



BANKING

HOW MONEY WORKS



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They say that money makes the world go 'round, but money, just sitting in a jar or stuffed under a mattress can't do much of anything. Maybe the saying should be *banks* make the world go 'round. It's the banking industry that actually puts the world's money to work.

Without banks to lend money to people and businesses, business activity would come to a standstill. Few people would have enough money to buy houses or cars or send their

children to college. Businesses would have no money to build factories and buy supplies.

When you deposit your money in a bank, you are actually participating in your local economy. And, at the same time, you get to make some money for yourself. How? Read through the following pages and find out. Then do more research on your own. The more you know about banks and money management, the better you'll be able to make decisions on spending, saving, investing and getting the most out of your hard-earned cash.

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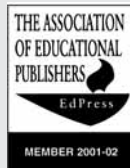
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KNOW THE LINGO

Like most industries, banking has a vocabulary all its own. Here are a few terms that will help you talk the talk:

Deposit – When you put money in the bank you are making a deposit. Common usage: "I'd like to deposit \$30 into my savings, please." (You can also say, "I'd like to put \$30 into my savings.")

Withdraw/withdrawal – When you take money out of the bank, you "withdraw" it. Common usage: "I'd like to withdraw \$50 from of my savings account" or "I'd like to make a withdrawal of \$50 from my savings account." (Of course, you can also say, "I'd like to take \$50 out of my savings account.")

Statement – A bank statement, or a statement of your account, is a printed report that tells you how much money is in your account and shows when deposits, withdrawals and interest payments were made. It's a record of all the banking activity that has occurred on that account.

Principal – Amount of money borrowed.

Interest – A charge for borrowed money, generally a percentage of the amount borrowed (the principal). You can pay interest and earn interest. When you put your money in a savings account,

the bank pays you interest because it is borrowing money from you. If you borrow money from the bank or use a credit card, you must pay back the principal plus interest.

Credit – A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some later date.

Credit report – Your credit report shows how you pay your bills and repay loans, how much credit you have available, your monthly debts and other types of information. Lenders usually look at your credit report to decide whether you are a good credit risk or a bad credit risk.

Credit score – Your credit score is a number that is calculated based on your credit history (how much you have borrowed, whether you have paid it back and whether you have made your payments on time). When you apply for credit or a loan, your credit score gives the lender a simple way to decide whether to lend you the money. Your credit score also will determine the interest rate the bank will attach to the loan. The better your score, the lower your interest rate.

FROM TEMPLES TO BANKS TO BANKS

Banks have been around for thousands of years, since people first began trading beyond the borders of their own villages and countries. The ancient Babylonians and Greeks, for example, kept their money with priests at the temples. These early “banks” provided a safe place to store money and also, like banks today, made loans and changed foreign money to local money for traders.

In 15th- and 16th-century Europe, goldsmiths and jewelers acted as bankers by keeping coins in safe boxes. They also traded the coins of one country for those of another.

The banks we're familiar with today trace their roots to Italy, where early Italian bankers conducted business from benches set up in the street. (The word “bank” comes from the Italian word “banco,” meaning bench.) Large banking sites were set up in Florence, Rome and Venice and then spread to other European cities.

The United States banking system grew out of this European banking industry. But the American version of banking grew into its unique financial services system as the United States grew and developed independently of its European counterparts. (See “American Banking: A Timeline” page 4.)

One nation, one bank

When banking first started, anyone with enough money could act as a bank – even issuing paper notes to be used as money. That kind of system quickly became confusing.

In 1609, Holland established the Bank of Amsterdam, the first *national bank* created and run by a government. Holland's govern-

ment guaranteed that Bank of Amsterdam depositors could get their money back, even if the bank ran out of money – another first. This central bank system added much-needed credibility to the banking industry and helped build customers' confidence.

The Bank of England, another national bank, opened in London in 1694, and still exists today as the *central bank* of that

In early Italy, where bank business was conducted from benches in the street, bankers would sometimes run out of money. Angry customers would retaliate by smashing the bankers' benches. In other words, his “banco” was “rotto,” or broken. That's the origin of the English word “bankrupt,” meaning to have no money.

country. Only one other central bank, in Sweden, is older.

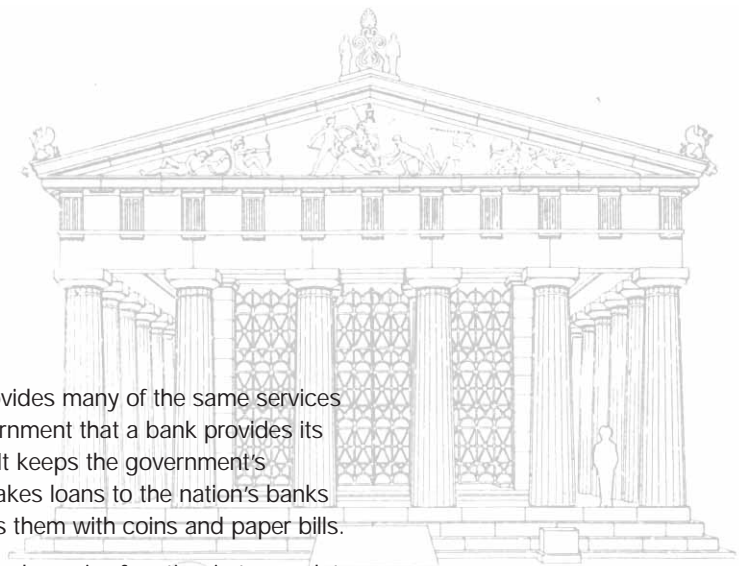
A central bank provides many financial services for the government, including regulating the nation's banking system and controlling the money supply and credit.

Meet the Fed

The United States' central bank is called the Federal Reserve System, or simply, the Fed. This independent agency consists of 12 regional Federal Reserve banks and 25 branch banks, supervised by a board of governors in Washington, D.C.

The Fed provides many of the same services for the government that a bank provides its customers. It keeps the government's reserves, makes loans to the nation's banks and supplies them with coins and paper bills.

Today the Fed's major function is to regulate the country's money supply. When the Fed expands the money supply, making it easier for banks to lend money, easy money



results. Tight money results when the Fed makes it harder for banks to loan money. A tight-money policy may lead to a decline in spending and a recession, while easy money may lead to rising prices or inflation.



No Zero?

Ancient Roman banks (and the early banks of Europe) used Roman numerals, which made bank record-keeping difficult. (Just imagine multiplying LVII by CXXXIX.) Not only that, but the Roman system had no zero!

Luckily, mathematicians in India had invented the zero – along with numbers 1 to 9 – hundreds of years earlier. The Indians passed their numeric system on to the Arabs, who adopted it as their own. Finally, Leonardo Fibonacci, an Italian trader, introduced the “Arabic” numerals to his own country, revolutionizing the banking industry. Thanks Leonardo!

ACTIVITY

Each day, scan your newspaper for local, national and international stories about banks and financial institutions. Clip the stories and write a paragraph summarizing the contents of each story. Do you see any trends developing in the banking industry?

AMERICAN BANKING: *A Timeline*

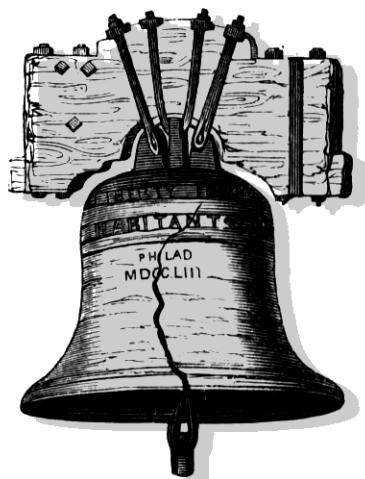


1700s

Soon after the Revolutionary War, banking gets its start in the United States.

1791

Congress creates the First Bank of the United States in Philadelphia and gives it a 20-year charter.

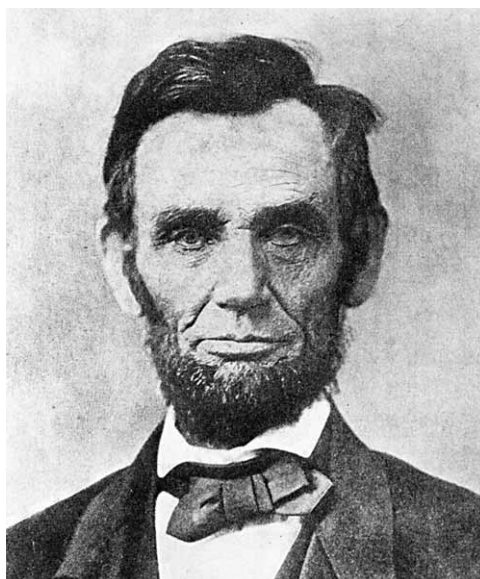


1792

The first federal mint, where coins and tokens are made, opens in Philadelphia. The dollar is established as the basic unit of currency for the nation.

1811

Citizens who feel a central bank gives too much power to the federal government convince Congress not to renew the charter of the First Bank of the United States. As a result, the number of state-operated banks grows rapidly.



1812

During the War of 1812, the country's finances are in a shambles because state banks are issuing more paper money than their assets cover.

1816

The Second Bank of the United States is chartered to regulate state banks. (In 1836, the Second Bank also falls victim to politics and its charter is not renewed.)

1836 to 1866

The Free Banking Era. During this period, states, cities, counties, railroads, stores, even individuals are allowed to open their own banks and issue their own notes (paper money) – in any color or design. Because there are too many types of notes to keep track of and it is easy for counterfeiters to create their own designs, paper money loses its credibility.

Civil War Era

In 1861, President Abraham Lincoln appoints Salmon P. Chase as Secretary of the Treasury. Chase, considered the father of the U.S. banking system, writes the National Banking Act of 1863, which sets up a system of national banks and a uniform national currency is printed and controlled by the United States government. The United States is said to be on the *gold standard* because every dollar of paper money is backed by an equal amount in gold bullion. This is the beginning of our current system of national banks.

1860s to 1913

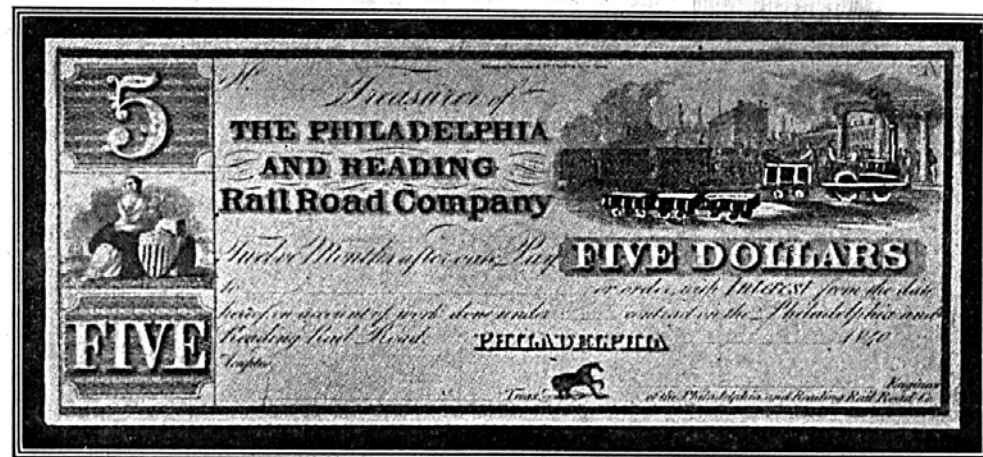
Banking still experiences ups and downs, causing "bank panics." To end these repeated crises, the government passes the Federal Reserve Act of 1913. The act again sets up a central bank for the nation — the Federal Reserve, which controls the money supply.

1929 to mid-1930s The Great Depression

Following the stock market crash on Oct. 29, 1929, banks that have invested in stocks and property lose a lot of money. Businesses also fail, people lose their jobs and farmers lose their land. People race to banks to withdraw their savings, but banks have run out of money. At least 4,500 banks close their doors permanently.

1933

To safeguard the money people have deposited in banks, Congress passes laws forbidding a bank to reopen until it has been examined and found to be in sound condition. Additionally, the Federal Deposit Insurance Corporation (FDIC) is created to insure bank deposits. These measures eventually help restore people's confidence in banks.





1930 to 1960s

The gold standard is dropped. Money is no longer redeemed or exchanged for gold or any other asset. The value of the dollar is determined by the amount of goods and services it can buy — otherwise known as its purchasing power.

Late 1960 to 1970s

Congress passes a number of laws designed to protect consumers in their dealings with banks. Banks begin using computers to transfer money electronically. During the early 1970s, private investment companies begin offering funds, called money market funds that pay higher interest rates than banks and other financial institutions. Many people pull their money out of banks and move it to money market funds.

Late 1980s to early 1990s

The savings and loan industry fails because of poor regulation, mismanagement and fraud. More than a thousand S&Ls close and many more nearly go bankrupt. It is the worst financial crisis for the savings and



loan industry since the Great Depression. Also during this period, banking begins to develop into a new industry often referred to as financial services.

1990s to present day

Electronic banking – done over the phone, Internet and by ATMs – becomes more and

more popular. The number of checks written and processed by the banking industry begins to decrease as more people use debit cards. Some people predict a cashless society.

ACTIVITIES

- Select a period of American banking history summarized in this section and research how events during that period helped and/or hurt the average American. What characteristics of modern-day banking resulted? Discuss.
- Write some newspaper headlines that might have appeared during the period you researched.
- During the Great Depression, many farmers who had borrowed money to buy their land couldn't repay their loans because of low crop prices and poor harvests. Many lost their farms to the banks. John Steinbeck's novel, "The Grapes of Wrath," tells about the plight of the farmers. Ask your teacher to rent the video of "The Grapes of Wrath" to watch in class. Consider how you might have acted under those circumstances. Do today's farmers face similar situations? Find two newspaper articles about economic problems of farming and discuss them.
- Inflation causes money to lose purchasing power and value. That's one reason it's wise to have some of your money in savings and investments. Imagine that the inflation rate is a steady 10 percent a year. Each year, your dollar is worth 10 percent less than it was the year before. What will the value of \$1 be in five years at this rate?
- Watch for news stories about the Federal Reserve. Make note of actions it takes and predict what the outcome will be. Discuss your thoughts in class.
- The federal government can stimulate the economy or slow it down. The way the government does this is called fiscal policy. Increasing taxes, for example, can slow inflation. Cutting taxes encourages consumer spending. Find an article in your newspaper about fiscal policy. In your own words, explain the action taken by the government. What effect do you think that action will have on the way people feel about their money? Will they spend more or save more? Discuss.

BANKING 101

Banking today bears little resemblance to the banking of days gone by – no more street-corner bankers being beaten by angry customers, at least. Banking has evolved into a network of sophisticated financial services.

According to the American Banking Association, there are more than 91,000 bank offices and branches in the United States, which hold more than \$6.7 trillion in deposits. Yes, that's *trillion*.

Individual banks, like most businesses, often differ in the services they provide, as well as how they are owned and operated. Most of the time, the term “bank” is used to refer only to a commercial bank, which offers a variety of services in addition to safeguarding money.

Other financial institutions, such as credit unions, savings banks, and savings and loan associations, are sometimes called “thrifts” instead of banks because they may not offer all the services of a commercial bank. Their primary role is to encourage people and businesses to save money.

Here's a rundown of the similarities and differences in these institutions:

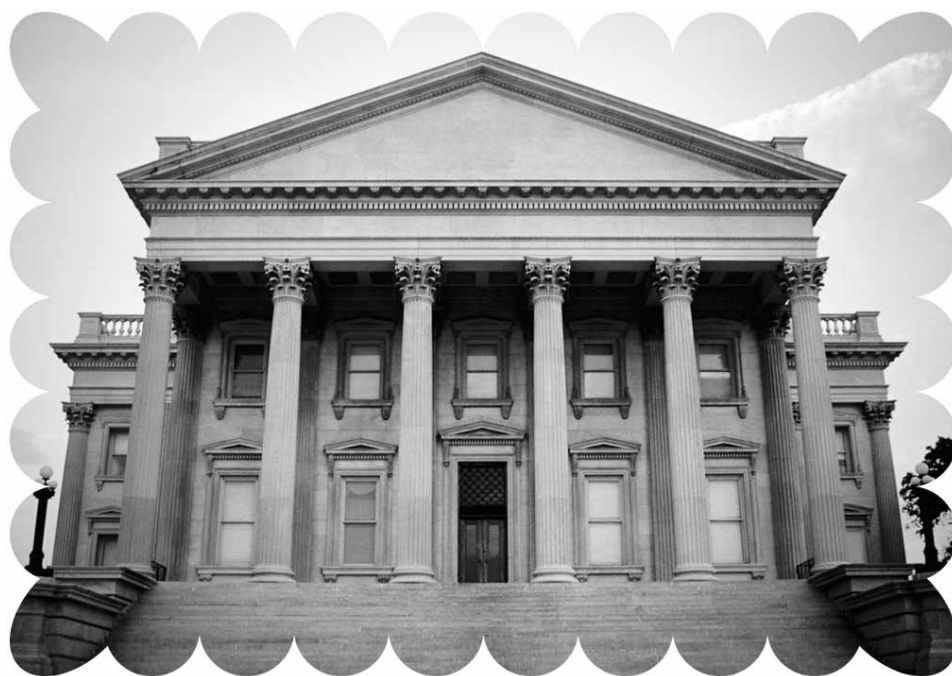
Commercial Banks are the most common type of banking institution today. They are owned by stockholders and earn most of their profits by lending money to businesses, individuals and governments. They also invest in federal, state and local government securities. Among the services these banks offer are checking and savings accounts, loans and credit cards.

Savings and loan associations may be owned by stockholders or by the people who deposit money in them. These banks are primarily in the business of making home-mortgage loans, although they do make business loans. They offer many

of the traditional services found at commercial banks.

Savings banks are found primarily in the northeastern part of the United States. They were originally started as a place for poor people to save their money. Today these banks offer many of the same services as commercial banks. A board of directors elected by shareholders runs many.

Credit Unions are usually started by people who work for the same company or belong to the same church. Members have access to most traditional banking services, although credit unions do not lend money to businesses. Credit unions offer their members many advantages, such as higher interest on savings accounts and low interest rates for loans. Their popularity has increased over the last 50 years.



ACTIVITIES

- Find out about the banks and thrifts in your area by watching your newspaper for their ads. Cut out the ads and categorize them according to whether the featured institution is a commercial bank, savings and loan association, savings bank or credit union.
- From the ads collected for the previous activity, make a list of descriptive words and phrases used to attract readers' attention. Discuss why some words, such as “friendly” and “convenient,” are commonly used in ads for banks.
- Find five ads for different banks and thrifts. For each one, determine the target audience – the group of people to whom the ad is directed. How did you come to your conclusions? Explain.

THE MANY Faces OF MONEY

Banks could not exist without money, but long before there were banks, money existed in a variety of forms – from beads and shells to stones and fishhooks. Money is essentially any item that people agree can be exchanged for goods or services.

The idea of using coins with a standard value was first developed in 650 B.C. in Lydia, a small country in the Mediterranean. The ancient Chinese, Greeks and Romans also produced coinage. When America was still a British colony, the colonists used a system of trade called *bartering*. Bartering is when you use various goods or services in place of money. For example, a farmer may have offered to paint the blacksmith's fence in exchange for some horseshoes.

The first national money in the United States was a copper coin made in 1793 at the mint in

Philadelphia. Since the late 1800s, the U.S. Mint has produced all of our coins.

The U.S. government began issuing paper money in 1861. This federal money was popular because coins were very scarce. Most people trusted federal government bills more than those issued by state banks.

During the Great Depression when regular money was scarce, some Americans resorted to paying for their goods with an unusual type of printed money made of cardboard, wood or rubber. This money, called *scrip*,

helped many people survive. Scrip could be backed by a person's reputation, funds in a closed bank, corn and buildings.

Real or Fake — How Can You Tell?

American money is the most counterfeited currency in the world, partly because it is the most widely circulated but also because most U.S. bills are the same color — green. Because of this, the U.S. government expects to redesign its currency every seven to 10 years.



In 1990, a new series of notes was introduced to improve security and stay ahead of technology that made counterfeiting easier. The new notes included microprinting and an embedded security strip.

In 1996, a more complete redesign of American money was introduced starting with the issue of new \$100 bills. New designs for lower denominations have been introduced about every year. The most noticeable changes are that the portraits are larger and off center and the new designs use subtle background colors, which are more difficult to recreate.

A watermark, depicting the same historical figure as the one in the bill's portrait, has been added to the right of the portrait. And there's now a unique security thread that glows red in ultraviolet light, color-shifting ink, microprinting and fine-line printing.

ACTIVITIES

- To find out what it was like before Americans had money, try bartering with your classmates. Cut out 10 pictures of advertised goods from your newspaper – food, clothing, electronics, shoes, sporting goods – and paste them onto index cards. Trade cards with other students to get the items you need or want.

- * You can often find the exchange rates of foreign currencies in the newspaper. Find these rates in your newspaper or go to the library or (with a teacher's/parent's permission) online to find another source. Choose a country and look up its currency and the exchange rate. If you were to take a trip to that country, how much of its currency would you get for \$100 USD?



If you are going on a trip outside the United States, you can exchange your money for foreign money at many local banks. The rate of exchange – or how much your dollars are worth in another country - is expressed as the number of U.S. dollars per unit of foreign currency or the units of currency per U.S. dollar. Exchange rates change regularly, depending on the "strength" or "weakness" of the dollar compared to the other country's currency.



Today's banks offer a range of services. If you're looking for ways to safeguard, save and grow your money, the following are some of the options available to you:

Savings Account

Money deposited in a savings account earns you interest. (Money deposited in a checking account usually earns little or no interest.) There are two kinds of basic savings accounts – a passbook account or a statement account. With the passbook account, the bank gives you a small booklet (a passbook) as a record of your account. With a statement account, a printed record of your account is mailed to you each month.

Time Deposits

If you find yourself with money you won't need for a long time, you could make money by investing in a time deposit account. A time deposit account pays more interest than a regular savings account, but requires that you leave your money in that account for a specified period of time. The most common time deposit accounts are Certificates of Deposit, or CDs.

The rate of interest may be a fixed rate agreed upon by you and the bank or a variable rate determined by the rise and fall of a predetermined economic indicator, such as the Consumer Price Index (CPI), the chief measurement of inflation in the United States.



With a time deposit account, you will be asked to deposit a minimum amount of money. If you withdraw your money before the specified period of time, you may have to pay a penalty.

Checking Accounts

Many people open checking accounts to have a safe, convenient way to pay for things.

When you open a checking account, you can withdraw funds from that account by writing checks against it, or using a debit card for that account.

The written check tells the bank to pay money to the person, business or organization you have designated. A debit card is used like a credit card, except the funds are taken directly out of your account, not "borrowed" from the credit card company.

Every month, your bank will send you statement, a list of all deposits made in the account and all debit card transactions or checks written against it. The balance — the amount left in the account after deposits are made, checks are cleared, debits subtracted, and fees, if any, are charged — is also shown.

NOW Accounts

Some banks offer special accounts that have the characteristics of both checking and savings accounts. They are called NOW (Negotiable Order of Withdrawal) accounts. Interest is earned on the amount of money kept in the account, but funds can be withdrawn by filling out a document much like a check.

The interest rate on NOW accounts may fluctuate from week to week. It is determined by the bank but is based on other national economic conditions. To open a NOW account, a minimum initial balance may be required.

Loans

Banks also lend their customers money to pay for goods and services they can't buy on their own, such as houses, automobiles or trips. This is one way the bank makes money. The bank charges interest on the amount of money borrowed. By lending money, banks also "create" money because the funds they lend are eventually re-deposited and loaned again. Since banks do not keep a bottomless pit of money, they must use money other people have deposited to make these loans. In a sense, then, you are lending the bank your money when



you deposit it in a savings or other interest-bearing account. In return, the bank pays you back with interest. The bank must always make sure there is enough money kept on hand for withdrawals. According to the federal government, banks must have from 3 to 22 percent of their funds available for withdrawals.

Electronic banking

Electronic banking is revolutionizing the way banks do business. Automated teller machines (ATMs) allow bank customers to deposit, withdraw or transfer money 24 hours a day. Many people now also pay bills electronically either by phone, Internet or by having their banks make electronic transfers of funds. Debit cards and credit cards can be used in person, over the phone or the information can be keyed into Internet pay sites. Even physical paychecks are becoming a thing of the past. Employees can request their employers deposit their paychecks directly into their accounts through electronic transfers.

Brokerage Services

During the 1970s, there was a quiet revolution among consumers. Many people shifted their money out of bank savings accounts to money market mutual funds offered by private investment firms. (These funds pool money from many individuals to buy low-risk securities, such as Treasury Bills and CDs.) The interest rate paid on these funds exceeded rates offered by banks and thrifts. Consumers could write checks against their money in the funds. In response, Congress passed a law that lifted restrictions on the amount of interest banks and thrifts could offer. Today's banks compete with brokerages by offering customers money market funds. In addition, since the 1980s some banks have begun buying and selling stocks, bonds and mutual funds — services once confined to other financial institutions. (Turnabout is fair play, however. Some brokerage houses have begun offering banking services, such as checking accounts and loans.)

Storage of Valuables

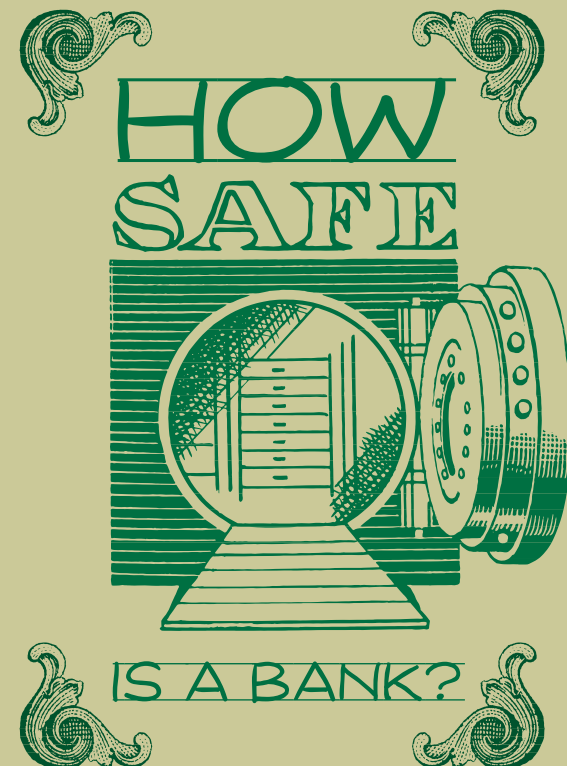
Need a place to keep important papers or valuable jewelry? For a small annual fee, you can rent a safe deposit box to be kept in your bank's vault.

Other Services

Banks may also offer such services as trust services, which include establishing and managing trust funds. A trust fund is money or property managed by one person or group for another person or group. Bank offer individual retirement accounts (IRAs) as well.



IT'S A LOAN!



Banks are a very safe place to keep money. They have fireproof vaults and are insured if money is taken during a robbery. In addition, the United States and many other countries insure bank deposits to protect consumers if a bank is unable to repay funds.



Can't wait to get a checking account? It seems so easy. You're in a store. You pull out your checkbook, fill out the piece of paper, sign your name on the bottom and you're done. The store clerk puts your purchases in a bag and sends you on your way!

But do you know how checks work?

They may not look like much, but those little pieces of paper are actually legal documents. When you sign your name on the bottom of a check, you promise that when the store cashes it, there will be enough money in your bank account to pay for what you bought.

Checks are serious business. If a check comes through a bank and there isn't enough cash in the account to pay for it, that check *bounces*. And bouncing a check is illegal. Some stores charge \$25 or more for a bounced check and your bank will

charge you, too. So that purchase can cost you \$50+ more than what you bought. Plus, you could go to jail!

That's not all. Overdrawing your account can cost you your financial reputation. Banks consider the handling of a checking account as a sign of how much you can be trusted, especially when it comes time to apply for a credit card or a loan.

So remember, bouncing balls is fun; bouncing checks is nothing but trouble.

Opening your first checking account

Most banks require that a parent or guardian accompany a person under 18 when applying for a checking account. Your bank will ask you to fill out an application form that includes the signature you will use to sign your checks. This will help the bank verify that you wrote a check if there is any

doubt. You will also be asked to put some money into your account. Once you've completed the application process, your account is ready to use. You will be issued temporary checks and deposit slips until your permanent ones, with your name, address, and telephone number printed on them, arrive in the mail.

For the record

Once you open a checking account, your first responsibility is to keep good records.

This includes recording all checks, deposits and charges that affect your account. A check register is usually provided for this purpose. A good rule of thumb is to record the check number, date, payee and amount before you write the check. And always record deposits as soon as you make them. This way, you will have an accurate, running balance — the amount of money left in your account — and can avoid becoming overdrawn.

The Federal Reserve estimates that banks process more than 40 billion checks, valued at almost \$40 trillion, per year.

ACTIVITIES

- To further research the banks in your area, cut out related advertisements in your newspaper. For each bank, keep a list of services offered. Make note of such information as current interest rates and credit terms. At the end of the study, choose a bank you would consider doing business with. Explain your choice to the class.
- Pretend that a new bank is opening. You've been asked to help create an ad campaign for the bank aimed at young people who will soon be leaving high school or college and entering the work force. In small groups, help the fictitious board of directors give the bank a name and decide what services it will offer. Then create three ads that could run in your local newspaper. Make a bulletin board display using the ads you and your classmates create.



CHECKPOINTS

Fill in your name and address in the upper left corner of the front of the check.

0001

_____ Date

Pay to the order of _____ \$ _____

Dollars

YOUR NEIGHBORHOOD BANK

MEMO _____

⑆010101010⑆ 123456789000 ⑈0001

FRONT ▲

ENDORSE HERE:

x

DO NOT SIGN / WRITE / STAMP BELOW THIS LINE
FOR FINANCIAL INSTITUTION USAGE ONLY

BACK ▲

TRANS. TYPE OR CHECK #	DATE	DESCRIPTION OF TRANSACTION	DEBIT (-)	CREDIT (+)	BALANCE

REGISTER ▲

How to write a check

Your check represents cash, so be sure to write clearly and correctly and always use ink. Fill out the register or stub in your checkbook and make sure your balance covers the check you are writing.

Then fill in these items:

- the name of the party receiving the check after "Pay to the order of "
- the date you are writing the check
- the amount written out in words as far to the left as possible, finishing the space with a line to the right to prevent the insertion of words that increase the amount
- the amount in numbers, written as close to the dollar sign as possible
- your signature, which should match the one filed at the bank when you opened the account.

If you make a mistake, tear up the check and start over. Don't cross out or change any part of your check. (If you rip up a check, be sure to void the check number in your register.)

How to endorse a check

Before you deposit or cash a check written to you, you must endorse it. That means writing your name on the back of the check the same way it appears on the front of the check. If you want to sign over a check to a specific person or organization, simply write, "Pay to the order of," fill in the person's name and then sign your name underneath.

Keeping your balance

Each month you will receive a statement from the bank showing all deposits made to and checks paid from your account. To make sure your records agree with the bank's, follow these steps:

1. Subtract from your current balance in your check register any service charges listed on your statement.
2. Make sure deposits listed in your statement match those in your register.
3. Match the entries in your checkbook register with the list of checks you receive with your statement. If you don't have a canceled check for one of your entries that means the check hasn't been paid yet. Keep a tally of these outstanding checks.
4. Subtract the total amount of outstanding checks from your statement balance.
5. Add to this amount any recent deposits not included in your statement. This sum should agree with your checkbook balance from Step 1.



Most people borrow money at some time in their lives. Taking out a loan is often the only way to pay for something as expensive as a house or a college education.

The key to borrowing money, whether you use a credit card or go through a bank, is to pay it back on time or ahead of time to build your credit history.

Consumers who pay back their loans on time build good credit. Financial institutions are more willing to loan money to people who have good credit than to those who borrow too much and/or can't repay a loan. Those people build a bad credit history.

When you have a good credit history you'll also be able to get loans at lower interest rates, because the bank sees you as a responsible borrower.

Paying off a loan takes discipline but it's worth it. Your credit history stays with you and a bad one can keep you from realizing your dreams. Paying your debts on time will also save you from having to pay extra interest or penalties for being late.

Shop around

How much does credit cost? That depends, of course, on where you get it.

Before you make a decision about where to borrow money or use credit accounts, you need this basic information:

- The cost of borrowing money is based on three things: the principal (the amount borrowed), the rate of interest and the length of time for which the principal is borrowed.
- Finance charges are amounts you pay to use credit, including the interest cost, service charges and any other associated costs. Because of the federal Truth in Lending law, interest rates on consumer loans must be stated in annual percentage rate (APR) terms.
- To compare credit costs, examine the finance charge and the APR to see the actual cost of credit on a yearly basis. This information must be made available to you in writing before you sign an agreement to use credit.

Easy Money?

Using a credit card is easy. You hand the salesclerk a little square piece of plastic and the clerk hands you your new purchases. You don't have to have any money in your pocket or even in the bank to use a credit card. You just have to sign your name at the bottom of the credit card receipt.

It's easy all right. A little too easy. So, easy it can seem like you're getting something for free!

Don't be fooled by the way it feels. Credit cards are not easy and they are certainly not free.

When you use a credit card, you are *borrowing* money. And whenever you borrow money from a bank or other lender, including credit card companies, they are going to charge you interest on what you've borrowed.

When you use a credit card, the card company records how much you owe them. Then, they send you a bill each month for the amount you have purchased (borrowed) with the card. That amount is called the balance. If you pay all the money back when you get the bill each month, your card balance goes back to \$0, your "loan" is paid off and you don't owe the company anything – not even interest.

However, credit cards will let you pay just part of your bill each month – that's called a minimum payment. When you only pay part of your balance, the credit card company starts adding interest to your bill. That means you now owe the credit card company the amount they paid for your purchase plus extra money (the interest) for each month you don't pay off the card.

The longer you take to pay off your balance, the more interest you end up paying. Often a sale item bought with a credit card will end up costing you more than it would have cost at full price! Many people get in financial trouble by using credit cards and not paying the balances off every month.



* EASY * MONEY?



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ACTIVITIES

- Look through your newspaper's advertisements for at least 10 "big-ticket" items that you would need to pay for with credit. From your list of 10, categorize them as needs or wants. How many of them would you actually consider going into debt for? Be prepared to explain.
- Check the newspaper ads for information about department store credit. Obtain a credit application form from one store of your choice. Bring it to class and compare the information on applications brought by others. Which charge accounts appear to have the best terms? Pretend you are planning to buy a new car. Look through the newspaper to find the current interest charges at different banks, financial institutions, or automobile dealerships. If you had to choose the best deal, which would you choose? Write a paragraph justifying your choice.
- Look up the definition of the word interest. Now go through your newspaper and write down the different interest rates you see advertised. (With your teacher's permission, if the ads do not show the bank's interest rates, go to the bank's Web site to find the information.) Are there ranges in the interest rates listed? Who do you think will get the better rates, someone with a good credit history or someone with a bad one? Discuss with the class.
- Look through your newspaper and cut out any ads for financial institutions. As a class, compare the prices of their various services.

CAUTION!

Read this before using a credit card!

Credit cards are helpful tools. If you handle a credit card responsibly – pay off the balance and pay on time – you will build a good credit history. When you have a good credit history, banks and other lending institutions will be more willing to lend you money to help you start your own business or buy a house.

But you can also get in over your head financially by using credit cards irresponsibly. Keep the following in mind when using them:

- Credit cards can cost you money. Some cards charge you a yearly fee (usually about \$25) just for having their card. You will also be charged interest or finance charges on what you owe. If your payment is late, you will be charged a late fee (usually about \$35).
- A credit card is not free money. You have to pay it back, so only charge an amount of money that you already have (say, in the bank or at home).

You have to pay your entire balance in full each month to avoid paying finance charges (interest).

LET YOUR MONEY WORK FOR YOU

Most everyone is familiar with Benjamin Franklin's advice, "A penny saved is a penny earned." Even today, that advice couldn't be more on target — especially when you save money in a savings account or other interest-bearing account.

How much should you save? Actually, it's not how much you save but how regularly you save that counts. "You cannot start saving early enough," says, John Bryant, author of *Banking on our Future*. "No amount of money is too little to begin saving with. The habit of saving is what's most important."

So, start now by putting aside a set percentage of your income — 10 percent, for example. That's just 10 cents for every dollar. Think of it as paying *yourself* first, before you give your money away to anyone else.

Very interesting ...

As you've already learned, when you put money in a savings account or any other interest-bearing account, you are actually "lending" your money to the bank. In return, the bank pays you interest.

The amount of interest you receive - called the interest rate - is figured as a percentage on the amount of money in your account. For example, if your bank pays you 5 percent interest, you would receive \$5 for every \$100 you have in your savings account.

Different banks offer different interest rates, so check rates before deciding with which bank to do business.

Striking it rich

Most of us have at least imagined what it would be like to be a millionaire. The following activity will give you a chance to see how to earn your first \$1 million simply by regularly putting money into an interest-bearing account and leaving it there to grow.

Imagine you've opened an account that earns 9 percent interest, compounded annually. Your initial deposit is \$3,500, and your goal is to add that much to the pot every year.*

To find out how long it would take to become a millionaire under these circumstances, read the instructions, then fill in the chart provided.

* Note: Putting away \$3,500 every year means saving about \$300 a month. That may sound like a lot of money for someone your age. The important thing to remember about saving money is to save regularly, no matter what the amount.

The magic of compounding

Becoming a millionaire involves compounding - leaving the interest you earn in the account to earn additional interest. The more frequent the compounding, the faster the money grows. See how it works by following this basic math formula to fill in the chart:

Beginning balance + deposit x interest

(Column 2) + (Column 3) x (Column 5)

In other words, add your beginning balance each year to your annual deposit. Then multiply that total by the rate of interest. For this activity, assume the rate will remain at 9 percent each year.

1	2	3	4	5	6
YEAR	BEG. BALANCE COL. 6 FROM PREVIOUS YEAR	DEPOSIT	AMOUNT TO EARN INTEREST COL. 2 + COL 3	ONE PLUS INTEREST RATE	ENDING BALANCE COL 4 x COL 5
EXAMPLE	\$20.00	\$3,500.00	\$3,520.00	1.09	\$3,836.80
1		3,500.00		1.09	
2		3,500.00		1.09	
3		3,500.00		1.09	
4		3,500.00		1.09	
5		3,500.00		1.09	
6		3,500.00		1.09	
7		3,500.00		1.09	
8		3,500.00		1.09	
9		3,500.00		1.09	
10		3,500.00		1.09	
11		3,500.00		1.09	
12		3,500.00		1.09	
13		3,500.00		1.09	
14		3,500.00		1.09	
15		3,500.00		1.09	
16		3,500.00		1.09	
17		3,500.00		1.09	
18		3,500.00		1.09	
19		3,500.00		1.09	
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26		3,500.00		1.09	
27		3,500.00		1.09	
28		3,500.00		1.09	
29		3,500.00		1.09	
30		3,500.00		1.09	
31		3,500.00		1.09	
32		3,500.00		1.09	
34		3,500.00		1.09	
35		3,500.00		1.09	
36		3,500.00		1.09	
37		3,500.00		1.09	
38		3,500.00		1.09	
39		3,500.00		1.09	
40		3,500.00		1.09	

Banking as a career

Need a job to meet your newly set goals? The banking industry employs more than 2.1 million people. Could you be one of them? See if any of these jobs interest you:

Accountants and auditors may design, set up, compile, maintain and analyze business records, and prepare financial reports and tax statements.

Clerks interview and assist people who want to open

accounts and explain banking services to them.

Loan officers interview applicants and recommend approval for loans.

Credit analysts verify the loan officers' information and make recommendations.

Tellers handle money transactions for customers, including cashing checks, accepting deposits and handling withdrawals.

"The key to success in life is knowing how to save the money you make." – John Bryant, Banking on our Future

FAQ

Frequently Asked Questions (FAQ) on requirements for working in a bank

What skills do you need to work in a bank?

Two basic skills are working with figures and working with people.

What sort of education do you need?

You might start as a teller right out of high school. But if you want to be an officer, you will need a college degree plus banking experience.

How can I start preparing now for a career in banking?

Take as many math courses as you can and read the financial pages of the daily newspaper. Read books on business and economics, too. Run for an office in

your class or student government so you can learn how to deal with people.

What are some ways I can gain experience?

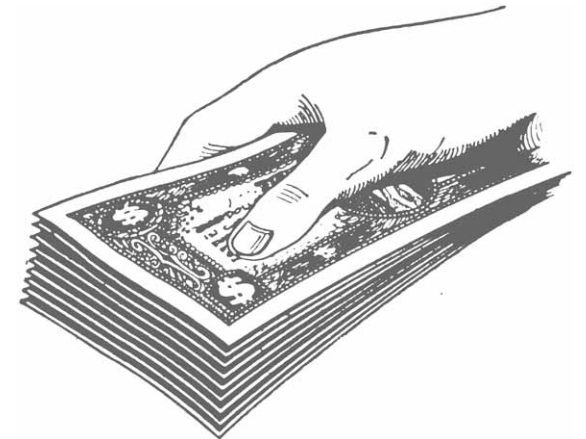
Take business classes. Practice your skills in fundraising. Get into a community work-study program or get a job as a cashier at a supermarket or fast-food chain.

What are some jobs that call for special skills?

If you like reading and research, the Federal Reserve Research Department needs researchers to prepare studies and reports for bank officers. If you have accounting experience, you might look for a job as an auditor for a Federal Reserve District.

ACTIVITIES

- How old will you be when you become a millionaire? Think about what you would like to be doing when you reach that age, and then make a list of how you might spend your money.
- As you look at your completed chart, notice that at some point the interest earned in a given year begins to exceed the amount deposited and the balance begins to grow much faster. Consider this the "takeoff point." In what year did your savings reach the takeoff point?
- Try to become a millionaire using other deposit amounts and interest rates. Figure the outcomes on your own paper using a chart similar to the one above. Compare notes with your classmates.
- Invite a representative from a local bank to your class. Interview him or her about job opportunities. Write an article for your school paper to tell students about careers in banking.
- Look through the classified section of your newspaper for jobs in banking and finance. Circle two or three that you find interesting. What qualifications do you need for the job? Assume that you have these qualifications and write a fictitious letter applying for the job.
- As with many professions, women are moving up through the ranks to become bank presidents and members of boards of directors. The business section of your newspaper may carry news of people who have been hired or promoted to such positions in banks. Monitor this section for two weeks and list the number and types of jobs and whether a man or a woman filled them. What conclusions can you draw from your findings?
- As a class, plan a field trip to one of the banks advertised in your newspaper. Talk to people in different positions to find out what they do. After the trip, share your thoughts about working at a bank.



Let's Get Personal

To take full advantage of the services offered by the banking industry, you need to know the answers to these four questions:

1. What is your monthly or annual take-home income? (How much money you have coming in after taxes.)
2. How much do/can you save? (This is where you pay yourself first.)
3. How much do you spend? (The key here? Spend less than you make.)
4. How much do you owe?

Answer these questions and you'll have a clear picture of where you stand financially. Then, if there are problems – you owe a great deal of money to credit cards or you spend more each month than you bring home – make the necessary adjustments. Work at paying off your credit cards by paying as much as you can each month and cut out unnecessary spending.

Now that you know where you are financially, set some goals – short-term goals, such as buying a new gaming system next year and long-term ones, like retiring at 40. Then look back through this section and think about the banking services that can help you meet those goals.



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