Financial Services

“Getting to Know Your Financial Institution”

Life Smarts:

- Write a check and fill out a deposit slip.
- Record transactions in a check register.
- Reconcile a check register to a monthly statement.

History of financial institutions

Financial institutions serve a very important role in our economy because they manage and safeguard money for individuals, businesses, and the government. Today’s financial institutions (now known as banks, credits unions, savings and loans, etc.) bear little resemblance to the unreliable organizations of the 1700s and 1800s. There were no guarantees in these early days for the businessmen who deposited their money that it would maintain its value or even be available for withdrawal.

The U.S. banking system emerged from the chaotic, unstructured, and unregulated early days to the sound and safe banking system we have today. The Federal Reserve Act, passed in 1913, established a successful central bank known as the Federal Reserve System (also known as the Federal Reserve or “The Fed”). It comprises 12 regional districts located throughout the country. Each district is responsible for regulating monetary policy set by the Federal Reserve System and the commercial banks within its own district. In addition, these 12 districts provide financial services to the U.S. government and to U.S. banking institutions.
The banking system in the United States has evolved for more than 200 years. This industry has moved from a decentralized, unregulated system to a highly controlled system. For many years, banking and financial service companies competed among themselves with little or no competition. This changed when non-bank financial institutions entered the market. They offered similar services and products as banks in addition to interest-bearing savings accounts.

These days, there are a wide range of financial institutions that compete for business. As of 2007, the American Bankers Association indicated that there were 8,778 banks; 9,014 credit unions; 7,987 insurance companies; 7,713 mortgage and finance companies; and 7,483 investment and security brokerages.

**History of credit unions**

The earliest evidence of financial institutions began in 19th century England as cooperatives. The idea took hold when Herman Schulze-Delitzsch created the “people’s bank” in Germany in 1850. His counterpart, Friedrich Raiffeisen, took the cooperative concept one step further by establishing the Heddesorf Credit Union. Its purpose was to provide financial assistance to farmers to purchase cattle, farming machinery, and seeds to plant crops. This was the first financial cooperative designed to meet the credit needs of a specific group. This enterprise provided an early blueprint for future credit unions in the United States and around the world.
Significant events occurred in the decades that followed:

1900

Two credit unions were developed by Alphonse Desjardins. The first, La Caisse Populaire de Levis, was organized in 1900 in Canada to counteract high interest rates charged to working families by loan sharks.

The second, known as St. Mary’s Cooperative Credit Union, opened in Manchester, N.H., in 1909. This was the first official credit union established in the United States. Edward Filene (a merchant) and Pierre Jay (Massachusetts Banking Commissioner) united efforts that same year to enact the Massachusetts Credit Union Act of 1909. This law served as the template for many states’ credit union laws and provided the foundation for the Federal Credit Union Act of 1934.

Credit unions proved popular, because the availability of credit was strictly limited by banks and other financial institutions. In the 1920s, the demand for cars and household appliances surged; credit unions took the opportunity to expand their membership by offering a source of credit. The Credit Union National Extension Bureau was established to encourage the development of credit unions throughout the U.S.; by 1930, there were 1,100 in existence.

The Federal Credit Union Act was signed into law by President Franklin D. Roosevelt in 1934, which established a national system for setting up and regulating credit unions in the United States. The goals of the agency were to offer credit and promote savings through non-profit, cooperative means. The number of credit unions grew steadily, and by 1960, membership had grown to more than six million members and 10,000 federal credit unions.

In the 1970s, expanded services were introduced including home loans and other types of savings accounts to compete with other financial institutions. In addition, the National Credit Union Share Insurance Fund (NCUSIF) was created in 1970 (without the use of tax dollars) to guarantee member deposits similar to the Federal Depositary Insurance Corporation (FDIC). The number of memberships and assets in credit unions grew significantly during this time.

Restructuring occurred in the 1980’s due to the poor national economy. Severe unemployment and business failures created an uncertain environment. Members became fearful of losing their deposits. In 1985, federally-funded credit unions decided to fund the NCUSIF, and Congress agreed to protect and insure member deposits, thus establishing confidence with its members once again.
In 2008-2009, the U.S. financial system suffered another crisis. According to the NCUA, “the resulting cascade of job losses, bankruptcies, and home foreclosures exerted pressure on the entire American financial services sector — including credit unions.” A number of credit unions failed. In response, the NCUA proactively set up a yearly review system whereby problems in individual federal credit unions can be detected early before becoming catastrophic. More than 96% of credit unions met the funding requirements required by law by the end of 2009. Because of the ongoing partnership between the credit union system and the U.S. government today, credit unions continue to grow and remain strong.

Reference:
A Brief History of Credit Unions [http://www.ncua.gov/about/History/Pages/History.aspx](http://www.ncua.gov/about/History/Pages/History.aspx)

**International efforts**

Poverty, lack of growth, and income distribution are major problems worldwide. The benefits of a cooperative financial system are recognized worldwide, and access to this system (particularly in developing countries) is seen as a viable solution. The concept of **financial inclusion**, which allows individuals and organizations the opportunity to set up businesses and save for the future while providing protection from risk, is difficult. There are many barriers to financial access internationally, and until recently, data collection has been limited.

Multiple barriers to financial inclusion include but are not limited to: (1) the **unbankable**, including those with no income or who are considered high risk; (2) cash-only users, known in the financial world as **non-users**; (3) cultural and religious factors; (4) excluded groups, including women and those living in poverty; (5) lack of competition; (5) regulatory conflicts; (6) absence of financial services in rural areas; (7) a lack of financial literacy education.

Efforts are being made, however, to target problem areas by: (1) reducing costs and red tape; (2) improving identification requirements; and (3) respecting cultural differences when designing product features; and (4) dealing with repayment issues. In addition, simplified processes are being put into place to open accounts and make deposits.

The **World Council of Credit Unions (WOCCU)** is well known for establishing access to financial services through a savings-based approach to clients in poor countries. They work closely with policy makers, government officials, and credit union leaders; currently, they have assisted in more than 275 projects in 71 countries.

The Global Financial Inclusion (Findex) Database (funded by the Bill and Melinda Gates Foundation) uses 140 indicators to measure how people around the world handle their finances. The number of people worldwide with an account grew by 700 million between 2011 and 2014. Sixty-two percent of the world’s adult population has an account, up from 51 percent in 2011. In 2011, 2.5 billion adults were unbanked. (http://www.worldbank.org/en/programs/globalfindex)

References:
World Council (WOCCU)-Core capabilities: http://www.woccu.org/financial inclusion/core

1. List how limited access to financial institutions in developing countries impacts individuals and society as a whole. You may conduct an Internet search to gather information and statistics to support your thoughts.

Why use a financial institution?

Financial institutions provide many services to help people manage money and finances. Four reasons to use a financial institution include: (1) They are insured and provide safety by guaranteeing funds to a certain amount. (2) They are convenient, and with today’s electronic capabilities, users may withdraw funds, pay bills, make deposits, and transfer money without having to step into a building. (3) Money remains secure. Financial institutions use security systems, such as video surveillance cameras, to prevent theft. (4) Financial institutions can help people plan what to do with their money. Financial advisors are available to determine how to best invest money.
Types of financial institutions

There are many types of financial institutions to serve your financial needs. Banks and credit unions offer many services to save, invest, pay bills, and obtain loans for homes and cars. Insurance companies provide coverage to protect individuals from being sued or someone taking your hard-earned assets, and some offer loans. Other financial institutions, such as cash advance and pawn shops, provide check-cashing services, payday loans, and auto title loans (refer to Topic 16, Predatory Lending, for additional information). Consumers should be leery, however, of the high cost of doing business with them. Working with credit unions and banks is safer, as they provide many needed services and charge reasonable rates for their services.

Banks and credit unions

Banks and credit unions offer many services and lower fees to handle money; however, there are differences between the two. Banks are publicly or privately-owned corporations and chartered by the state and federal government. Banks provide a place to make deposits, offer loans, and are commercial in nature; they make loans to businesses and individuals. Banks also operate as for-profit entities; profits are paid to executives, employees, and the stockholders of record.

Credit unions, on the other hand, offer financial services to members who share a common bond, such as teachers or federal employees. Credit unions offer a wide range of services similar to banks. Usually their products and services are offered at a lower cost than banks. Credit unions are non-profit in nature; all profits are kept in the organization and benefit the members with lower-cost products.

Deposit accounts

A checking account is used by most people to handle most financial transactions. Money is easily deposited, withdrawn, or transferred to other accounts. Personal checks can be used to pay bills instead of cash, and many banks offer online, electronic bill-pay services. This type of account may or may not have minimum balance requirements and may or may not be interest-bearing. In addition, some financial institutions charge a fee for each check written.

A savings account is the simplest type of deposit account. It is easily accessible, provides a safe place to keep money, and pays interest on the balance. Like checking accounts, there may be fees assessed if the balance falls below a minimum amount. Money may be deposited or withdrawn at your convenience; most savings accounts include debit card access. This allows cash to be withdrawn from ATM machines anywhere.
A money market account normally pays a higher interest rate than a savings account. Normally, a slightly higher minimum balance is required.

A Certificate of Deposit (CD) is an account where money must be kept in the account for a specified amount of time (anywhere from 90 days to 10 years) in order to earn a fixed interest rate. If money is withdrawn prior to the account maturing (ending), a penalty is charged.

Non-deposit accounts

A stock is a certificate of ownership for a company. You may purchase as much stock as you can afford in a company. Money is made in stocks by buying low and selling high. You can also make money when a company declares dividends to its stockholders. When this occurs, the company takes profits and distributes them to the stockholders.

A bond is an investment made by lending money to a governmental agency or company. In essence, a bond is like an IOU. The agency or company you are lending to promises to pay interest during the life (time) of the bond and repay the entire face value (the amount you lent) when the bond comes due (reaches maturity).

A mutual fund is an investment made by purchasing stocks and bonds in different companies. The investment is diversified, spreading the risk across many companies rather than relying on one company to perform well. Mutual funds do have varying degrees of risk, so it is important to educate yourself about where your money is invested. A factor to consider is that these funds have management fees associated with owning them.

Loans

An auto loan is money is borrowed to purchase an automobile. The amount of interest paid for borrowing the money will vary based on credit score and other factors. Pay-off requirements on this type of loan are usually between three to seven years.

A home loan is referred to as a mortgage. For a first home, most people borrow money with loans varying in duration from 15-30 years. Borrowers are required to prove income and a consistent work history to be approved for this type of loan. Interest rates vary, but in part they are based on rates set by the Federal Reserve.

A business loan is a loan obtained to open a business. This type of loan normally requires a form of collateral (usually cash or securities), as well as submission of a business plan indicating projected revenue and expenses. A higher interest rate is often attached to this type of loan due to risk factors.
Additional services

As mentioned earlier, there are many types of services that financial institutions offer. **Direct deposit** allows money to be deposited electronically. For example, most employees have their paychecks directly deposited to a checking or savings account by their employer each payday. **Online mobile banking** allows the convenience of electronic bill-pay services and money transfers. For example, if your checking account has a low balance, you can transfer money from your savings account to your checking account using your phone or computer.

There are times you may need to make payment with a money order or a cashier’s check, rather than a personal check. A **money order** is a request for money from your checking or savings account. It may be purchased at post offices, grocery and convenience stores, and other retail outlets. A money order is issued for a limited amount, such as $500 or $1,000, depending upon the issuer. A **cashier’s check** is offered only by financial institutions, is drawn from your account, and signed by a bank or credit union representative. Higher maximum limits apply, but the fees for cashier’s checks are generally more expensive. Last, most financial institutions offer **safety deposit boxes** for storing important financial information and documents or valuables. There is a yearly fee for safety deposit box rental, which varies dependent upon the size.

Opening and maintaining an account

Many financial institutions compete for business and offer promotions and enticements to get business. Shop around to locate an organization that you feel will help you manage your money the best.

Most places require that people open a checking and or savings account before they can use other financial services. A newly-opened account will allow the user to make deposits and withdrawals immediately. Remember that the sooner you open an account, the sooner you earn interest on your money. Keep in mind that there might be fees associated with the balance and maintenance of your accounts.

Last, it is important to track every transaction and be diligent in recording the amount of deposits and withdrawals from your account. Always check your balances on a regular basis and record the interest and fees earned or charged to your account. You will receive a monthly report, or statement, showing everything that occurs within your account. It is wise to reconcile (verify that all transactions and balances are correct) your accounts every month.
Checking account

Checking accounts offer many benefits. The convenience of writing checks or making electronic payments saves time, by not having to hand-deliver payments to creditors. Account owners can manage their finances by tracking checking account transactions and balances daily, if necessary.

In addition, there is security in knowing that the money is insured and there are safety protocols in place to protect it. Usually after opening a checking account, a financial institution will provide an Automated Teller Machine (ATM) card (or debit card), which enables the electronic withdrawal of money from almost anywhere. In addition, accountholders are provided with a checkbook and register to write checks and track deposits and withdrawals.

Understanding the components of a check is important. The check below contains the required components:

<table>
<thead>
<tr>
<th>#</th>
<th>Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Date the check is written.</td>
</tr>
<tr>
<td>2</td>
<td>Depositor – the person to whom the bank account belongs. It includes the person’s address and sometimes the person’s phone number.</td>
</tr>
<tr>
<td>3</td>
<td>Pay to the Order of – this is the payee or the recipient of the check. The payee does not have to be a business or person. Checks can be made payable to “cash” or “bearer,” which allows funds to be paid to the person or organization that presents the check for payment.</td>
</tr>
<tr>
<td>4</td>
<td>Your signature goes here.</td>
</tr>
<tr>
<td>5</td>
<td>Amount of the check.</td>
</tr>
<tr>
<td>6</td>
<td>Written amount of the check.</td>
</tr>
<tr>
<td>7</td>
<td>Check number (located in two places).</td>
</tr>
<tr>
<td>8</td>
<td>Banking information.</td>
</tr>
<tr>
<td>9</td>
<td>The first set of numbers is the routing number of your bank. It is nine numbers and identifies the financial institution’s branch where the account is located. Entities need this number when funds are paid or deposited electronically. The second set of digits is the account number. Usually when you endorse (sign) a check, you write your account number along with your endorsed signature.</td>
</tr>
</tbody>
</table>
Life Smarts: Write a check and fill out a deposit slip.

When writing a check, include the name of the person or company (the payee) along with the dollar amount. In addition, write out the check amount, because this is what the financial institution will go by when drawing the money from your account. Always make sure to date and sign the check.

Fill out the check with the information that follows:

You are writing a check to your landlord for this month’s rent. The rent is $475. The date is August 1 of the current year. Your landlord’s name is Vern Thomas.

In the check register, record the above transaction.

Hint: You paid your landlord, so record the amount in the Payment/Debit column.

There are many requirements that you should note when dealing with checks (deposits and withdrawals). For example, when cashing a check, it is required that you endorse (sign) the check on the back where indicated. (Your signature must be written exactly as the name spelled on the front of the check). Your endorsement indicates that the check can be converted to cash and/or deposited into any of your accounts. Most financial institutions also require the account number to be written below your endorsed signature.

Sign your name on the back of the check where it says “Endorse Here.”

You should write your account number below your signature.
Deposits

When placing money into a checking or savings account, this is known as **making a deposit**. As discussed previously, when you deposit a check (made out to you), endorse the check on the back. You can make a deposit without having to physically go to your financial institution. Checks can be deposited via an ATM machine, your phone, or by electronic transfer. Currently, most people have their paychecks directly deposited electronically into their bank account, thus never having to physically touch the checks. In addition, income taxes and student loan disbursements can be directly deposited into financial accounts.

If you deposit a check or cash in person, you may have to fill out a deposit slip (especially if there are multiple checks). This procedure will vary based on the financial institution.

Below are two different examples of deposit slips for placing money in a checking or savings account. Note that the payee has the option to receive a partial or full payment in cash.

Life Smarts: Write a check and fill out a deposit slip. (Continued)

Using the check register and the deposit slip, record the following transactions and fill out the deposit slip.

- The date is August 1, 20XX. Your account number is 123456789.
- Received $100 for your birthday. You will deposit it into your savings account.
- You received a tax refund check of $400 from the Internal Revenue Service. You will deposit it into your savings account.
ATM and debit cards

Automated Teller Machine (ATM) cards and debit cards act just like cash. Purchases and withdrawals can be made with these cards. Of course, there must be money in the account if a debit card is used to withdraw cash. These cards can be used anywhere Visa or MasterCard are accepted. It is important to store these cards in a secure place at all times. If you misplace or lose them, notify your financial institution immediately so you are not responsible for unauthorized purchases.

A debit or ATM card has a Personal Identification Number (PIN) associated with it. It is important to not share your PIN with anyone. Each time you make a transaction with this card, you will need to enter the PIN.

When using a debit card, you have the option of using other debit or credit. If you choose debit, the money will be taken out of your account immediately or within one business day. In addition, you also have the option of receiving cash back. If you choose credit, it takes two to three business days for the money to be withdrawn from your account and a signature may be required on the credit slip (to be retained by the vendor). Last, credit transactions do not offer a cash-back option, but they do provide added fraud protection.

It is important to record your transactions so you can verify your balances in your accounts. If you use your debit or ATM card at an ATM machine that is not affiliated with your financial institution, you will be charged an additional fee for withdrawing your own money. Also, if you attempt to withdraw money that you don’t have in your account, you will be charged an overdraft fee. There may be annual fees and minimum balance fees associated with your card.
Life Smarts: Record transactions in a check register.

You used your debit card a couple of times this week. Record the following transactions in the check register on the next page:

- On August 25, you used your debit card to put gas in your car: $50.
- On August 28, you used your debit card to purchase a $95 required textbook for school.

### Check Register

<table>
<thead>
<tr>
<th>Check Number</th>
<th>Date</th>
<th>Transaction Description</th>
<th>Payment/Debit (-)</th>
<th>Deposit/Credit (+)</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit Card</td>
<td>8-25</td>
<td>Put gas at Phillips</td>
<td>-50.00</td>
<td></td>
<td>450.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>400.00</td>
</tr>
<tr>
<td>Debit Card</td>
<td>8-1</td>
<td>Textbook Purchase</td>
<td>-95.00</td>
<td></td>
<td>305.00</td>
</tr>
</tbody>
</table>

More ways to pay bills

As discussed throughout this section, today’s technology provides the convenience to process financial transactions from almost anywhere there is Internet access. You can pay bills, transfer money, and purchase items via your computer or phone. When using electronic services, be sure to always use secure passwords; change them periodically; and never share that information with anyone.

Your account

Each month, your financial institution will provide a statement showing all of the transactions that occurred in your account during the month. It is important to reconcile this statement with your ledger (or register) to ensure that it matches your records. Some tips to help you manage your accounts:  

(1) Save receipts and record transactions every time you deposit or withdraw money from your account.  
(2) Reconcile your account to the statement that you receive from your financial institution every month.

Be consistent with these procedures and manage your money appropriately. This will help you avoid paying late and unnecessary fees.

Reconciling your account

As indicated throughout this topic, it is important that you consistently record financial transactions in your check register or ledger. Establishing this habit will help you manage your money throughout your lifetime. People who fail to track their finances on a regular basis are often unaware of the amount of money they have available. Unintended debt can accumulate because of fees and penalties assessed when you attempt to withdraw or pay bills with money you don’t have.
Reconciling your check register with your monthly bank statement every month will help you manage your money effectively, and you will always be aware of the exact amount in your account.

**Outstanding Checks** – These are checks you have written and delivered for payment but they have not yet cleared your financial institution; thus, they do not show on your current monthly statement.

**Deposits in Transit** – These are deposits you have recorded in your check register. They do not show on your monthly statement because they have not been recorded yet by your financial institution.

**Service Fees/Charges** – These are fees shown on your monthly statement but not recorded in your check register, because you were unaware of the fees until you received your statement.

**NSF (Not Sufficient Funds)** – This can occur when you attempt to withdraw money from your account, but there’s not enough to cover your withdrawal. An overdraft (below) also results in an account with insufficient funds.

**EFT (Electronic Fee Transfer)** – This is a transaction that occurs when money is deposited or paid from your account electronically. Sometimes, people forget about these transfers and fail to record them in their check register.

**Overdraft Fees** – These fees occur when you attempt to withdraw money from your account and you don’t have enough money to withdraw.

**Life Smarts: Reconcile a check register to a monthly statement.**

The goal of reconciling your check register to your monthly statement is to get both balances equal. If they aren’t equal, recheck each entry to see where the error or omission is. The table below provides a formula for reconciliation:

<table>
<thead>
<tr>
<th>Bank Reconciliation Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Check Register Balance</td>
</tr>
<tr>
<td>Ending Balance</td>
</tr>
<tr>
<td>- NSF</td>
</tr>
<tr>
<td>- Overdrafts</td>
</tr>
<tr>
<td>- Service charges</td>
</tr>
<tr>
<td>± EFT</td>
</tr>
<tr>
<td>= New Balance</td>
</tr>
</tbody>
</table>
Below is your Check Register for the month of September and monthly statement:

<table>
<thead>
<tr>
<th>Check Number</th>
<th>Date</th>
<th>Transaction Description</th>
<th>Payment/Debit (-)</th>
<th>Deposit/Credit (+)</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>53</td>
<td>2-Sep</td>
<td>Paid cell phone bill</td>
<td>52.00</td>
<td>✓</td>
<td>850.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-52.00</td>
</tr>
<tr>
<td>N/A</td>
<td>10-Sep</td>
<td>Deposited allowance</td>
<td></td>
<td>✓</td>
<td>798.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10.00</td>
<td>100.00</td>
</tr>
<tr>
<td>N/A</td>
<td>15-Sep</td>
<td>Direct deposit of paycheck</td>
<td></td>
<td>✓</td>
<td>898.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>200.00</td>
<td>200.00</td>
</tr>
<tr>
<td>54</td>
<td>30-Sep</td>
<td>Paid for some clothes</td>
<td>50.00</td>
<td></td>
<td>1,098.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-50.00</td>
</tr>
<tr>
<td>N/A</td>
<td>30-Sep</td>
<td>Deposited a check from mom</td>
<td></td>
<td>✓</td>
<td>1,048.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>200.00</td>
<td>200.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,248.00</td>
</tr>
</tbody>
</table>

**Step 1:** Put a ✓ next to each amount in your check register that shows on your monthly statement.

**Hint:** The first three amounts are shown on your monthly statement.

**Step 2:** Determine what amounts on your monthly statement are not showing in your check register.

**Hint:** The last two transactions are not showing on your monthly statement. Thus, you have an outstanding check and a deposit in transit. Also, there are two other amounts not shown in your check register that are shown on your monthly statement.

**Step 3:** Use the formula below to reconcile the two balances.

**Note:** Your check register balance should equal your monthly statement balance after you reconcile your account.

### Bank Reconciliation Formula

<table>
<thead>
<tr>
<th></th>
<th>Check Register Balance</th>
<th>Bank Statement Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ending Balance</td>
<td>1,248.00</td>
<td>993.00</td>
</tr>
<tr>
<td>-NSF</td>
<td>-100.00</td>
<td>+Deposits in Transit</td>
</tr>
<tr>
<td>-Overdrafts</td>
<td>0.00</td>
<td>-Outstanding Checks</td>
</tr>
<tr>
<td>-Service charges</td>
<td>-5.00</td>
<td>= New Balance</td>
</tr>
<tr>
<td>±EFT</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>= New Balance</td>
<td>1,143.00</td>
<td>1,143.00</td>
</tr>
</tbody>
</table>