

CHAPTER 5-THE BANKING SYSTEM

Section 1-
Checking
Accounts

CHECKING ACCOUNTS

- **Checking Account:** A demand deposit account on which checks are drawn.
- **Advantages of a checking account**
 - Safe place to keep money
 - Allows easy access to money
 - Provides easy and safe way to pay bills (don't send cash to pay bills)
 - FDIC insured up to a \$250,000 (if bank fails you get your money back)
- **Check:** A written order to a bank to pay a stated amount to the person or business named on the face of the check.
 - Accepted way to pay a bills and make purchases
 - Safer than carrying a large sum of class to make big purchases
 - **Cancelled check**-processed by the bank, serves as a proof of payment for bills or purchases
 - **Postdated Check**-check written with a date for the future. Banks process checks regardless of the date-they don't hold postdated checks.

FACTS ABOUT THE FDIC

- Federal Deposit Insurance Corporation (FDIC)
 - Independent Agency of the U.S. Government
 - Established in 1934
 - Insures checking accounts, savings accounts, money market deposit accounts, and certificates of deposits
 - Covers each account at each insured bank, including principal and interest through the date of bank's closing, up to the \$250,000 limit
 - Promotes confidence in banking system
 - Does not insure:
 - Stocks, bonds, mutual funds, life insurance policies, annuities or municipal securities
 - Valuables stored in the bank's safe deposit boxes
 - U.S. treasury bills, bonds or notes

HOW TO OPEN AN ACCOUNT

- You will need some money
- Parent or guardian if under age 18
- Provide personal data (name, address, phone number, social security number)
- A photo ID (driver's license or identification card)
- **Signature card**-provides an official signature that the bank can compare to the signature written on checks
- **Security question or Code Word**: this is to identify the account holder when he or she calls on the phone or accesses an online account
- Once an account is established the account holder will be issued an account number, a checkbook, check blanks, deposit slips and a check register
- Two types of accounts
 - Joint-more than one person can write checks on the account
 - Individual-A single person writes checks on the account

MAKING WITHDRAWALS

- Ways to withdraw funds from a checking account
 - Use a debit card
 - Write a check
 - Use an ATM
 - Setup auto bill pay
- Be sure to record all withdrawals in your checkbook register

KEEPING A CHECKBOOK REGISTER

- **Checkbook Register-** A tool used to track checking account transactions.
 - Managing your checking account is your responsibility
 - Keeping accurate records is very important
 - Use a checkbook register to:
 - Verify the amounts deducted (checks, fees)
 - Verify the amounts added (deposits)
 - Deposits: money added to a checking or savings account
 - Verify withdrawals-taking money from your account (atms, auto bill pay)

WRITING CHECKS

- A check is a legal document used to transfer money
- Writer of check is called the drawer
- The bank that the funds are taken from is the drawee
- The person receiving the check is the payee
- Steps to completing a check:
 - Enter the current date
 - Enter the name of the payee on the “Pay to the order of” line
 - Write the dollar amount in words
 - Sign your name
 - Enter a description in the memo line
 - If you make a mistake on the check, start again with a new check and write VOID on the check with the error, be sure to write VOID in the checkbook register by that check number as well.

DEBIT CARDS AND ATM CARDS

- **Debit Card-used to withdraw or deduct money from your checking account**
 - Allows you to withdraw money from your checking account at an ATM
 - Allows you to make purchases in a store withdrawing funds from your checking account
 - Do not use a debit card to make online purchases
 - Memorize your PIN number
 - If a card is lost or stolen, funds can be removed from your account
- **ATM Card-only allows you to make withdrawals or deposits at an ATM, you can not make purchases using this card**
 - Memorize your PIN number

CHECKING ACCOUNT RISKS

- **Check Fraud:** occurs when someone alters a check by changing the amount to obtain more money
- **Forgery-**the act of signing another person's name on a check
- **To protect your account:**
 - Keep your check supply in a secure location
 - Don't give out your PIN number
 - Don't sign blank checks
 - Keep your checkbook secure

MAKING DEPOSITS

- **Deposit:** Adding funds to your account with either a check or cash or automatic deposit
- **Complete a deposit slip**
 - Write check numbers and amounts on deposit slip
 - Total the deposit slip
 - Endorse the checks when reaching the bank
 - **Endorsement:** a signature with or without instructions, written on the back of a check
 - Sign the check in ink
 - Types of endorsements:
 - **Blank endorsement-**the signature of the payee is written on the back of the check
 - Provides little protection
 - Anyone who has the check can cash it
 - **Restrictive endorsement-**Restricts or limits the use of a check
 - Writing “For deposit only” on check limits use of the check so that can only be deposited in an account
 - **Special endorsement:** transfers the right to cash the check to someone else
 - Writing “Pay to the order of” and the name of the person gives the check to someone else

THIRD PARTY CHECKS

- Created through a special endorsement.
- Transfer of a check issued by the check writer to a payee, who then endorses the check and transfers it to a third party
- Many banks will not deposit or cash a third party check
- Most businesses will not accept third party checks

DIRECT DEPOSITS

- Wages or benefits that are automatically deposited into a bank account electronically
 - Usually receive a statement of your deposit-no actual check
- Electronic Funds Transfer (EFT): the use of a computer-based system to move money from the drawer's account to the payee's account
 - Used for automatic withdrawals and deposits
 - Many people receive social security payments using EFT
 - Businesses deposit employee paychecks using EFT
 - This usually makes the funds available on the same day it is deposited
 - This gives instant access to funds
 - It is a safe and secure method for deposits
 - It is more convenient than carry a check to the bank for deposit

BANK STATEMENT RECONCILIATION

- **Bank Statement:** a paper copy of a listing of all of the transactions that have been processed through a checking account
- **Bank Reconciliation:** the process of adjusting the checkbook register and bank statement balances so that they agree
- **Steps for performing a bank reconciliation:**
 - Enter date on reconciliation form
 - Enter ending balance amount from bank statement
 - Compare checkbook register with bank statement
 - Verify deposits and checks
 - List outstanding deposits (not processed by bank)
 - List outstanding checks (not processed by bank)
 - List fees (service charges, transaction fees)
 - Compare bank statement balance to checkbook balance
 - When amounts agree, enter a note in the checkbook and make the notation on the bank statement
 - File the bank statement in a secure location

TRUNCATED CHECKS

- A digital copy of a check that has been canceled (processed by the bank)
 - Both sides of the check are scanned to create a digital copy
 - Checks may be viewed online
 - Copies may be printed
 - Most banks return digital copies of checks to customers instead of the original check
 - Less expensive process for the bank rather than returning original checks

FEES AND INTEREST

- Checking accounts can have fees associated with them
- Most banks offer free checking
- Common fees if you don't have free checking
 - Transaction fees-so much per check
 - Monthly service charge-\$5 to \$20 per month
- Additional fees regardless of free checking:
 - Wire Transfers
 - Check printing fees
 - Overdraft fees
 - Insufficient funds fees
- Some banks offer interest earning checking accounts in exchange for keeping a large minimum balance
- If you dip below the minimum balance you may incur a service charge or transaction fee or both