



MODULE 05

FINANCIAL SERVICES:

Care for Your Cash

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NEFE HIGH SCHOOL FINANCIAL PLANNING PROGRAM



About the NEFE High School Financial Planning Program Series

By picking up this booklet, you are on your way to making your dreams come true and headed down the path to financial independence. This program series includes six topic modules to introduce you to the fundamentals of mindful money management behaviors. Use what you learn in each module to develop sensible habits to confidently manage your money and adapt to unexpected events.

Program Modules

- 1. MONEY MANAGEMENT: Control Your Cash Flow:** goal setting – decision making – spending plan & budget – money management tips
- 2. BORROWING: Use—Don't Abuse:** application process – loans – credit cards – costs – credit score – debt – rights & responsibilities
- 3. EARNING POWER: More Than a Paycheck:** earning potential – career plan – life stages – employee benefits – take-home pay – lifestyle
- 4. INVESTING: Money Working for You:** savings – investing – goals – options – risks & rewards – time value of money – diversification – plan
- 5. FINANCIAL SERVICES: Care for Your Cash:** account types – fees – service options – transaction tracking – automation – identity protection
- 6. INSURANCE: Protect What You Have:** risk management – costs – claims – insurance types – coverage decisions – insurability factors

Find more money management tips and resources at www.hsfpp.org.

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MODULE
05

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Use the tips and strategies in this guide to do the following:

- » Explain how financial services are used to handle transactions.
- » Select a financial service provider.
- » Use financial services to better manage your spending and saving.
- » Explore trends that will change your banking and shopping life.
- » Protect your money from thieves and con artists.

MEET JASON AND BRIANNA

Jason wants a career in law enforcement but he's torn. Joining the local police force after graduation would keep him close to his family and girlfriend. But he's psyched at the idea of joining the Coast Guard, too, taking down smugglers and drug traffickers all over the country.

Right now, Jason has a checking and savings account at a nearby community bank. He likes the bank, but worries that using a small, local bank could be a problem if he joins the military next year. He's also not the best at managing his account.



Brianna's parents give her cash when she needs it. She's trained most of her family to give her gift cards for holidays and on her birthday. And if she ever needs to buy something online, Brianna asks her mom to do it with her credit card.

But the freshman starts her first job next week, working at the same store as her best friend, Vanessa. Brianna doesn't have a bank account yet—and doesn't think she needs one.

With banks on every corner, prepaid cards in every checkout line, and a growing number of businesses eager to turn your checks into cash, how do you decide where to go with your money?

Find out the options along with Jason and Brianna, as they help us explore various types of financial services. Learn how to choose the best services for you, and put them to work for you.

MONEY IN MOTION

Nothing beats the feel of a crisp, new \$20 bill in your hand. But as you take on more responsibilities after high school, you'll run into situations where using cash isn't the best option—if it's an option at all.



Among the downsides of using cash only:

- » There's no built-in proof of payment if things go wrong.
- » It's tempting to waste cash on lots of small, silly purchases—leaving you broke and wondering “Where did it all go?” when it's time to pay the bills.
- » Once cash is lost or stolen, it's gone for good.

Credit cards aren't always the best choice either. That's especially true considering the fact that the interest paid on borrowed money has the potential to mushroom into a mountain of debt if you're not careful. (You can learn more about credit cards in *Module 2: Borrowing*.) Luckily, there are plenty more ways to spend and receive money.



Other than using cash, how do you or family members exchange money to make purchases or pay bills?

BANK ON IT

The center of most people's daily financial lives is a bank* account.

If you completed activities in *Module 4: Saving & Investing*, you learned about a few types of bank accounts. Savings accounts, money markets accounts, and certificates of deposit can help you safely stash your cash for things that are truly important to you. And earning interest on your savings grows your money faster over time.

But **savings accounts don't work for everyday spending**. Federal regulations limit account holders to no more than six withdrawals from a savings (or money market) account each month. And keeping all your money in one account makes it too easy to tap into and drain the funds you were saving for a car, school, or other financial goals.

So, you need a second bank account to handle your bills and daily expenses.

**In this guide, we're using the shorter term “banks” instead of repeating “banks and credit unions” every time—but we mean both.*

CHECK OUT CHECKING ACCOUNTS

Even if you never write a check, a **checking account** will keep your money safe while allowing you to access it several different ways.

A check is a written order telling the bank who to pay and how much. Signing your name at the bottom means you agree to pay the amount “on demand,” or as soon as the person you’ve written the check to (aka the **payee**) deposits the check.

While debit card use is leaving check use in the dust, checks do still have some benefits, such as:

- + **Convenience of Mailing.** Dropping a check in the mail is less hassle than standing in line to pay with cash or get a money order.
- + **Proof of Payment.** Your cleared check serves as proof of payment for goods, services, and charitable donations.
- + **Safety.** Lost or stolen checks can be replaced. You also can request a **stop-payment order** to prevent a check of yours from being cashed in cases of suspected theft or if you realize the check was written in error.
- + **Debit Card Backup.** Write a check to yourself and get cash from a bank.
- + **Direct Deposit.** In some cases, you’ll need to provide your employer with a voided blank check from your account to enroll in **automatic deposit**, in which your paycheck is electronically deposited into your account.
- + **Ease of Tracking.** Recording transactions in a check register makes it easy to track your spending.
- + **Interest.** Some checking accounts pay interest on your average balance.

There are a few cons, too:

- **Delayed Deduction.** You don't know when the payee will deposit your check. The amount won't be deducted from your account until the cashed check is received at your bank and processed. Keep track of the checks you write to compare with what is processed at the bank.
- **Check Fraud.** A stolen check or the information on your check might be used to access the money in your account. Guard your checks from getting into the wrong hands.



Checks are still the most convenient option in some situations. So, you may want to order a box of checks to have on hand when you need one. Be sure to store your checks in a safe place.

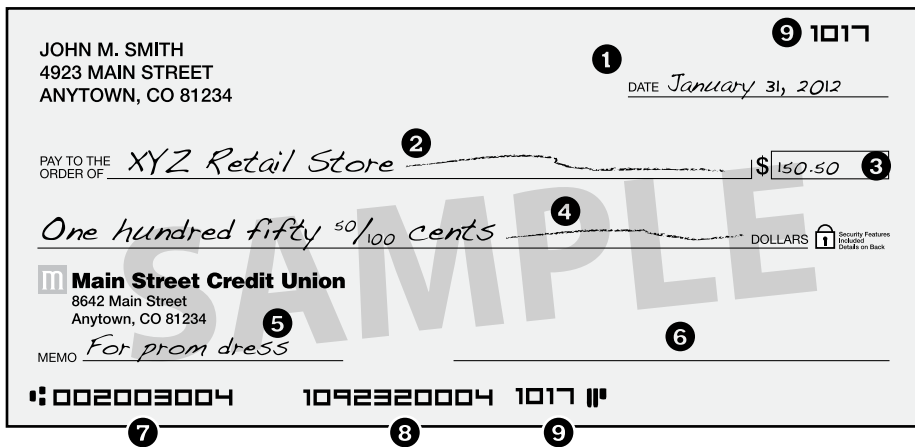


Activity 5.1: Proof of Payment

Give two instances in your life when a check is a good option to use as proof of payment rather than paying with cash.

WHAT'S ON A CHECK?

- 1 The date you wrote the check
- 2 Person or company receiving payment
- 3 The amount of payment, in numbers
- 4 Total payment, in words
- 5 Memo (description of payment), optional
- 6 Your signature
- 7 Routing number (for electronic clearing)
- 8 Checking account number
- 9 Check number (also in upper-right corner)



JOHN M. SMITH
4923 MAIN STREET
ANYTOWN, CO 81234

DATE January 31, 2012

PAY TO THE ORDER OF XYZ Retail Store \$ 150.50

One hundred fifty ⁵⁰/₁₀₀ cents DOLLARS

m Main Street Credit Union
8642 Main Street
Anytown, CO 81234

MEMO For prom dress

002003004 1092320004 1017

Always write out a check in pen so nothing can be changed. If you make a mistake, initial any corrections you make, or write "VOID" across that check and fill out a new one. Before you shred the voided check, be sure to record it in your check register.



Activity 5.2: Check Writing 101

Practice writing checks for the following purchases. Use today's date, and be sure your handwriting is legible so the payee and the bank accept the check. In a real situation, you want to be sure that the bank can clearly read the check to deduct the correct amount from your account. (Your instructor will provide checks, or you can download checks from **www.hsfpp.org**.)

- » Buy a pair of tickets for an upcoming school event with a check payable to your school, \$42.50
- » Pay rent to Mayfair Apartments, \$750
- » Contribute to a disaster fund with a check payable to the Red Cross, \$25



PRESTO! YOUR CHECK IS NOT A CHECK

Some businesses use the information on your paper check to instantly convert it to an **electronic check** (aka e-check). They must post a notice that the transaction will be processed via **electronic funds transfer (EFT)** so you know the check amount will be immediately deducted from your account!

EFT basically means that an electronic message tells a computer to move money from one bank account to another. With it, banks can transfer small or massive amounts of money in an instant, without cash or paper ever changing hands.

Even if you don't use paper checks, you can "write" an e-check when paying online or by smartphone. And you may want to. Some businesses that charge customers a transaction fee for credit card payments accept e-checks for free.

To "write" an e-check, complete a short form, providing your bank's routing number and your account number. These two numbers can be found at the bottom of a paper check:

- » **Bank Routing Number.** The unique nine-digit number telling the payee's bank which bank to get the money from. It's found between the ■ symbols, shown as 2222222 on the sample check.
- » **Your Account Number.** Found directly to the left of the ■ symbol, it tells your bank which account to use for the funds. On this check the account number is 000-111-555.



NOT-SO-FREE CHECKING

Free checking accounts are usually the best deal in banking. But “free” doesn’t mean totally without cost. It just means no monthly fee. In some cases, you’re required to keep a minimum balance to qualify.

Fee types and amounts will vary. Scan the chart for a list of the most common fees.

Fast Facts About Banking Fees	
Types of Fees	Charged When...
Monthly Service Fees	Having an account (unless you have free checking)
Out-of-Network ATM Fees	Using an automated teller machine (ATM) not owned by your bank or in a network your bank belongs to
Check Fees	Writing more checks than you’re allowed in a month
Debit Fees	Choosing “debit” for a debit card purchase (aka point-of-sale (POS) fees) at checkout
Nonsufficient Funds (NSF) Fees	Writing a check for an amount that exceeds your balance
Overdraft (OD) Fees	Having an electronic transaction that exceeds your balance
OD Transfer Fees	Having a bank transfer money from a linked account to prevent an overdraft transaction
Deposited Item Returned Fee	Depositing a check when there isn’t enough money in the payer’s account to cover the check amount
Stop Payment Fees	Instructing your bank to cancel a check you wrote when that check is presented for deposit or cash

Source: *Still Risky: An Update on the Safety and Transparency of Checking Accounts*, The Pew Charitable Trusts, June 2012, www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_Safe_Checking_Still_Risky.pdf

Don't let the fees scare you away! You can avoid many of them simply by managing your account responsibly. Others, like ATM fees, can be avoided by using your own bank's ATMs or using debit card purchases to get cash back.

Plus, unlike with other forms of payment, banks must clearly disclose all fees to potential customers. That makes it easy to comparison shop for the bank services you want most.

SPECIAL ORDER CHECKS

Occasionally, you may be asked to pay with a special type of bank check that won't bounce and will clear quickly.

Certified Check. The bank verifies that you have the funds in your account set aside specifically for the check amount and confirms that your signature on the check is genuine. A payee might request this type of check to guarantee that your check will clear the bank, especially when you need to make a large payment for something such as a car.

Cashier's Check. The bank deducts the amount from your account and writes the check on its own funds. This is another way for the payee to ensure that the check is good. Another instance in which you might use this is when you close a bank account. Taking the closing balance as a cashier's check is safer than carrying around a big wad of cash.

Both types of checks are available from a bank teller for a small fee.

THE DNA OF DEBIT CARDS

A **debit card** might look like a credit card. But it acts like more like a check, limiting your spending to whatever amount of money is in your bank account at the time.

Debit or Credit?

The cashier or payment terminal usually will ask whether you want to use "debit or credit." That's because debit card transactions can be processed either of those two ways. No matter which you choose, **the money still comes out of your bank account.**

You must enter a **personal identification number (PIN)** to use the card for a debit transaction. The PIN provides an extra level of assurance that the authorized owner is the person using the card.

When you present a debit card, many businesses want you to choose the debit option because it's less expensive for them. (With debits, they can avoid paying the fee they're charged for each credit transaction.) But choose the option that's best for you. You must choose the debit option any time you might want to get cash back with your purchase. But for everything else, it's probably best to choose the credit option.

Many people don't realize that the card type and transaction choices they make have certain consequences. Study the chart to compare cards.

	Debit Card As...		Credit Card
	Debit	Credit	
What you'll do after swiping...	Enter your four-digit PIN	Select "credit," and sign a charge slip or the payment terminal pad	Sign a charge slip or the payment terminal pad
Money comes from...	Your checking account, instantly	Your checking account, within a few days	Your line of credit with the issuer (account billed monthly)
Able to get cash back with purchase?	Yes	No	No
Returned-item refund amount issued as...	Cash or store credit	Credit to your bank account	Credit to your credit card
Cost to use	Fees vary; check with your bank about any POS fees.	None	Interest on unpaid balance for purchases and for cash withdrawals; maybe an annual fee
Your maximum liability by law for unauthorized transactions made on your account	\$50 if you report within two business days; \$500 if within 60 days	\$50 if you report within two business days; \$500 if within 60 days	\$50 if your credit card is lost or stolen; \$0 if card number is fraudulently obtained

YOU KNOW BETTER

Nearly 24 percent of surveyed teens incorrectly thought that using a debit card meant they were borrowing money.¹ The correct answer: Using a debit card means you are taking money out of your checking account. This is not a type of credit.

WIPEOUT!

After seeing that his checking account balance on Monday morning was \$35, Jason uses his debit card to buy a \$19 phone charger for his car. Later that day the bank deducts a debit card payment for Saturday's \$18 pizza. Then later that night, the \$2 shortfall prompts the bank to charge his account with a \$30 overdraft fee.

In the afternoon, Jason uses his debit card at a fast-food place. His bank approves the \$9 transaction but charges him another \$30 overdraft fee.

Unfortunately, Jason forgot to record the \$25 check he'd written to the school last week. When his bank receives it on Monday, they reject it and deduct a \$30 nonsufficient funds fee.

Jason checks his account that night and flips out when he sees that his balance is -\$101. "That's stupid! My account is negative and I still get charged these fees!"

Jason's Debit Debacle

Action	Debit Card	Check
Deducted for Payments	\$46	\$25
Fees	\$60	\$30
Total Fees = \$90		

¹"Teens & Plastic: A Quarter Of U.S. Teens Don't Know The Difference Between Debt And Credit," ING Direct, July 11, 2012, home.ingdirect.com/about-us/news-and-media/news-releases/article?id=3&yr=2012

Overdraft fees are big business to banks—customers paid more than \$32 million in 2011 for overdraft fees alone.² Spend a dollar more than you have in your account and the bank will smack you with an **overdraft fee**.

And if the fee results in a negative account balance, every transaction after that also will trigger another overdraft fee. These charges can quickly snowball even before you know anything is wrong.

Jason will discover shortly that writing a check when you don't have enough money in your account to cover it (aka **bounced check**) also will net you a **nonsufficient funds (NSF)** fee of \$25 to \$50 from the business listed as the payee.



Keeping track of your spending is the best way to avoid expensive overdraft and NSF fees.

BANKER'S HOURS

Business day = Any day, Monday through Friday, minus federal holidays (and designated holidays within your state)

Not all electronic bank transactions immediately change your account balance. In some cases, transactions made after “banker’s hours” will show up on your account the next business day. Read your bank’s policy about the cutoff time—when they stop processing transactions for that day. For example, a deposit you make at 5 p.m. on Wednesday might not show up on your account until Thursday.

²“Overdraft Fees on the Rise,” *Chicago Tribune*, Sept. 25, 2012, articles.chicagotribune.com/2012-09-25/business/ct-biz-0926-overdraft-fees-20120925_1_overdraft-fees-overdraft-practice

Jason says to his dad, “My account was already negative when I went to the fast-food place! Why didn’t they just turn down my debit card?”

“Ironically, they call it **overdraft protection**. The bank offers you the option for protection from having your card declined,” his dad explains, adding, “but you pay for it big time.”

“What if I don’t want them to do that anymore?” Jason asks.

“Just tell them you want to opt out of overdraft protection. Of course, you might be stuck at the register without a way to pay next time,” his dad reminds him.

“That’s OK,” Jason says. “I’d much rather be turned down than pay another \$30 fee for a \$9 burger and fries!”

As Jason’s dad explained, banks can approve transactions when you don’t have enough money, and sometimes they charge you a fee for that service. But they must allow you to opt out of this overdraft “protection” for debit card purchases and ATM withdrawals.

Having your card declined may be embarrassing for a moment, but it doesn’t cost you a cent. **You’ll also know right away that your account is in the red.** And you’re prevented from digging a deeper hole by continuing to spend.

DECODING DEPOSITS

Of course, you can’t spend money until you deposit money. If you’re making the deposit at the bank, you may need to fill out a **deposit slip** that lists the amount involved. Your checkbook should have slips preprinted with your account number. Blank ones are available at the bank.

If you’re depositing money by ATM, online banking, mobile phone, or mail, you probably won’t need to fill out a slip.

Cash

The safest way to deposit cash is in person with a bank teller. The teller will confirm the amount right in front of you before giving you a receipt. ATM deposits may not be processed immediately. There’s always the chance of an error, so keep your ATM receipt until you confirm the transaction in your account.

Checks

Depositing a check is easier than ever. You can make the deposit in person or at the ATM. Some banks accept a digital picture of the check as a way to deposit it online or by using your mobile phone!



Activity 5.3: Make the Deposit

Brianna received money for her birthday, and she wants to deposit all of the money in her bank account, except \$20 for spending, to stay on track saving for her goals. Fill out a slip to deposit a \$35 check and a \$50 bill into her savings account #101-234556-678.

DEPOSIT

CHECKING ☐
SAVINGS ☐

Today's Date

Customer Name

Customer Address, City, State, Zip

Sign Here (If cash is received from this deposit)

X

CASH

CHECK

TOTAL FROM OTHER SIDE

SUBTOTAL

LESS CASH

ACCOUNT NUMBER

TOTAL \$

Regardless of how you deposit a check, you need to **endorse** it first, by signing your name on the back. This completes the transaction to transfer money from the payer. This is known as **blank endorsement**; the check can be either deposited or cashed with no restrictions. Complete this type of endorsement at the time you will receive the cash or make the deposit, because once the check is endorsed, anyone can cash it.

That's why many people use a **restrictive endorsement**. This means writing "For Deposit Only" and your bank account number with your signature. That way if you lose the check, the finder can't get at the money because the check can only be deposited into the account of the payee named on the check.

Usually, you can cash a check for free at your own bank. Simply endorse and hand it to the teller. You also may be able to cash it for free or a small fee at the bank listed on the check. Depending on the amount of the check, you may not have immediate access to the money until the bank knows the check will clear.

Don't Wait. Banks can refuse to honor checks that are more than six months old. Some checks have an even shorter time period printed on them (for example, "Not valid after 90 days from date issued"). A delay in cashing can frustrate whoever wrote out the check to you, because it throws off that person's account balance.



Don't lose out on money payable to you—deposit checks soon after you get them!

Bank Holds. Banks hold deposited checks to reduce their risk of cashing a bad check. If there's a hold, the money usually won't be available until the next business day. If it's a big check or from an out-of-state bank, your money or a portion of the deposit may be held for several days. For new-account customers, the delay can be as long as 10 business days.

THE LAW AND ORDER OF BANK ACCOUNTS

When you open a bank account, you're accepting the responsibility to:

- » **Track your balance.** An overdraft habit can cost you a lot more than fees. The bank can close your account or report you to banking credit bureaus. And if you intentionally write a check without the money to cover it, you can be charged for check fraud.
- » **Check your account regularly.** The bank doesn't have to help if you wait more than 60 days to report potential errors and suspicious transactions.

- » **Safeguard your account information, debit card, checks, and PIN.** Any legal protections become null and void if something happens after sharing your card, checks, account numbers, or PIN number with someone.
- » **Ensure that checks you deposit won't bounce.** Once a check enters the system and is linked to your account, the amount becomes your responsibility. If the check doesn't clear, you—not the bank—must deal with the check writer to collect what's owed to you. And the bank will charge you a fee if the check bounces.

On the other hand, a number of laws provide you with certain rights regarding your account. The bank must:

- » **Provide your money “on demand.”** This is aside from the holds they're allowed to impose on deposits.
- » **Give written notice of changes.** They must send a notice warning you about upcoming changes to fee schedules or account terms.
- » **Investigate and resolve errors and unauthorized transactions**—as long as you report them within 60 days.
- » **Provide detailed monthly statements.** You can choose to receive statements by mail or electronically.
- » **Automatically provide federally backed insurance coverage** of at least \$250,000 for deposits in checking, savings, and money market accounts at a bank insured by the Federal Deposit Insurance Corporation (FDIC) or a credit union insured by the National Credit Union Association (NCUA).

SOLVE THE REAL BALANCE MYSTERY

As Jason learned, **your online balance might not be your *actual* balance**, because some transactions take several days to show up in your account.

The only way to know your real balance is to record transactions as you make them and keep your own running tally. These three easy tools can help you do that:

- » The check register in your box of checks, which you fill in by hand
- » A spreadsheet program on your computer, where you enter amounts
- » A mobile checkbook app on your smartphone or tablet device

Consistency is key! So experiment with a few options to see which you like best.



Monday: Opened checking account with cash deposit, \$200 • Automatic withdrawal to pay for personalized checks, \$20

Wednesday: Wrote Check #100 at Fine Foods to buy groceries, \$23.11 • Wrote Check #101 to buy books at Wayne's Book World, \$13.50

Thursday: Wrote Check #102 to self for "Cash" to have spending money for the weekend, \$30

Friday: Automatic withdrawal for monthly phone bill \$25.50

Saturday: Deposited paycheck, \$113.76

[illegible]

You also should **reconcile** your account at least once a month to ensure that you can account for all of your deposits and withdrawals.

To do so, compare your transaction log to your monthly bank statement. Check off all transactions that show up on the statement. Then use the formula in the chart to figure out the difference (ideally none!)

RECONCILABLE DIFFERENCES

The Bank Statement Balance

+ Outstanding* Deposits

– Outstanding* Payments and Withdrawals

Does Result = Your Recorded Register Balance?

* Deposits, payments, or withdrawals you made that are not yet processed by the bank.

Here's the scoop on how to reconcile your account:

- 1 Go through your statement and check off each transaction in your register—making sure the amounts match, too.
- 2 Jot down any bank fees you didn't have listed in your register and subtract them from your register balance.
- 3 On a separate sheet of paper, take the ending balance on the bank statement and add any deposits you made that the bank didn't post yet.
- 4 From that amount, subtract any payments and withdrawals you made that weren't listed on your statement yet.
- 5 What's the total? If the adjusted bank statement balance matches your register balance, congratulations! You're done.
- 6 If it doesn't, figure out what the difference is. Then compare the transactions between your register and the statement to find where you might have miscalculated in your register or inaccurately recorded a transaction.
- 7 Once you find the error, make the adjustment in your register and you're done!



Activity 5.5: Does It Balance?

Reconcile Jason's checking account to ensure that his records match his bank's records. Use the checking account information and statement provided by your instructor (or online at www.hsfpp.org) to complete this activity.

Challenge 5-A: Use a Checking Account

A checking account is a useful way for you to track expenses. Use a checking account register or spreadsheet to record transactions for two months. Check your accuracy by reconciling the account each month.

BEYOND BANKS

► Gift Cards or Reloadable Cards

Prepaid cards have soared in popularity in recent years, with issuers marketing them as an alternative to both credit cards and bank accounts. But are they really a good choice?

If you've used a **gift card** before, you've used a prepaid card. Of course, many gift cards are good only at a certain store or restaurant. And once the money is spent, the card is worthless.

The big buzz these days is about **general purpose reloadable (GPR)** cards (aka prepaid debit cards). These are good nearly anywhere that debit cards are accepted, including ATMs.

Unlike gift cards, GPR cards have an account number to permanently link that card to you. And when the balance hits zero, you can reload the card by adding money to the balance.

Pros

- + **Convenience.** Shop online, pay bills, and avoid carrying around lots of cash.
- + **No Overspending.** Your spending is limited to the amount loaded onto the card.
- + **Limited Losses.** No drained bank account or damaged credit if the card disappears. You lose only the money that's left on the card. Of course, if you set up automatic transfers to reload the card, you'll need to stop those transfers if the card is lost or stolen.

Cons

- **Good Luck Comparison Shopping.** The absence of laws governing prepaid cards means card issuers aren't required to disclose all fees to card users before a card is purchased.
- **Shaky Consumer Protections.** Prepaid cards do not have the same protections as debit and credit cards. There is no guarantee to investigate unauthorized charges or other fraud.

- **Spotty FDIC Protection.** Few prepaid cards offer direct FDIC insurance.³
- **Doesn't Help Your Credit Rating.** A prepaid card is not used for borrowing money, so your responsible use of the card won't help you build a credit rating.



Unless you overdraw your checking account often, you'll probably save money by getting a free or low-cost checking account that includes a debit card.⁴

But if you must use a prepaid card, do your homework to find the features you need with the lowest fees.

► **Money orders** are checks minus the checking account. You pay the full amount up front with cash or a debit card withdrawal. The clerk prints a money order certificate made out to the business or person you designated as the payee. Money orders are available at post offices, banks, and grocery stores.

Pros

- + **Check-like Convenience.** Money orders are safer to mail than cash and they're accepted by many businesses.
- + **Proof of Payment.** When you purchase a money order, you're provided with a tracking number you can use to find out if a recipient has cashed the money order.
- + **No Overdrafts.** Because it's already paid in full, a money order can't bounce or overdraw your account.
- + **Low, One-time Fee.** It shouldn't cost more than \$2 per money order, and many places charge less than \$1.
- + **Replaceable.** Unlike with prepaid cards, lost or stolen money orders will be replaced if you show your receipt.

³Loaded with Uncertainty: Are Prepaid Cards a Smart Alternative to Checking Accounts? The Pew Charitable Trusts, September 2012

⁴"Ditch Checking For a Prepaid Debit Card?" Bankrate.com, www.bankrate.com/finance/banking/ditch-checking-prepaid-debit-card-1.aspx#ixzz25L504Qjb

Cons

- **Limited Funding Options.** You can't use a credit card to buy a money order. Sellers accept cash or debit card withdrawal only.
- **Tracking Your Money.** You are responsible for keeping track of the money order information. The details of a money order are not reported in a bank account statement.



Money orders are handy when you can't write a check and want proof of payment. They're also a cheaper alternative to certified and cashier's checks.

► Getting Friendly with Portal Possibilities

A payment portal is the payment method of choice of many online shopping sites. First, you register your credit card, debit card, or bank account information at the portal's secure website. Then you can direct payment through your portal account to the portal accounts of other people, organizations, and businesses. You don't have to provide your financial information each time. The pros and cons can vary for the type of portal used.

Pros

- + **Extra Barrier of Security.** You check out through the portal, so the recipient never views or stores your payment information.
- + **Free to You.** You pay nothing to use the portal for online purchases. Fees for money transfers within the U.S. are free if funded with your bank account.
- + **International Transfers.** You can send money to payment portal users in other countries. The fees may be less than the cost of a wire transfer.
- + **Easy.** For purchases, just select the payment portal from among the options offered at checkout. To send money to someone else, all you need is that person's email address.
- + **Consumer Protections.** Payment portals are not banks. But they are subject to many of the same consumer protection laws as banks. Portals must investigate and restore the funds for any unauthorized transactions or errors if you report them within 60 days.

Cons

- **Delayed Money.** Transferring money to and from your bank account can take three business days.
- **Limited Stores.** Obviously, you can use a specific portal only at stores that offer it as a payment option.

WHO'S WHO IN FINANCIAL SERVICES

While talking about Brianna's upcoming first day of work, her friend Vanessa is surprised to hear that Brianna hasn't opened a bank account yet. "I'm just going to use one of those check-cashing places like my brother Robert does," Brianna says.

"What? I thought those places are a rip-off. Don't they charge big fees to cash your check?" Vanessa asks.

"Really? I'll ask Robert about that," Brianna says. "I just figured it would be cheaper than a checking account. And when am I ever going to write a check?"

"You can get a free checking account like I did. Just make sure you don't have to keep a minimum amount in it," Vanessa says.

"It's totally free?" Brianna asks.

Vanessa explains, "Well, there's no monthly fee. If I spend more than I have in my account, they'll charge a fee. But I use a phone app to list all my transactions and it keeps track of my balance so that doesn't happen."

"Well, that sounds pretty easy," Brianna says.

"Because I have a student account, they'll charge me a quarter a check if I write more than three checks a month. But I always use my debit card to get cash anyway," Vanessa says.

"A debit card would be nice. I'll ask my mom about it," Brianna says.

"A bank robber in Los Angeles told the clerk not to give him cash, but to deposit the money in his checking account."

~ Author Bill Bryson

BANK ON BANKS

Banks sell financial services such as loans, checking accounts, credit cards, certificates of deposit, and safe deposit boxes for storing valuables. A bank is owned by its investors, and a paid board of directors runs the bank.

At most banks, the Federal Deposit Insurance Corporation (FDIC) insures customers' money. That means they will reimburse the value of your account in full, up to \$250,000, if the bank ever fails. To find out if a bank is FDIC-insured, check online at **www.fdic.gov**.



Choices range from big national banks to small community banks to online-only banks. Almost anyone with a driver's license or other photo identification and money to deposit can enter a bank and open an account.

CRACK THE CODE ON CREDIT UNIONS

Credit unions are not-for-profit organizations offering the same financial services as banks—including savings and checking accounts, loans, online and mobile banking, and ATMs.

Credit unions are owned by their customers, who are called members. These members elect a volunteer board of directors to manage the credit union.

Your deposits are insured up to \$250,000 by another federal agency, the National Credit Union Administration (NCUA). To find out if a credit union is insured, go online to **www.mycreditunion.gov**.



Activity 5.6: What Do They Offer?

Visit the website of a financial service provider in your community. List the minimum balance requirements for checking and savings accounts. What is the current interest rate earned on savings?

Banks offer other types of services such as safe deposit boxes for customers to store valuable documents. List at least two other types of non-account services that the provider makes available to customers, either for a fee or at no cost.

Brianna asks her mom if she should get a bank account or use a check-cashing place like Robert does. Her mom says Robert does that because he can't stand depositing a check and waiting until the next day before he can access his money.

"So, now he pays fees to cash his check, fees to load the money onto a prepaid debit card, and fees pretty much every time he uses it. He could do all that for free with an account at my credit union," she says.

GET A CLUE ABOUT CHECK-CASHING STORES

It seems simple. You give the check-cashing store clerk your check and he gives you cash on the spot. Awesome, right?

Not so fast. The store gets a cut of your check. If you're paying a \$4 fee for every \$100 you cash, the store keeps \$20 of a \$500 check.

Safety is another issue. Muggers know that customers leaving a check-cashing store usually are carrying a lot of cash.

But the more insidious danger is the **payday loan**. The clerk will be happy to advance you cash—if you leave a check the store can cash when you get paid. But the fee hides a high interest rate.

Even worse, payday loans can trigger a cycle of debt that's often hard to break. Many borrowers end up taking out another loan or extending their loans 10 to 30-plus times a year—paying interest of up to 365 percent each time!⁵

If you must cash a check and can't wait for the bank to open, keep reading to discover a better alternative than a check-cashing store.

STOP AND SHOP FOR MONEY

Groceries and big-box retailers offer financial services such as money orders, check cashing, bill paying, overseas wire transfers, and prepaid debit cards at their service counters.

"Banking" where you shop can save you time and gas. And the fees are usually much more reasonable than at check-cashing stores and other outlets. But they still add up fast—and you could skip them altogether just by cashing checks and getting a debit card for free at your own bank.

While they can duplicate many functions of a bank, stores are not banks. Stores don't offer savings account options, and they aren't subject to the same regulations as financial institutions. That means there are fewer laws protecting you.

PEEK AT PAWNSHOPS

A **pawnbroker** provides on-the-spot, short-term loans for up to 50 percent of an item's estimated value. The cash is fast and easy. Pawnbrokers also will buy some items outright, but for much less than their full value.

⁵"Urging OCC to Withdraw Proposed Bank Payday & Overdraft Guidance," Consumers Union, Jan. 11, 2012, defendyourdollars.org/document/urging-occ-to-withdraw-proposed-bank-payday-overdraft-guidance. The annual percentage rate of 365 percent is based on the typical loan term of 10 days.

You not only turn your item over to the pawnbroker to hold, you also pay interest and fees on the loan. And if you don't repay the loan in full within 30 to 90 days, the pawnshop takes full ownership of your item and can sell it and keep the profit.

Given the risk of losing possession of your item—and getting only a fraction of its value in return—a pawnshop should be one of your last options for getting cash.



DECIDE ON A FINANCIAL HOME

Get a head start on building important financial relationships by choosing a bank or credit union to call home. Then as you get older, you'll have a trusted place to turn to when you're ready for a credit card or loan.

You can switch banks at any time, but you might not want the paperwork hassle. So, it pays to invest the time in making a good choice now.

The first step: **Make a list of everything you want in a bank.**

Questions to think about:

- » Will you make deposits in person or online?
- » Where will you withdraw cash? ATMs? Stores?
- » How will you pay for things with your money? Checks? Debit card? Online bill pay?
- » Is mobile banking a must-have or a nice to have?
- » What other services might you need in the next few years?
- » Will you be able to access your accounts if you are in another city or country?

Once you know how you'll use a bank, you can figure out the services you need and how often you'll need them. Then, use that insight to see which options give you the biggest bang for your buck.

Challenge 5-B: Which is Best for Me?

To make sure a credit union is the best fit for her, Brianna should use the DECIDE model to evaluate her needs, assess the financial services, and compare them to those of other financial institutions.

Use the DECIDE model to select a financial institution with services that are right for you. Make sure to review the required criteria as you are comparing options.

TAPPING THE POWER OF FINANCIAL SERVICES

Jason is trying to figure out how convenient it would be for him to keep his local bank if he joins the Coast Guard. He's also made a list of issues he's having with his money, to see if the bank has options to help him better manage his finances.

Jason's list includes:

- » Forgetting to transfer \$50 of each paycheck from his checking account to his savings account.
The money usually ends up getting spent.
- » Getting charged late fees by his cellphone provider and gas credit card company for paying late every month, even though he has the money in his account.
- » Needing to keep better track of his transactions so he doesn't wind up with more overdraft fees.

***"I saw a bank that said
'24 Hour Banking,'
but I don't have that
much time."***

~ Comedian Steven Wright

As you read through this next section, notice which services could solve Jason's problems.

AUTOMATE YOUR MONEY MANAGEMENT

Online banking turns your computer into a bank teller. At any time, you can log in to your account, check your balance on each of your accounts, transfer money between accounts, pay bills, deposit checks, and more. The only thing online banking can't do is hand you cash!

Direct Deposit

Imagine waking up every payday with the money already in your bank account. It's not a dream! With **direct deposit**, your paycheck or government benefits are there, ready and waiting for you. There's no picking up a check, making trips to the bank, or waiting for a check to clear.

Employers like direct deposit because it saves them time and money and eliminates the possibility of paycheck theft. In short, direct deposit is an employer offer you shouldn't refuse!

Automatic Deposits and Transfers

It's a cinch to pay yourself first (PYF) with "set it and forget it" services like **automatic transfers** and automatic deposits.

Basically, automatic transfers let you schedule money movements between accounts at the same bank. Automatic deposits let you schedule regular transfers from an outside bank to your bank and finally to your account. Either service provides an opportunity for you to consistently build your savings and never miss a day of interest!

Online Bill Pay

Online bill pay lets you send money to your creditors and utilities straight from your checking account or savings account. Make a one-time payment or schedule payments to happen automatically each month. Some prepaid debit cards offer online bill pay, too.

You do have to plan ahead, as payments can take two to five business days to process. But overall, online bill pay saves you time and stamps. It helps prevent late-payment fees. And it keeps your financial information safer, because it's not sitting in a mailbox or out in the open on someone's desk.

Account Alerts

Enabling **email or SMS text message** alerts helps you stay on top of your account and tackle problems quickly. You can set up alerts for a low balance, failed bill payment, overdraft fee charges, and more.

Just be aware that the bank may not send the alerts right away. To stay on top of things, you'll still need to monitor your transactions and balances regularly.



Activity 5.7: Get Jason Organized!

Review the scenario about Jason's messy finances. What services could he use to better stay on top of his money? If he ends up moving to another state or country, would these services make it convenient enough for him to keep his accounts where he's currently banking?

THE CUTTING EDGE OF FINANCIAL SERVICES

Brianna downloads her credit union's mobile app so she can deposit her first paycheck before she gets home from work.

After snagging five tickets to a sold-out concert, her friend Zach sends Brianna and three other people an invite to a website where they register and then can pay him back electronically, account to account.

Jason visits his favorite coffee shop and taps his smartphone on the payment terminal to pay for his order.

His dad gets a new credit card in the mail with a funky gold-colored chip embedded in the design.

All four of them are pioneers in a new wave of financial services that you'll be seeing a lot more of in the years to come.



How have you or a family member used a phone or computer for banking?

Everywhere you turn, the U.S. financial services industry is working to make spending safer and more convenient for busy customers. Following are four trends to look for.

MAD ABOUT MOBILE BANKING

If the car payment is due today or your balance is close to zero, online banking means you don't have to wait until you get to a computer to take care of matters. Now you can fit your online banking screen in the palm of your hand.

With **mobile banking**, you can manage your account on any Internet-enabled smartphone. With an app, mobile website, or text messages, you can:

- » Check your balance.
- » Photograph and deposit your check.
- » Pay bills.
- » Transfer money between accounts.
- » Find the nearest fee-free ATM.
- » Get a text message alert any time your account balance falls too low.

Many banks already have some mobile capabilities and others are adding them fast. In fact, one study predicts that by 2020 smartphones will be the most popular way to transfer funds between accounts, open new accounts, and make loan payments.⁶ Be sure to check for any mobile banking fees.

THE NEW PAY-BY-PHONE

We're not talking about calling a payment in by phone. We mean actually paying for purchases at online and local stores and restaurants with your smartphone!

⁶Retail Bank 2020: A Roadmap for the Future, Lafferty Group, August 2010

The two hottest payment program types are:

Virtual Wallets. Enter a PIN and a number from the receipt into an app and you've paid using your mobile phone. The mobile apps of certain online payment portals and other virtual wallets store your payment information on a secure Internet server, not on your phone.

"Tap-and-Pay." Log in to an app, then tap or wave your phone at the checkout terminal to pay. A near-field-communication (**NFC**) chip inside your phone stores and wirelessly transmits your payment information to finish the sale.

HOW NOT TO PAY

Don't charge purchases to your mobile phone bill. No laws protect you if someone using your phone goes on a shopping spree or there's a problem with something you've purchased. And your wireless provider can cut off your phone service if you don't pay for the items appearing on your bill.

PAYMENTS GET PERSONAL

Like Brianna with Zach's concert tickets, do you need to pay back a friend? Give your roommate your share of the electric bill? Skip the cash or check and send money straight to that person's bank account electronically. It's easy and sometimes it's even free!

As long as you have the individual's cellphone number or email address, you can send someone money with a **person-to-person (P2P) payment service**. Instead of transferring money between accounts that must be set up on a traditional online payment portal, the new alternatives cut out the middleman, so money goes straight from bank to bank.

Challenge 5-C: Selecting My Services

Which financial services discussed would be most useful to you? Why? What skills and behaviors would help you be more successful with them? What other features or services would help you manage your money faster and more effectively?

DON'T GET CUT ON THE CUTTING EDGE

All these financial services breakthroughs make managing your money faster, easier, and more convenient for your busy lifestyle. But they do come at a price.

- » The more payment tools and programs you use, the harder it will be to track your spending.
- » More tools and technology also give thieves more ways to steal and exploit your financial information.

Ready to learn more about keeping your money and information safe?

FOIL THE FRAUDSTERS

Jason's girlfriend, Courtney, phones him, excited that she's found a buyer for her car. Shortly after she'd posted the ad online, a guy said he'd buy the car and mail her a check for \$8,000. The guy offered her \$3,000 more than her asking price on the condition that she use the added amount to pay a shipper to transport the car to him.

"He said something about only having one check left, so the plan is that I use my own check for the shipping," Courtney says.

"There were more breached records last year than U.S. residents... and more cases of identity theft than just about all other crimes combined."

~ Neal O'Farrell, Executive Director of the Identity Theft Council⁷

⁷ www.cultofmac.com/168143/why-hackers-target-small-businesses-who-use-macs-ipads-iphones/#u3t4XRYpVdS4toq8.99

"I did a Google search for 'car buying scams' and look what came up!" Jason says, as he texts her a link.

Courtney's shocked to see the would-be buyer's exact story listed as a scam. "So, he was going to send me a fake check. Then I would have sent \$3,000 of my own money to this fake shipping company. Oh, wow! I'm so glad you found this."

A victim's age doesn't matter to scammers. **If you have a wallet and a Social Security number**, you are at risk for being duped and defrauded.

You may have learned about credit-related identity fraud in *Module 2: Borrowing*. But there's much more to learn about the many ways identity thieves can profit from using your banking information. And as Courtney learned, identity theft isn't the only crime you need to guard against.

UNCOVER CHECK FRAUD

At least 48 percent of fraud complaints from young adults 18 to 25 years old were about fake check scams.⁸ The most common ones are exposed at www.fakechecks.org.

THE SKIM SCAM

An all-too-common scheme is for crooks to "skim" data from the magnetic strip on your credit or debit card so they can clone it. These are the two top scenarios:

- » A salesperson or waiter secretly swipes your card through his own card reader.
- » A crook has carefully installed a fake card scanner over the real one and, using a hidden camera or key logging device, records your PIN entry.

Playing Defense. Avoid letting your credit or debit card out of your sight. If a card scanner on an ATM, ATM lobby door, pay-at-the-pump machine, or store payment terminal looks worn, loose, or otherwise "not right," find a different one to use. And ALWAYS cover your hand as you type in your PIN.

⁸"Prizes/Sweepstakes Bump Fake Checks as Top Scam," National Consumers League, February 2012, www.nclnet.org/personal-finance/64-fraud/624-prizessweepstakes-bump-fake-checks-as-top-scam

DON'T GET HOOKED BY PHISHING

With this common scam, you get an email or text message impersonating your bank, the IRS, a charity, or social network—you name it. Experts estimate that one in every 300 emails are phishing for your financial or log-in information!

The goal of phishing is to trick you into clicking on a link, which triggers one of two scenarios:

- » You're sent to a copycat website that asks you to provide personal data, such as your Social Security, bank account, and credit card numbers, and then steals the information you enter.
- » Malware secretly downloads onto your machine, where it seeks and steals valuable data stored there or logs the passwords you type.

Playing Defense. Don't click on links. Instead, type the URL you know to be legitimate directly into your Web browser.



SOCIAL ENGINEERING

Criminals are using information in social networking profiles to make you think you know them—or to successfully impersonate you. When's the last time you checked your privacy settings?

7 MORE WAYS TO THWART THIEVES

You can't control the safety of your information at companies you do business with. But you can control the information you unknowingly give to crafty criminals. Here are seven ways to protect yourself:

- 1 Don't trust—verify.** Never give your Social Security number, date of birth, payment, account, or other personal information to anyone you didn't contact first.
- 2 Keep PINs totally under wraps.** Don't give them to friends, write them on your cards, put them in your phone, or carry them in your wallet. And always shield your hand as you type in a PIN, so no one can see the number.

- ③ **Befriend a shredder.** Shred anything you no longer need that has your Social Security, credit card, or bank account numbers, or any other personal information on it.
- ④ **Protect your PC.** Install reputable security software. Keep all programs up to date, not just your operating system. And don't download anything you didn't go looking for in the first place.
- ⑤ **Be skeptical of any offers.** Your computer does *not* need a free security scan. You did *not* win a prize from a lottery you never entered. A long-lost relative in a foreign country has *not* left you an inheritance.
- ⑥ **Shop securely.** If you don't see a closed padlock icon in the browser bar and "https" (notice the "s") at the beginning of the URL, find another site. The most-secure sites have the company's name in a green box before the URL.
- ⑦ **Surf safely in public.** Any time you're using a Wi-Fi signal on an unsecured network, don't log in to your bank or any other accounts or shop online. Turn off Bluetooth when you don't need it. And always delete your browsing history, log out, and close the browser when you leave a public computer.



POWER UP PASSWORDS

Create stronger passwords by using at least eight letters and random capitalization. Replacing certain letters with look-alike numbers and symbols makes a password even harder to crack. For example, "graduate" becomes gr@dU@t3.

The single most reliable way to stop a thief who's helping himself to your money is to regularly monitor all your financial accounts and monthly statements.

Immediately report any:

- » Charges you don't recognize
- » Amounts that are higher than expected
- » Anything else suspicious

Amounts don't matter—some thieves will test the water with small purchases first.

Also, **call the bank ASAP** if you lose your checks or debit card. The sooner you report a problem, the less you'll be liable for and the sooner you'll put the fraud behind you.

More details about detecting and defending against fraud are available in *Module 2: Borrowing*.



Activity 5.8: Deal With Deception

What action would you take if you suspected that someone might be trying to deceive you? Get the deceptive scenarios from your instructor or online at www.hsfpp.org.

ADDING IT UP

Like Jason and Brianna, you've learned that you have many options for managing your money. And new ones are being added all the time. You need to be a smart consumer to choose the right ones for you and make the most of them—all while minimizing potential risks to your identity and money.

Challenge 5-D: Scam Action Plan

Create a "Scam Action Plan" for your family that outlines preventive measures you and your family can take to avoid scams, fraud, and theft. Your plan should include actions to protect personal and financial information when banking in person as well as when using Internet and phones.

APPENDIX – MONEY MANAGEMENT AIDS

SMART Goal Guide

Goal Setting

S**Specific****M****Measurable****A****Attainable****R****Relevant****T****Time-Bound**

Stop, Drop, and Think Before You Buy Test

- » Do I need this or do I want it?
- » If I don't need it, why do I want it?
- » Exactly when will I use (or wear) it?
- » Can I find it for less somewhere else?
- » What will I have to give up or put off by buying this now?

DECIDE Steps

- 1 Define what you want to achieve.
- 2 Establish your must-have and nice-to-have criteria.
- 3 Choose a few options that match your criteria.
- 4 Identify and compare the pros and cons of each option.
- 5 Decide the most logical option for your situation.
- 6 Evaluate the results and make adjustments for next time.

Financial Planning Process

Analyze your values, money management habits, and your financial situation.



Set SMART financial goals.



Plan what needs to be done with checkpoints and plan strategies to cope with unexpected events.



Carry out your plan and track your progress using systems that work for you.



Monitor and reflect on your progress; adjust your plan as your situation changes.

Additional NEFE Resources for Teens and Young Adults

Prep for College or Workplace

www.cashcourse.org/prep

CashCourse Prep is a website that can help you prepare financially for college or the workforce. It includes worksheets, calculators, and an easy-to-use Budget Wizard to help you manage your money.

Spending Habits

www.spendster.org

Spendster is a YouTube™-like website that showcases people's stories of impulse buying, overspending, or just plain wasting money on stuff they don't need. Watch their video confessions then submit your own spending story.

Money Management Tips

www.smartaboutmoney.org/40moneytips

What are the *40 Money Management Tips Every College Student Should Know?*

Find out by downloading this booklet and learning how to stretch your financial resources, whether you're just starting out on your own or heading off to college.



NEFE HIGH SCHOOL FINANCIAL PLANNING PROGRAM

WWW.HSFPP.ORG

*"... protect yourself
from getting your
identity stolen."*

Student ~ 2010

This **NEFE** program will equip students in Grades 8-12 with fundamental personal finance skills to prepare them for financial independence and mindful money management decisions and behaviors.

IN PARTNERSHIP WITH:



United States
Department of
Agriculture

National Institute
of Food and
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NATIONAL ENDOWMENT FOR
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NEFE is a private, nonprofit foundation wholly dedicated to inspiring empowered financial decision making for individuals and families through every stage of life.

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