

Financial Service Providers (5.4)



In this section we will answer:

- Where can I cash my paycheck?
- What is the difference between a bank, credit union, and check cashing business?
- What do I need to know about using banking services?
- How do I decide where to do my banking?

Brainstorm: What are you looking for?

Directions:

Create a list of characteristics you would look for in an ideal friend or life partner. Focus on personality characteristics rather than just visual traits. For example, would you write “friendly” or “ready with a smile” rather than “dazzling white teeth.” You have 2 minutes to complete your list.

Who's Who in Financial Services

While talking about Brianna's upcoming first day of work, her friend Vanessa is surprised to hear that Brianna hasn't opened a bank account yet. "I'm just going to use one of those check-cashing places like my brother Robert does," Brianna says.

"What? I thought those places are a rip-off. Don't they charge big fees to cash your check?" Vanessa asks.

"Really? I'll ask Robert about that," Brianna says. "I just figured it would be cheaper than a checking account. And when am I ever going to write a check?"

"You can get a free checking account like I did. Just make sure you don't have to keep a minimum amount in it," Vanessa says.

"It's totally free?" Brianna asks.

Vanessa explains, "Well, there's no monthly fee. If I spend more than I have in my account, they'll charge a fee. But I use a phone app to list all my transactions and it keeps track of my balance so that doesn't happen."

"Well, that sounds pretty easy," Brianna says.

"Because I have a student account, they'll charge me a quarter a check if I write more than three checks a month. But I always use my debit card to get cash anyway," Vanessa says.

"A debit card would be nice. I'll ask my mom about it," Brianna says.

Bank on Banks

Banks sell financial services such as loans, checking accounts, credit cards, certificates of deposit, and safe deposit boxes for storing valuables. A bank is owned by its investors, and a paid board of directors runs the bank.

At most banks, the Federal Deposit Insurance Corporation (FDIC) insures customers' money. That means they will reimburse the value of your account in full, up to \$250,000, if the bank ever fails. To find out if a bank is FDIC-insured, check online at www.fdic.gov.

Choices range from big national banks to small community banks to online-only banks. Almost anyone with a driver's license or other photo identification and money to deposit can enter a bank and open an account.

Crack the code on credit unions

Credit unions are not-for-profit organizations offering the same financial services as banks—including savings and checking accounts, loans, online and mobile banking, and ATMs.

Credit unions are owned by their customers, who are called members. These members elect a volunteer board of directors to manage the credit union.

Your deposits are insured up to \$250,000 by another federal agency, the National Credit Union Administration (NCUA). To find out if a credit union is insured, go online to **www.mycreditunion.gov**.

Brianna asks her mom if she should get a bank account or use a check-cashing place like Robert does. Her mom says Robert does that because he can't stand depositing a check and waiting until the next day before he can access his money.

"So, now he pays fees to cash his check, fees to load the money onto a prepaid debit card, and fees pretty much every time he uses it. He could do all that for free with an account at my credit union," she says.

Get a clue about check-cashing stores

It seems simple. You give the check-cashing store clerk your check and he gives you cash on the spot. Awesome, right?

Not so fast. The store gets a cut of your check. If you're paying a \$4 fee for every \$100 you cash, the store keeps \$20 of a \$500 check.

Safety is another issue. Muggers know that customers leaving a check-cashing store usually are carrying a lot of cash.

But a **payday loan** can be even more costly. The clerk will be happy to advance you cash—if you leave a check the store can cash when you get paid. But the fee hides a high interest rate.

Even worse, payday loans can trigger a cycle of debt that's often hard to break. Many borrowers end up taking out another loan or extending their loans 10 to 30-plus times a year—paying interest of up to 365 percent each time!

If you must cash a check and can't wait for the bank to open, keep reading to discover a better alternative than a check-cashing store.

Stop and shop for money

Groceries and big-box retailers offer financial services such as money orders, check cashing, bill paying, overseas wire transfers, and prepaid debit cards at their service counters.

“Banking” where you shop can save you time and gas. And the fees are usually much more reasonable than at check-cashing stores and other outlets. But they still add up fast—and you could skip them altogether just by cashing checks and getting a debit card for free at your own bank.

While they can duplicate many functions of a bank, stores are not banks. Stores don’t offer savings account options, and they aren’t subject to the same regulations as financial institutions. That means there are fewer laws protecting you.

Peek at pawnshops

A **pawnbroker** provides on-the-spot, short-term loans for up to 50 percent of an item’s estimated value. The cash is fast and easy. Pawnbrokers also will buy some items outright, but for much less than their full value.

You not only turn your item over to the pawnbroker to hold, you also pay interest and fees on the loan. And if you don’t repay the loan in full within 30 to 90 days, the pawnshop takes full ownership of your item and can sell it and keep the profit.

Given the risk of losing possession of your item— and getting only a fraction of its value in return—a pawnshop should be one of your last options for getting cash.

Decide on a financial home

Get a head start on building important financial relationships by choosing a bank or credit union to call home. Then as you get older, you’ll have a trusted place to turn to when you’re ready for a credit card or loan.

You can switch banks at any time, but you might not want the paperwork hassle. So, it pays to invest the time in making a good choice now.

The first step: **Make a list of everything you want in a bank.** Questions to think about:

- Will you make deposits in person or online?
- Where will you withdraw cash? ATMs? Stores?
- How will you pay for things with your money? Checks? Debit card? Online bill pay?
- Is mobile banking a must-have or a nice to have?
- What other services might you need in the next few years?

- Will you be able to access your accounts if you are in another city or country?

Once you know how you'll use a bank, you can figure out the services you need and how often you'll need them. Then, use that insight to see which options give you the biggest bang for your buck.

Activity: Financial Services Research

You will be placed in teams of three. Each team will be assigned one of the five different financial service providers. You will have 20 minutes to learn about your assigned type of business so you can teach your classmates about the financial services the provider offers to consumers.

Each team will need a recorder to outline the team's findings and a reporter to report findings to the whole class, with visual aids.

You must have:

- What is your business type?
- One- or two-sentence description of the business and reference to at least one specific local example.
- List of typical consumer finance services provided by the business.
- What fees are associated with these services?
- What are the rules of using these services?
- Thirty- to sixty-second explanation of how consumers use the services, including examples of how teens (or their families) might use the services.
- Visuals

Activity 5.6: What do they offer?

Directions:

It is your right to get a copy of your financial institution's deposit account agreement and disclosure statement which outlines information about terms, fees, and interest rates for the accounts offered by the financial institution. Visit the website of a financial service provider in your community to learn about services they provide for customers. Review the fee schedule, deposit account agreement, and disclosure statement. Document at least five instances of fees and under what circumstances those fees are charged.

Name of financial service provider:

What are the minimum balance requirements for checking and savings accounts?

Checking:

Savings:

What is the current interest rate earned on a basic savings account?

Banks offer other types of services such as safe deposit boxes for customers to store valuable documents. List at least two other types of non-account services that the provider makes available to customers, either for a fee or at no cost.

1.

2.

Task: Payday Lending

Directions:

1. For each amount of money borrowed (principal) at a payday lending business, calculate the annual percentage rate (APR) and total amount owed at on the date the loan is due to be repaid.

Principal	Time	Interest	APR	Total Owed
\$500 (rent payment)	2 weeks	15%		
\$300 (car loan payment)	4 weeks	12%		
\$1,000 (pay household and credit card bills)	2 weeks	10%		

2. Brainstorm at least two other options rather than using an expensive cash-advance option.

3. How much will a person pay in interest and fees if s/he was in the habit of borrowing \$500 from the payday lender every two weeks for the entire year? How can that amount be put to better use?