

Financial Education for Worker Cooperative Members

Topic 2: Banking & Basic Financial
Transactions

Introduction

This curriculum was created as part of a project between the New York City Department of Consumer Affairs Office of Financial Empowerment and Make the Road New York, with the support of Citi Community Development to integrate financial empowerment tools and training into the cooperative development process.

It consists of 5 two-hour-long workshops:

- Topic 1: Basic Money Management & Budgeting
- **Topic 2: Banking & Basic Financial Transactions**
- Topic 3: Credit
- Topic 4: Creating a Profitable Business
- Topic 5: Basic Financial Statements

Questions to Think About

What are the different types of depository financial institutions?

What are the different accounts offered?

What are some features of accounts?

How do you know which one is the right fit for you?

What are the necessary steps to open and maintain an account?

Choosing an Institution

1. Banks

- For profit
- Insured by the FDIC up to \$250,000 per depositor
- Owned by investors/shareholders
- Profits paid to the investors

2. Credit Unions

- Not for profit
- Owned by members - cooperatives
- Insured by the National Credit Union Share Insurance Fund (NCUSIF) up to \$250,000 per depositor
- Profits normally go to reduce fees, interest rates

3. To choose wisely, compare fees, rates of return, services offered

4. Establish relationships with future needs in mind: mortgage loans, auto loans, business accounts and loans

Opening an Individual Account

US Patriot Act—know your customer rules

- Banks are required to verify accountholder identity
- How this is done varies from institution to institution

Documentation needed

- Government issued identification—at least one
(US or foreign passport, driver's license, Mexican consulate-issued matrícula; some institutions may accept NYC ID. Varies by financial institution—some require 2 forms of government issued identification)
- Tax identification number – SSN or ITIN
- Proof of address

Opening an Individual Account with a IDNYC

The following institutions accept the IDNYC for opening a bank account:

- Amalgamated Bank
- PNC
- US Alliance
- Brooklyn Cooperative Federal Credit Union
- Carver Federal Savings Bank
- East West Bank
- First Republic Bank
- Lower East Side People's Federal Credit Union
- Melrose Credit Union
- Neighborhood Trust Federal Credit Union
- Spring Bank
- University Settlement Federal Credit Union
- Urban Upbound Federal Credit Union

Check out <http://www1.nyc.gov/site/idnyc/benefits/banks-and-credit-unions.page> for information on branches, other documentation and minimum deposits.

Basic Bank Services and Products

Types of Accounts

- Basic Starter Accounts
- Checking Account
- Savings Account
- Certificates of Deposit


Questions to Ask When Choosing an Account

1. **What fees are charged** for maintenance and use of the account?
2. **How many transactions are allowed** each month? What is the cost per additional transaction?
3. **Is there a required minimum balance?**
4. **Are deposits insured** and up to what amount?
5. **Does this account earn interest?**
6. **Are there additional charges** (e.g., printing checks, stop payment on checks, use of ATM, getting assistance in person or on the phone)?
7. **What additional fees are there for this account** not listed in these materials?
8. **How do these fees compare with what is currently paid** for banking/check-cashing services?
9. **Can I build a long-term relationship** for future needs?

NYC SafeStart Account

- NYC SafeStart Account is a ‘starter’ savings account—not a transactional account
- The City of New York partnered with certain banks and credit unions in NYC to offer this special account for people new to banking or who are unbanked because of past problems managing their accounts. For banks and locations, see: <http://www1.nyc.gov/site/dca/consumers/open-savings-account.page>
- Special features include:
 - No monthly fees, provided minimum balances are met
 - Minimum balance requirements of \$25 (or less)
 - ATM Card (no debit card)
 - Leniency with ChexSystems
 - No overdraft fees (no overdraft services provided)

NYC SafeStart Account Voucher






Voucher


This Voucher allows you to open the NYC SafeStart Account at your choice of participating bank and credit union branches throughout New York City. The NYC SafeStart Account is a safe and affordable starter bank account. Its features include:

- No overdraft fees
- No monthly fees, provided minimum balances are met
- Minimum balance requirements of \$25 or even less, depending on the financial institution
- ATM Card or Debit Card provided


Participating Banks and Credit Unions:




















For more information about the NYC SafeStart Account, including participating locations, call 311 or visit nyc.gov and search "safestart account."



Consumer Affairs
Lorell Sales
Commissioner

Clients who have a ChexSystems report can attend a one-on-one financial counseling session at a Financial Empowerment Center and receive a voucher as a ChexSystems waiver.

Checking Account

Transactional accounts facilitate regular payments through paper checks, internet banking and bill payment. Payments are drawn against amounts on deposit:

Making Deposits

- Direct deposit—regular, electronically transmitted, funds available immediately; paychecks can be directly deposited into checking accounts
- Sign back of the check to deposit (“endorse” check)

Writing Checks—written words prevail over numbers

Cancelled Checks—checks which have been paid by drawer’s bank are returned to drawer (writer of check or payer)—now in electronic form

Check Register—record of all deposits, withdrawals, fees deducted, and checks issued

- Balance check book—adding all deposits and deducting all checks issued, withdrawals and fees to know what is available to be drawn against

Checking Account

Checking Account Statement—Institution’s report of all transactions issued on a periodic basis (usually monthly)

Reconciliation with Bank Statement—Comparing check register and statement to account for all outstanding checks. Insures that payer knows amount actually available for use, what has been paid and received, and what is pending

Bill Payment

- Automatic arrangement to pay regular bills from account OR
- Online payments made each time bill becomes due

ATM Card – An **A**utomated **T**eller **M**achine card may be issued in connection to a checking or savings account to allow consumer to transact business (e.g. deposits, withdrawals, transfers and check balances—**not same as debit card**)

- May have fees

Debit Card – Can be used at point of sale to pay for purchases (card must say “debit” on it, often combined with the ATM card—same card for both uses)

Checking Account

ATM Card - Automated Teller Machine Card

- **Issued by account holder's bank**
- **Allows account holder to conduct business transactions** (withdraw, deposit, transfer between accounts) using an ATM (of issuing financial institution or other financial institution)
- **May be a fee for transactions conducted using ATMs** of non-issuer financial institution
- **May be a charge imposed by issuer if ATM transactions exceed stated limit** each month
- **May be the same card as the consumer's debit card**
- **No credit card logo** (Master Card/Visa) **if dedicated ATM card**, cannot be used at point of sale

Checking Account

Debit Cards

- **Debit cards are linked to existing accounts**, e.g. checking or savings; not same as pre-paid reloadable debit card.
- **Fees:** Point of sale—using debit card **and** a PIN number; may be monthly fees; annual fees; or a charge if exceeds set number of uses (account-linked card often combines ATM and Debit features—where there is a Visa/Master Card logo)
- **Access to Funds:** Some institutions hold a multiple of the debited amount—making less of balance available until transaction clears

Checking Account

Paying Through Debit vs. Credit

- **Debit Card**—Money is withdrawn directly from account holder's own funds, e.g. savings or checking: no balance, no access
- **Credit Card**—Payment is made by issuer on consumer's behalf; the consumer repays the issuer as invoiced

Checking Account

- Overdraft—When a checking account goes below a zero balance.
 - Overdraft Protection Plans: Banks cover transactions when the account has a negative balance with fees possibly exceeding the payment itself!
 - This is extended not only to checks, but also ATM and debit card transactions
 - The median overdraft fee is \$27 (APRs of 1,000 – 3,500%)
 - Consumers may be unaware they have overdrawn their accounts.
 - **THINK TWICE BEFORE OPTING INTO FEE-BASED OVERDRAFT PROTECTION PLANS!** There are other options to explore.

Checking Account

Alternatives to Fee-Based Overdraft

- **Overdraft line of credit**
 - Consumers can apply for an overdraft line of credit and pay interest on the overdraft, just like any other type of loan.
 - Banks may also charge annual fees.
- **Linked savings account**
 - When the checking account is overdrawn, banks will automatically take funds from savings account to cover the transaction.
 - Banks may also include transfer fees.
- **Linked credit card**
 - Any overdraft amount becomes a cash advance on the credit card.
 - Consumers will probably be charged a cash-advance fee, and interest charges on the advance will start immediately.

Checking Account

Overdraft Regulations

- Financial institutions can no longer automatically enroll customers into their overdraft protection services for ATM and one-time debit transactions.
- They need to ask consumers for permission, or to “opt in.”
- Some banks have discontinued the practice, others continue to market the services to consumers.
- Many consumer protection groups advocate that: “It’s best not to opt in.” However, be sure you know the consequences.

Checking Account

Avoiding Overdraft

- **Keep track of all transactions**, including ATM withdrawals, electronic payments and debit transactions.
- **Don't forget to subtract any transaction fees.**
- **Monitor the account balance** and stay up to date on which transactions have cleared.
 - Check by calling the bank or by looking online or at an ATM
- **Beware of debit holds**
 - Using a debit card at a restaurant, gas station, hotel or car rental agency may cause a “hold” to be placed on the account at an amount greater than the purchase.

Savings Account

- **Earn interest**, funds readily available
- **Paychecks can be directly deposited** into accounts electronically
- **Arrange regular saving with automated transfers** from checking, savings, or payroll
- **Features often include an ATM card or debit card**

Savings vs. Investments

Savings

- Funds set aside for short-term needs (usually defined as one year or less)

Investments are long-term

- *Assets acquired for future income* or benefit
- Increase by generating income (interest or dividends)
- Grow by appreciating in value
- Income earned and appreciation in value *increases wealth*

Savings vs. Investments

- **Liquid savings readily available as cash** and not intended for long-term investment
- **Liquid savings**—“**forced savings,**” e.g., over-withholding income tax in order to get a big refund
 - Affects cash flow, may impact ability to manage funds

TIME – The Advantage of Starting NOW

STARTING TO SAVE EARLY – Assume a 3% Return

- The following example shows you what a difference starting to save early can make.

In this case, we have student Julio beginning to save \$1,000 per year beginning at the age of 16. By the time that Julio is 25 years old, he has saved \$10,000. If he never puts any more of his own money into the account, at the rate of 3% per year, Julio will have \$38,517.33 in his account by the time he is 50 years old. In other words, for his input of \$10,000, he has gotten a return of \$28,517.33.

- Compare what happens to Mei who does not start to save until she is 26 years old.

Assuming Mei saves \$1,000 per year for 25 years, at the rate of 3%, by the time Mei is 50 years old, she will have input \$25,000 to have \$36,323.01 in the account. Her return on her input of \$25,000 is only \$11,323.01. In other words, Mei put in two and half times the money that Julio did and yielded less than half of the money that Julio yielded.

TIME – The Advantage of Starting NOW

<u>Student "A"</u> Starting Age	Amount Deposited Yearly	<u>Student "B"</u> Starting Age	Amount Deposited Yearly
16	\$1,000		
17	\$1,000		
18	\$1,000		
19	\$1,000		
20	\$1,000		
21	\$1,000		
22	\$1,000		
23	\$1,000		
24	\$1,000		
25	\$1,000		
26	TOTAL Invested - \$10,000	26	\$1,000
27			\$1,000
28			\$1,000
29			\$1,000
30			\$1,000
31			\$1,000
32			\$1,000
33			\$1,000
34			\$1,000
35			\$1,000
36			\$1,000
37			\$1,000
38			\$1,000
39			\$1,000
40			\$1,000
41			\$1,000
42			\$1,000
43			\$1,000
44			\$1,000
45			\$1,000
46			\$1,000
47			\$1,000
48			\$1,000
49			\$1,000
50		50	\$1,000
			Total Invested - \$25,000
Total Available at Age 50	\$38,517.33	Total Available at Age 50	<u>\$36,323.01</u>

Certificate of Deposit

Certificates of Deposit or “Time Deposits”

- Certificate evidencing a deposit for an agreed fixed term (date of maturity) at an agreed fixed rate of return or interest
- Short or medium term (generally 3 months to 6 years)
- Generally higher rates of return
- Money removed before maturity date is subject to penalty

Accounts for Retirement and Education Savings

Consult a free financial counselor about:

- MyRA Accounts
- Individual Retirement Accounts (IRA)
- 529 Plans for your children's education

Accounts for Retirement and Education Savings

MyRA Accounts

- **No cost** for set up
- **Automatic contributions directly from paycheck** based on what you can afford
- **Can withdraw money at anytime with no tax**, except for interest earned
- **Earns interest currently at 1.75%** (4/2016)
- **Maximum \$5,500/year deposit** (\$6,500 for those age 50 or over)

Accounts for Retirement and Education Savings

Individual Retirement Account (IRA)

- **Money deposited earns interest tax free** until it is withdrawn at age 59 ½ or later
- **Deposit of a maximum of \$5,500/year for individual** (\$6,500 for age 50 and over) can help save you income tax

Accounts for Retirement and Education Savings

529 Plans

- **Accounts that are managed by a state program or a specific college or university**
- **Money is usually invested in stocks** or other investments
- **Earnings or profit on the money is tax free** as long as it is withdrawn to pay for education
- **Important to understand the benefits and limitations on these accounts**

Fringe and Alternative Financial Services

- **Reloadable prepaid debit cards**
- **Check cashing stores**
- **Money orders**

Reloadable Prepaid Debit Cards

- **Structured to not only spend but also add money** as if adding to a bank account
- **Most cards charge higher fees than the basic checking accounts** offered at mainstream financial institutions
- **Difficult to identify all the fees**, which may include
 - Adding money
 - Calling customer service
 - Getting a paper statement
- **Make sure the card is fully FDIC insured** and offers Regulation E protections.
- **Opting for a checking account** over a prepaid card may still be a better deal

Check Cashing Stores

- **Must be licensed by NYS Department of Financial Services** – their employees registered
- **Charges percentage of check amount for cashing**
 - Highest rate allowed: 2.01% of check
- **Accepts direct deposit of government and other funds** such as EBT and payroll – may be linked to a debit card

Money Orders

- **Issued by various institutions** including US Post Office, banks and alternative financial
- **Costs per money order varies**, and amount per money order generally capped
- **Examples:**
 - Commercial bank: \$5.00 for up to \$1,000
 - US Post Office: \$1.25 up to \$500; \$1.65 for \$500.01 up to \$1,000
 - CVS: \$0.70 up to \$500

Summary

- **Banking with a financial institution may lower costs** of transacting financial business and facilitate accumulation of assets
- **Banks are for-profit financial institutions**—be aware of fees and costs, and compare
- **Credit Unions are non-profit financial institutions**—may be willing to take more risks for members, but costs may be higher
- **Checking Accounts**—maximize interest rates if available, minimize fees, i.e. overdraft fees, excess usage or third party ATM costs, etc.
- **Savings (short-term) vs. Investments (long-term)**
- **CDs** (understand features)
- **Consider future needs**

Summary

- **Checking Accounts** – Necessary to transact daily business of paying bills, and centrally gathering funds before allocating for expenses, savings and expenses
- **Savings Accounts** – Putting aside funds for short term goals with some interest yield
- **Certificates of Deposit** – Short term goals, do not need immediate access to funds, low tolerance for risk (as compared to stock market) looking for predictable higher return than regular savings account