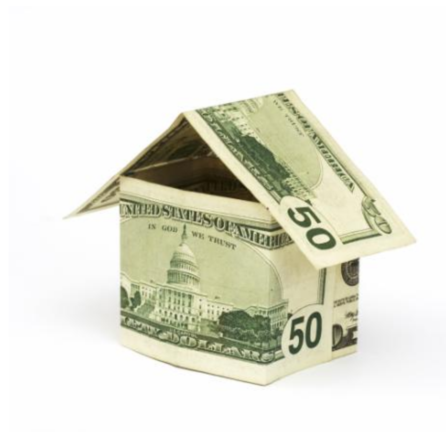
Note: In this lesson, the word "bank" is used to describe all similar organizations where people having checking and savings accounts, such as banks and credit unions.

The term "**financial services**" became popular in the 1990s because of changes in federal banking laws. Using this term better describes all of the services and products now available from financial institutions.

Over 90 percent of the people in the United States have a bank account of some kind. It may be a transaction account, commonly called a checking account, or a savings account. (Note: Even if you only use a debit card instead of writing checks, the account is still called a checking account.) Most of these accounts are either in a bank or a credit union.

A **bank** is an organization chartered (another word for licensed) by either the state where it is headquartered or by the federal government. **Credit unions** are similar, except they are nonprofit organizations owned by the people who use their services. Today, banks and credit unions provide basically the same kind of services for their customers.

The financial services provided by banks include:



- Checking accounts
- Savings accounts
- Interest on checking deposits
- Automatic deposit and payment
- Credit cards
- Check cards or Debit cards
- ATMs
- Online banking
- Storage of valuables (safe deposit boxes)
- Money transfers
- Overdraft protection
- Traveler's checks

COMPLETE: Making a Financial Match – Activity 3.1.1
Ask your teacher to review your answers before continuing with this lesson.

Choosing Financial Services

Deciding which financial services and financial providers to use can seem difficult. The more options you have available, the harder it is to choose. While it might be easier if you had only one or two services or providers, you may not find the best service or provider to meet your needs.

The explosion of technology has helped providers expand the number of services they offer and made them less expensive for you to use. If a financial provider wants to keep its customers, it must offer the services they want. Otherwise, those customers will go somewhere else.

Even though technology has reduced the cost of services to customers, financial institutions still charge a variety of fees for providing them. The fees help offset the expenses for developing and designing the technology, for employee salaries and other similar expenditures.

The fees are part of the costs for you to consider when making financial choices. Other costs include your time, your ability to access the services, and your level of skill using them. For example, if you do not have Internet at home, it would be more difficult to use online banking services. You would have to go to a library or a friend's house to pay your bills. Also, if someone does not understand how to use a computer, the time to develop the skills for online banking would take longer, increasing the "cost" of using that service.

Using online banking also has several benefits. You can review your checking or savings account 24 hours a day to keep track of your spending, and you can easily transfer money from your checking account to your savings account. Online banking also allows you to pay your bills through the bank, saving you money on postage and envelopes.

Before deciding which types of services you need and which provider you want to use, it helps to understand their potential costs and benefits. Otherwise, you may pay for services you do not want or need.

COMPLETE: Financial Services – Activity 3.1.2

Ask your teacher to review your answers before continuing with this lesson.

In the box below, explain what you learned from this activity? How did it help you decide what kind of financial services and financial providers would be most beneficial to you?

1.

2.

3.

Conclusion

The number of financial service providers has increased as people's needs for services have increased. The rapid growth of technology has made it easier for more companies to provide services, and it has changed the kinds of services people want. While having so many options can seem overwhelming, it allows people to comparison shop. The quality of service, the types of services, and the fees charged for services can vary from one provider to another. Being informed will help you find the types of services you want and need, and save money getting them.

Who is making the best decision: Dorey, Mino or Martin?

If you said Dorey or Mino, you are right!

For most people, there is little difference between using a bank or a credit union. Having a checking or savings account is a good way to build a relationship with a financial service provider. Continuing to use check cashing services and money orders is much more costly than learning how to manage an account at a bank. In addition, keeping all of your money in cash is very risky!

Name: ____________________________ Class Period: ___________________________

Finding Financial Services
Review Lesson 3.1

Answer the following questions and give the completed lesson to your teacher to review.

1. List three types of financial institutions and the services they provide.

2. Identify four financial services that allow you to pay for goods and services.

3. How could you pay for an item and not use cash or a check?

4. What are benefits of using online banking instead of a check?

Name: ____________________________ Class Period: ___________________________

Making a Financial Match – Activity 3.1.1

Review the vocabulary at the beginning of this lesson to help you complete this activity. Place the letter of the correct service beside the financial institution it matches.

Financial Institution

____Bank

____Credit Card Company

____Insurance Company

____Stock Brokerage

Services

A. Individuals and companies who buy and sell stocks for investors.
B. An institution that participates in the primary markets for the sale of newly issued stocks and corporate and government bonds.
C. A for-profit company that is owned by its stockholders and provides savings and checking accounts and other financial services to its customers.
D. A company that make loans for the purchase of a house or other real estate.
E. An organization that issues credit cards to credit card holders.
F. A company that guarantees compensation for specific forms of loss, damage, injury or death.
G. A state or federally chartered not-for-profit financial cooperative that provides financial services to its member-owners who have met specific employment, resident, or other eligibility requirements.

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Which financial institution and/or services do you need:

- If you have bills to pay?
- If you want to save money?
- If you want to start saving money for college?
- If you want to get cash when the bank is closed?
- If you have a valuable coin collection?

Name: ______________________________ Class Period: _____________________________

Financial Services – Activity 3.1.2

This chart explains several financial services. Read through the chart and answer the questions at the end.

Financial Services	Benefits	Costs
Checking accounts	Provides a safe place for your money; allows you to withdraw you money.	Pays no interest or very low interest.
Savings accounts	Helps you accumulate and save money while earning a small amount of interest.	Interest may vary, cannot use money immediately.
Automatic deposit and payment	Do not have to write or cash checks; no postage to send payments; bills can be paid on time; no need to take your pay check to the bank.	Makes money more abstract because you never see it; need to monitor account for accuracy; must be sure you have enough money in your account before spending.
Credit cards	Allows you to buy now and pay later; safer and more convenient than carrying cash.	Temptation to spend more than you should; must track how much money you are spending; must pay interest unless you pay the full amount each month.
Debit cards	More convenient than carrying cash; you can only spend what you have in your account.	Your spending is limited to the balance in your account; if you have overdraft protection, you may be charged fees for exceeding your balance.
ATMs	Allows convenient access to your money almost anywhere in the	May be charged fees or interest, so must read carefully before using; fees and interest vary depending upon the machine and situation.

	world.	
Online banking	Safer than mailing a check; can pay all of your bills and save postage.	Makes money more abstract because you never see it; need to monitor account for accuracy; must be sure you have enough money in your account.
Safe deposit boxes	Allows you to keep valuables safe from fire, tornadoes and floods.	Yearly fee; only assessable during banking hours; in case of death, box cannot be opened until inspected by the government.
Money transfers	Allows you to easily move money from one account to another, e.g., from your savings to your checking account.	If it is a wire transfer, you will have to pay a fee; if you transfer from your savings to your checking account, you lose interest on your savings.
Overdraft protection	Keeps you from "bouncing a check" and paying related fees for withdrawing more money from your checking account that you have in it.	Most financial institutions charge overdraft protection fees or interest on the amount needed, even though these fees may be less than the overdraft fees.

Use the chart above to help you decide which financial service you should use for each of the following situations. Be sure to mention the costs and benefits of the financial service you choose.

1. You have gotten your first job and you want to save some money for a car.

   Type of service(s):

   Benefits:

   Costs:

2. You are on a trip and you need cash on a weekend.

   Type of service(s):

   Benefits:

   Costs:

3. You discover that you do not have enough money in your checking account for the purchase you made using your debit card.

   Type of service(s):

   Benefits:

   Costs:

4. You go out for pizza with friends. When you get in the car to leave, it will not start. Your friends give your battery a "jump" – but you are worried that it may not start tomorrow morning. So, you decide to go buy a new battery. It is the end of the month and your checking account balance is a little low. You know you will be paid next week.

   Type of service(s):

   Benefits:

   Costs: