

Honors Personal Finance

THEME 2 Part 1A

Managing Basic Assets

Managing Your Cash & Savings

- Establishing good financial habits involves managing cash as well as other types of assets.
- **Cash Management** – the routine, day-to-day administration of cash and near-cash resources, also known as liquid assets, by an individual or family.

Managing Your Cash & Savings

- As a rule, near-term needs are met using cash on hand, and unplanned or future needs are met using some type of savings or short-term investment vehicle.
- In personal financial planning, efficient cash management ensures adequate funds for both household use and an effective savings program.

Managing Your Cash & Savings

• Cash Management Tips:

- ① Avoid carrying checkbook, debit card, or credit card when unplanned purchases could occur.
- ② When going shopping, set a maximum spending limit.
- ③ Establish an ongoing savings program.

The Federal Reserve System

- The Federal Reserve is the central bank of the United States. Its unique structure includes:
 - ❖ a federal government agency, the Board of Governors, in Washington, D.C., and
 - ❖ 12 regional Reserve Banks.

The Federal Reserve System

- The framers of the **Federal Reserve Act** purposely rejected the concept of a single central bank. Instead, they provided for a central banking “system” with three salient features:

The Federal Reserve System

- ① A central governing Board,
- ② A decentralized operating structure of 12 Reserve Banks, and
- ③ A combination of public and private characteristics.

The Federal Reserve System



Memphis is in District 8

Financial Services

- The financial services industry continues to evolve, thanks in large part to technology and changing regulations.
- No longer are checking accounts one place, credit cards another, and brokerage services yet another.
- Today financial institutions are all encompassing.

Financial Services

- Though there are four primary financial institutions, they all can be classified into two broad groups:
 - ① Depository
 - ② Nondepository
- This is based on whether or not they accept deposits such as a traditional bank.

Financial Institutions

- There are 4 primary:
 - ① Commercial Banks
 - ② Credit Unions
 - ③ Savings & Loans
 - ④ Brokerage Firms

Financial Institutions - DEPOSITORY

- The vast majority of financial transactions take place at depository financial institutions:
 - Commercial Banks (Brick & Internet)
 - Savings & Loan
 - Credit Unions

Financial Institutions - DEPOSITORY

- **Banks** - The largest & oldest of all financial institutions, relying mainly on checking and savings accounts as sources of funds for loans to businesses & individuals.
- They function as a for-profit institution.

Financial Institutions – DEPOSITORY Bank Offerings

- Accounts are started by making a:

Deposit – an addition to the balance on your bank savings or checking account.

Financial Institutions – DEPOSITORY Bank Offerings

Savings Account – is a bank account that earns interest.

These are often referred to as:

Time Deposits – a savings deposit at a financial institution; remains on deposit for a longer time than a demand deposit.

Financial Institutions – DEPOSITORY Bank Offerings

Checking accounts - a bank deposit against which checks can be drawn by the depositor.

Financial Institutions – DEPOSITORY Bank Offerings

A checking account held at a financial institution is known as a:

Demand Deposit – an account held at a financial institution from which funds can be withdrawn on demand by the account holder; same as a checking account.

Financial Institutions – DEPOSITORY Bank Offerings

- Many employers offer an added bonus for those with a checking account; paychecks can be:

Direct Deposit – a deposit of money by a payer directly into a payee's bank account.

Financial Institutions – **DEPOSITORY**
Bank Offerings

- In a savings account, and rear occasions some checking accounts your money works for you by earning:

Interest - income earned on a deposit or payment owed on a loan.

Financial Institutions – **DEPOSITORY**
Bank Offerings

- There are 2 types of interest. **Simple interest** means that you only earn interest on your initial deposit.

$$I = prt$$

Interest ← I ← Annual interest rate, written as a decimal. r
 Principal → p ← Time, expressed in years. t

Financial Institutions – **DEPOSITORY**
Bank Offerings

- **Compound interest** allows you to earn interest not only on your initial deposit, but also on the interest you earn as you go along.

$$A = P(1 + \frac{r}{n})^{nt}$$

A = Amount accumulated
 P = principal
 r = interest rate
 n = compoundings per period
 t = number of periods

Financial Institutions - **DEPOSITORY**

- **Credit Union** - a financial institution owned by its members that provides savings and checking accounts and other services to its membership at low fees. Operating as a non-profit financial institution owned by its members.



Financial Institutions - **DEPOSITORY**

- **Savings & Loan** - a financial institution designed to collect savings and use that capital to make loans. They tend to specialize in real estate loans.



Financial Institutions - **DEPOSITORY**

- **Brokerage Firm** - firms that buy and sell stocks, bonds, and other securities for their customers and provide other financial services.



Financial Institutions

- **How safe is your money?**

- Most financial institutions are federally insured. Those that are not are usually insured through a state or private insurer.
- It is believed that these institutions are less insured than federally insured.

Financial Institutions



Federal Depositors Insurance Corporation **National Credit Union Administration**

- Both provide identical protections including up to \$250,000.00 on accounts.

Financial Institutions

- It's important to understand that deposit insurance is provided to the depositor rather than to a deposit account.
- Ex: \$150,000 in checking, \$75,000 in savings, & \$25,000 in a CD all from the same bank is fully covered.

Financial Institutions

- You can increase coverage by opening different accounts under different depositors at the same institution.
- Ex: A married couple can have one account in each person's name for \$250,000 each (\$500,000 total). Then a joint account in both names for another \$500,000 (which is \$250,000 per account owner). Total \$1,000,000.

Financial Institutions

- Additional Account Options**
- Money Market Deposit Accounts** – a federally insured savings account, offered by banks and other financial institutions, that competes with money market mutual funds.

These accounts are very safe and highly liquid short term investments. Interest rates vary from month to month.

Financial Institutions

- Additional Account Options**
- Money Market Mutual Funds** – a mutual fund that pools the funds of many small investors and purchase high return, short-term marketable securities.

Historically these accounts pay 1% to 3% above regular savings accounts.


Electronic Banking Services

- Electronic Funds Transfer (EFT's)** – systems using the latest telecommunications and computer technology to electronically transfer funds into and out of customer's accounts.

This helps to speed up and simplify the financial process.

Electronic Banking Services

- Banks & Credit Unions also issue:
- Debit Cards** – specially coded plastic Cards used to transfer funds from a customer's bank account to the recipient's account to pay for goods or services.



Electronic Banking Services

- In order to make debt cards more useful banks use remote terminals:
- Automated Teller Machines (ATM)** – a remote computer terminal that customers of depository institutions can use to make basic transactions 24/7.



Electronic Banking Services

- If your bank belongs to an EFT's network, such as Cirrus, Star, or Interlink you can get cash from the ATM of any bank in the U.S.A or overseas.



Electronic Banking Services

- Security concerns have caused financial institutions to begin replacing the common magnetic strip with EMV (Europay, MasterCard, Visa) chips.



Other Banking Services

- Safe-deposit box** – a rented drawer in a banks vault.
- Boxes can be rented on average for \$30 per year, depending on the size of the box.
- You receive a key and the bank keeps the other. Both keys are required to open the box.

Using A Checking Account

I just opened an account!

Using A Checking Account

- General checking account procedures:
 - Always write checks in blue/black ink
 - Always sign checks the same as the signature card
 - Print checks from online that are tax related

Using A Checking Account

- Record all transactions (checks, deposits, debit card purchases, ATM withdrawals, automatic EFTs) in the **checkbook ledger** – or check register is a booklet, provided with a supply of checks, used to maintain accurate records of all checking account transactions.

Using A Checking Account

- Accurate records are important to avoid **overdrafts** – the result of writing a check for an amount greater than the current account balance.

With overdrafts, both parties can be charged \$10, \$20, or more. You for the overdraft, and the recipient who deposits a “bad check” pays as well.

Using A Checking Account

- There are ways to prevent an accidental overdraft.

Overdraft protection – an arrangement between the account holder and the depository institution wherein the institution automatically pays a check that overdrafts the account.

Using A Checking Account

- There are times when you need to stop a check you have already written.

stop payment – an order made by an account holder instructing the depository institution to refuse payment on an already issued check.

Using A Checking Account

- Every month checking account holders should complete a: **account reconciliation** – verifying the accuracy of your checking account balance in relation to the banks records as reflected in your bank statement.

Using A Checking Account

- Special Types of Checks

Using A Checking Account


Cashier's Check – a check payable to a third party that is drawn by a bank on itself in exchange for the amount specified plus, in most cases, a service fee of \$5 to \$10.

Using A Checking Account



Traveler's Check – a check sold by most large financial institutions that can be exchanged for purchase or currency in most parts of the world.

Using A Checking Account



Certified Check – a personal check that is guaranteed, for a fee, by the bank on which it is drawn.

