

# BANKING MODULE

## Outcomes

- Understanding of the functions of financial institutions in our society.
- Identification of the pros and cons of different types of financial institutions.
- Familiarity with different banking services and products.
- Understanding of what to look for in a bank and/or account.
- Self-awareness about whether a check account is desirable.

## Overview

This module aims to explain the barriers that prevent people with limited income from establishing bank accounts, and to help participants make informed choices about whether a bank account would be a useful tool for them. An overview of banking products and services is an important part of this module.

### *Who has a bank account?*

- While 87 % of people in the United States have bank accounts, 13% of the population (about 13 million people), do not.
- 30% of people without bank accounts are Hispanic and 37% are African American. Female-headed households are more likely to lack accounts, as are people under the age of 24 or over the age of 75.
- 40% of people without bank accounts earn less than \$10,000 each year.

### *What are some barriers to opening a bank account?*

- Fees associated with opening and maintaining an account

Although the cost of a bank account is often estimated to be around \$50 a year, fees, including minimum balances, initial deposits and monthly service fees can add up to much more.

- Lack of awareness

Unfamiliarity with banking transactions and procedures can cause the account holder's costs to rise even further because of overdraft penalties-- over one half of people without accounts have had checking accounts in the past and closed them, possibly because they ran into unforeseen costs.

- Poor Credit History

Some banks require credit checks for prospective customers, and will deny accounts to people with poor credit.

- Convenience

Eighty four percent of people without bank accounts pay their bills with money orders, for which many banks, especially in urban areas, can charge up to \$3. Banks also don't provide the envelopes, stamps, utility payments and the convenient extended hours that alternative services like check cashers and grocery stores do.

- Trust

Twenty percent of low-income people cite lack of trust as the major reason why they do not have a bank account. Many worry their money will be seized and given to creditors, the IRS, or family members, or cause them to lose government benefits. Immigrants from countries with unreliable banking histories may be especially suspicious of the banking system.

- Discrimination

Some people may have trouble continuing as a bank customer at a bank where they have been turned down for a loan or other financial service. Members of minority groups are turned down for “prime,” or bank, loans three times as often as whites, and this may help explain why minorities are more likely than whites to be dissatisfied with their financial services.

*What are the alternatives to the banking system?*

- Cash/Money Orders

Fifty percent of people without bank accounts make cash payments and 84% use money orders for their non-cash bills. At the postal service rate of \$0.90 per money order using the average of 3 money orders a month, financial services cost \$32.00 yearly, as opposed to the hundreds that could result from just a few bounced checks.

- Check Cashers

Check cashers are conveniently located in many low-income, urban neighborhoods. These neighborhoods, partially as a result of the deregulation of the banking industry in the 1980s, have fewer branches per capita than other areas. Since it costs a bank around \$100 yearly to keep up an account, they have little interest in winning customers away from check cashers. Convenient hours and location may play a major role in check casher usage in urban areas.

Check cashers fill the void of banks by offering a one-stop model of services to their low-income, urban customers that banks don't. Despite their convenience, however, check cashers do a disservice to their patrons. Unlike banks, they don't leave a credit record for their responsible clients. Customers can't build a record of past responsibility, necessary for buying a home or car, by diligently paying off a loan from a check casher. They also charge up to three times more than banks for the similar financial transactions and many times, aren't honest with their customers about the charges.

- Other Alternatives

36% percent of people without bank accounts pay bills and cash checks through grocery stores, 20% use relatives, and 48% cash checks at accommodating banks. Financial institutions in rural areas or where an employer has an account will often cash employee paychecks for free. Overall, 59% of people without bank accounts don't pay a fee to cash their checks.

*Why Establish A Bank Account? Is being not having a bank account problematic?*

Many “unbanked” people don't see their lack of an account as a major financial problem—they are more concerned with the stress of living paycheck to paycheck. Only 17% of people without bank accounts pay more than \$100 yearly for financial services.

Not having a bank account may be a rational and understandable choice for people and they should not be judged for their decisions, which are most often based on hours, cost and convenience.



The aim of this module is not necessarily to encourage people to establish bank accounts, but instead to inform participants about banking as a financial choice. In order to obtain a reasonably priced loan to buy a house or car, a person must have established credit in the mainstream system. Remind participants that a bank is there to serve *them*. Their money helps the bank do business, so the bank should help them in return. When account holders develop the skills they need to make banking useful for them, banks become a useful tool for building economic security.

## Considerations

- Participants often find the discussion of interest and interest rates the most illuminating part of this module.
- Encourage participants to think of “shopping around” for financial products and services in the same way that they shop for other things. If they’d be willing to go out of their way for a clothing sale, shouldn’t they be willing to do the same for a bank that offers a higher interest rate or no-fee account?
- While reviewing the check-writing and checkbook balancing processes can often be tedious, they can prove very useful if participants are on board. Let participants’ preferences and ability guide your decision of whether to include these activities in your workshop.

## List of Activities In the Banking Module

ACTIVITY	DESCRIPTION	TIME
Introduction to Banking and Financial Institutions	Discussion of banks, the concept of interest, and the Community Reinvestment Act.	15-20 min.
Is Banking for Me?	Participants discuss and calculate the costs and benefits of using banks vs. other financial institutions.	15-20 min.
Choosing a Bank	Participants discuss and role-play the questions they'd ask when opening a bank account.	10-15 min.
Should I Have a Checking Account?	Participants use a worksheet to self-assess whether they would be good candidates for a checking account (can be done individually or in group form).	20-30 min.
Managing a Checkbook	Practice writing and balancing a checkbook.	25-45 min.
Understanding Interest	Discussion and practice calculating interest.	10 min.

## List of Materials in Banking Module

- Facts About the Community Reinvestment Act (CRA) (Handout)
- How Much Does it Cost to Cash Checks and Buy Money Orders? (Activity Sheet)
- Tips On Choosing a Financial Institution That's Right For You (Handout)
- Choosing a Financial Institution (Handout)
- Smaller Banks in Boston (Handout)
- Credit Unions in Boston (Handout)
- Should I Have a Checking Account? (Facilitator's Answer Sheet)
- Should I Have a Checking Account? (Activity Sheet)
- Choosing a Checking Account (Handout)
- Pros and Cons of Banking Products (Handout)
- Making Out Checks (Activity Sheet)
- Sample Check Register (Activity Sheet)
- Balancing Your Checkbook (Activity Sheet)
- How Interest Works (Handout)

# BANKING ACTIVITY #1

## Introduction to Banking and Financial Institutions

### ***A. Objectives***

- Participants distinguish between different types of financial institutions.
- Participants become aware of their rights under the CRA.
- Participants understand how interest works.

### ***B. Time Needed***

15 to 20 minutes

### ***C. Materials***

Handout: “Facts about the Community Reinvestment Act”

### ***Description***

1. Introduce the concept of banking. Ask participants to discuss their associations with banks and financial institutions (entities that offer financial services/products but are not banks—such as credit unions and check cashers).
2. List advantages (list should include: safety from theft/loss, security (the basic insured amount of a depositor is \$100,000), cost (usually cheaper than check cashers, for instance), credit-building, convenience of services, interest) and disadvantages associated with banking and financial institutions.
3. Establish that *a bank is a business that offers services and a place to keep your money. It uses your money and that of other account holders to make a profit.* Explain that businesses operate when and where it is profitable to do so. Discuss the CRA and how it has impacted low-income neighborhoods (distribute CRA handout).
4. Explain the concept of interest: “interest is the money the bank pays you for the privilege of using your money. It’s also the money the bank charges other people for the privilege of borrowing the bank’s money.”
5. Role-play how interest works. Designate one participant as the “bank” another as the “account holder,” and a third as a “loan applicant.” Ask the participants to talk through how interest works. For example: the account holder deposits \$100 into the bank. The bank gives \$2 interest to the account holder, loans \$100 to the loan applicant, and gets back \$130 in interest.

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## **BANKING ACTIVITY #1 (Continued)**

### **Introduction to Banking and Financial Institutions**

6. Emphasize that banks are in business to make a profit—account holders should be, too. We shop around for discounts when we make purchases—our goal in choosing a bank or account should also be to making our money go as far as possible.

7. Work with participants to generate a list of characteristics of banks and credit unions:

- A bank is a financial institution that is owned by stockholders, business people who may or may not have their money in the bank. It is a business designed to earn a profit, which may result in fees for services.

- A credit union is a not for profit institution. It is a financial cooperative owned by its members, who usually share something in common like a neighborhood, an ethnic identity or an employer. Instead of a paid director and stockholders like a bank, members elect a volunteer board of directors. Because credit unions don't have to pay taxes, they offer lower rates on loans and higher interest rates on deposited money. All the money a credit union earns is returned to its members through interest. Most credit unions offer all the services of a bank.

- A cooperative bank lies between a bank and a credit union. In many cases, cooperative banks are very small and locally based and are owned by their depositors instead of stockholders.

## BANKING ACTIVITY #2

### Is Banking for You?

#### ***A. Objectives***

- Participants evaluate the costs and benefits of using different transaction instruments such as cash, checks, money orders, etc.
- Participants calculate the true cost of check cashers.

#### ***B. Time Needed***

15 to 20 minutes

#### ***C. Materials***

- Activity Sheet: “How Much Does it Cost to Cash Checks and Buy Money Orders?”
- Pencils
- Calculators

#### ***Description***

1. Ask participants to generate a list of all the different ways of making payments (cash, checks, money orders, debit cards, etc), and evaluate the pros and cons of each.
2. Discuss some of the factors that influence the decision to use one method or another (cost, convenience, etc).
3. Discuss the different ways participants pay their bills and cash their checks. What are the fees and limitations for each payment method? How much do they pay now? To find out, give each participant a sheet of paper. Have them write all the bills they pay, method of payment, and how much it cost to use that method, and the yearly total (ex. Gas bill, money order at  $80¢ \times 12 = \$9.60$  a year). Do the same calculation for every check they cash. (\$200 weekly Paycheck, at checkcasher, 2% of check;  $200 \times 2\% = \$4$  weekly  $\times 52$  weeks = \$208 annually).
4. Distribute the activity sheet “How Much does it Cost to Use Check Cashers” and work through it in a group.
5. Using some of the background information in this module’s introduction, and the CRA fact sheet, discuss some of the individual and societal drawbacks to using check cashers.
6. Discuss alternatives and the different criteria the participants must keep in mind when choosing a financial institution (ex. operating hours, convenience).

## BANKING ACTIVITY #3

### Choosing a Bank

#### ***A. Objectives***

- Participants identify of criteria for choosing a bank or Financial Institution.
- Participants practice opening an account.
- Participants learn how to ask informed questions about banking products and services.

#### ***B. Time Needed***

10 to 15 minutes

#### ***C. Materials***

Handouts: “Tips on Choosing a Financial Institution”, “Choosing a Financial Institution”, “Smaller Banks and Credit Unions in Boston.”

#### ***Description***

1. Ask participants to describe positive banking experiences they’ve had. Explain that small institutions—community banks or credit unions--typically charge less for loans than large institutions do, pay more interest on savings, and set lower minimum deposits on checking accounts. You get to know the people who work there, which helps a lot when you have a problem, need a loan or think a particular fee should be waived. If a small bank isn’t available, look for a small branch of a larger bank.
2. Ask participants to describe the process of selecting a bank, and what they look for (refer to handout: “Choosing a Bank”).
3. Ask participants to describe the process of opening an account, suggesting that they pick up brochures in advance, read them, and then make an appointment to see a banker. At the meeting, the prospective account-holder should explain how much money will flow through his/her accounts, what services (s)he will want, and the kinds of loans (s)he’ll be looking for (bankers love to hear about loans because that’s where they really make their money!) Potential account holders should ask what interest rates the bank currently charges for various loans, and request a printed schedule of the fees it charges for services, noting which (s)he will have to pay.
4. Review the handout “Tips for Choosing a Financial Institution.”

## **BANKING ACTIVITY #4**

### **Should I Have A Checking Account?**

#### ***A. Objectives***

- Participants analyze benefits and drawbacks of checking accounts.
- Participants assess whether a checking account is a smart option.
- Participants identify what to look for in a checking account.

#### ***B. Time Needed***

20 to 30 minutes

#### ***C. Materials***

- Activity Sheet: “Should I Have a Checking Account?”
- Handout: “Choosing a Checking Account”, “Pros and Cons of Bank Products”.
- Tape (optional)

#### ***Description***

1. Ask, “What could be good or bad about having a checking account?” Explain that this activity is a brainstorming session. Write responses from group members on board or newsprint. Make sure that the discussion elicits a listing of fees (monthly service, per check, check printing, ATM use, overdraft, returned deposit, stop payment, phone inquiry), and the pros and cons of accounts linked to debit/ATM cards (remind participants that these are *optional!*)
2. Cut apart, fold, and put the 13 statements for “Should I Have a Checking Account in a box or hat. On newsprint, write two headings: “Checking Account” and “No Checking Account.”
3. Ask each participant to choose a slip of paper, read it to the group, and tape the statement under the appropriate newsprint category. Discuss each response using the Facilitator’s Answer sheet as a guide.
4. Based on the discussion, generate a list of questions one might ask when opening a checking account (the list should include questions about minimum balance requirements, fee schedule, eligibility). Ask for 2 volunteers to role-play the process of opening a checking account. Prompt them to include the steps of providing social security number, showing ID, deciding whether the account is single or joint, and making the initial deposit.
5. Distribute and review the handout “Pros and Cons of Banking Products” and discuss other banking products that may prove excellent alternatives to checking accounts.

## FACILITATOR'S ANSWER SHEET

### Should I Have a Checking Account?

STATEMENT	ANSWER	REASON
I follow all the rules for writing out checks correctly.	YES	Reduces likelihood of someone fraudulently altering checks.
I never balance my checkbook.	NO	Very likely to bounce checks or be hit with monthly fees for falling below the minimum balance.
My boyfriend (or girlfriend) has one of my ATM cards. (S)he sometimes uses it without telling me.	NO	May cause you to bounce checks or be hit with monthly fees for falling below the minimum balance.
My paycheck (or my aid check) could be deposited automatically into a bank account.	YES	Safety: your deposit is made automatically. Automatic deposit may get you a better deal on your checking account or on loans.
The check casher is just across the street.	MAYBE	If convenience is important to you (or you'd have to take the bus to the bank), this could be a reason not to have a checking account. If you have direct deposit, however, you may not need to go to the bank that often.
When I had my old account, I bounced one or two checks almost every month.	NO	Fees for bouncing checks add up fast. It would be cheaper to use a check-cashing service.
Cash was stolen from my apartment recently.	YES	Even if your checks were stolen, you should not be held responsible for someone using them. Checks are safer than cash.
I am good at math.	YES	Good math skills will make it easy for you to balance your checkbook and avoid fees and bounced checks.
I buy about 10 money orders each month to pay bills, and I wire money to my parents.	YES	The amount you are paying is probably more than a checking account would cost.
The closest bank charges \$5 a month for its basic checking account, and \$7.50 if the balance falls below \$250.	MAYBE	Depends on how much you are paying for check-cashing and bill-paying services now.
I always have a little money put aside for emergencies, usually at least \$100.	YES	You probably always could keep the minimum balance required to avoid monthly fees.
I have a bad credit history.	MAYBE	Some banks may turn you down. You won't know for sure until you try. If you're ready to repair your credit, a checking account might be a good first step.
The bank gives free money orders to anyone with an account.	MAYBE	A savings account may be a better choice.

## **BANKING ACTIVITY #5**

### **Managing a Checkbook**

#### ***A. Objectives***

Participants learn how to record checks and reconcile a checkbook.

#### ***B. Time Needed***

25 to 45 minutes

#### ***C. Materials***

Activity Sheets: “Making Out Checks”, “Sample Check Register”, “Balancing Your Checkbook”.

#### ***Description***

1. Determine how many people have a checking account. Ask the group to describe the advantages of paying by check, such as convenience, security, having a record of transactions with the canceled checks, etc. What disadvantages (if any) or problems have people encountered (i.e., bounced checks, forgot to record, etc.)?
2. Describe how payment with a check works, and that you must be aware of your account balance and timing of deposits when writing checks. As a group, review Activity Sheet: “Making out Checks.”
3. Using Activity Sheet: “Sample Check Register”, ask participants to practice writing out checks and documenting them in checkbook. If possible, pair up participants who have checking accounts with those that do not.
4. Pass out Activity Sheet: “Balancing Your Checkbook.” Ask the pairs to:
  - Check off in register each check that the bank statement has documented as deposited or cashed.
  - Deduct any fees or charges and add interest to their registers.
  - Balance the account. Register’s ending balance and balance on statement form should equal. If there are any discrepancies, use that as an example for the whole group to problem solve - how much is the discrepancy? What was omitted?

## BANKING ACTIVITY #6

### Understanding Interest

#### ***A. Objectives***

- Participants identify the three factors that affect the amount of interest they get.
- Participants practice calculating interest.
- Participants understand the concept of compound interest.

#### ***B. Time Needed***

10 minutes

#### ***C. Materials***

- Pencils
- Calculators
- Handout: “Calculating Interest”

#### ***Description***

1. Review the definition of interest—money the bank pays you for the privilege of using your money. Discuss how banks also charge interest on loans, as do creditors. Interest can work both ways—we want to be on the receiving end!
2. Work with the group to generate a list of factors that affect how much interest we get on our deposits/investments, emphasizing that the amount of interest is *not* arbitrary and *doesn't* depend on the disposition of the banker. This is often the most illuminating part of the workshop, since many participants don't understand why their interest is so low!
3. The three factors are: the amount of initial deposit (the bigger it is, the more interest we get), the interest rate (the higher the percentage is, the more interest we get), and the amount of time the money is deposited (the longer the term, the more interest accumulates).
4. Explain that compound interest is the “interest on your interest” and that the rate of compounding is another factor to look for when choosing account.
5. Walk through the handout “How Interest Works.”
6. Emphasize the “take home message”: Ask informed questions and shop around so that your money works for you!