

Choosing and Using a Checking Account

LESSON DESCRIPTION AND BACKGROUND

The students learn the fundamentals of maintaining a checking account. They examine electronic banking methods, the writing of checks, and using a check register. They examine the features and costs of checking accounts, in preparation for the time when they acquire checking accounts of their own.

Lesson 8 is correlated with national standards for mathematics and economics, and with personal finance guidelines, as shown in Tables 1-3 in the introductory section of this publication.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

- ATM card
- Checking account
- Checkbook register
- Credit union
- Debit card
- Direct Deposit
- Online banking
- Overdraft

OBJECTIVES

At the end of this lesson, the student will be able to:

- Identify major features, benefits, and costs of **checking accounts**.
- Explain the responsibilities that come with having a checking account.
- Write a check correctly.
- Describe **ATM cards, debit cards, direct deposit**, and automatic withdrawals.
- Identify safety precautions for use with ATM machines.

TIME REQUIRED

Two 45-minute class periods

MATERIALS

- A transparency of **Visual 8.1, 8.2, 8.3, 8.4, and 8.5**
- A copy for each student of **Introduction and Vocabulary** sections of **Lesson 8** from the *Student Workbook*
- A copy for each student of **Exercise 8.1 and 8.2** from the *Student Workbook*
- A copy for each student of **Reading 8.1, 8.2, and 8.3** from the *Student Workbook*
- A copy for each student of **Lesson 8 Assessment** from the *Student Workbook*

ADDITIONAL RESOURCES



To download visuals, find related lessons, correlations to state standards, interactives, and more, visit <http://fffl.councilforeconed.org/6-8/lesson8>.

PROCEDURE

1. Distribute a copy of the **Introduction and Vocabulary** sections of **Lesson 8** from the *Student Workbook* to each student. Ask the students to read this handout and introduce the lesson's focus on checking accounts. Explain that the students will learn about the advantages of checking accounts, how to maintain a checking account, and the different institutions that offer checking accounts.
2. Point out that checking accounts are useful financial tools. It usually is not important for a middle school student to have a checking account, but as soon as a young person gets a job, a checking account becomes nearly essential. In anticipation of that time, the stu-

dents should know how to maintain a checking account. This will prepare them to track their spending, to manage their personal finances, and to build good credit standing.

3. Distribute a copy of **Reading 8.1** from the *Student Workbook* to each student; ask the students to read the information it presents. Discuss the reading. Ask:

- a. Why would using checks or a debit card for payments be safer and more convenient than using cash? (**Cash can be lost or stolen; you can't prove you've made a payment in cash without having a receipt; writing checks and using debit cards helps you keep track of your expenditures; debit cards are convenient to carry and use; in some checking accounts, money on deposit earns interest.**)
- b. What costs could you incur by using a checking account? (**Fees for printed checks, fees for overdrafts [checks written on an overdrawn account], monthly service charges, or a charge for each check you write.**)

4. Refer the students again to **Reading 8.1**. Review the features and costs of checking accounts. Assign the students to call a bank, credit union, or savings institution in their community and ask about the types of checking accounts these institutions offer. Have them seek answers to the questions posed in the reading. Remind them that most of these institutions are not open in the evening, so they will need to place their calls right after school. Explain that they will make a brief report on their findings.

5. Now that the students understand some key features of checking accounts and have identified a local financial institution that offers these accounts, it is time for them to learn about the basic steps in opening a checking account. Distribute a copy of **Reading 8.2** from the *Student Workbook* to each student and ask them to read through the steps involved in opening a checking account. Some of the students may already have a relationship with a bank. It is common for parents to open up a youth savings account when children are young. Tell the students that for many of them, the next step they will take

with a financial institution will be to open a checking account. The procedures for doing this are found in this reading.

6. Turn to an increasingly important topic in personal finance: Electronic and online access to checking accounts. Explain that writing checks and completing paper deposit tickets are no longer the only ways to access a checking account. Today, most account holders access their accounts by using ATMs and via online banking. Ask:

- a. What is an "ATM"? (**The students will probably say that it is a machine located in malls, airports, and banks where customers can withdraw money from their accounts. This answer is correct, so far as it goes. But the students also should know that ATM stands for Automated Teller Machine, and that ATMs have several functions, such as allowing the account holder to transfer money from one account to another, to check an account balance, or to deposit money.**)
- b. What is an "ATM card"? (**It is an identification card that allows the holder to withdraw money from his or her account at an ATM. A personal identification number [PIN], along with the card, is required for transactions.**)

7. Explain that providing access to accounts via ATM machines is only one of several electronic banking services. Display **Visual 8.1**. Explain each of the electronic methods as follows:

- a. A bit more about ATMs: These machines can be used at all hours of the day or night. Customers may use them to make deposits or withdrawals from their accounts, verify their account balances, and transfer money from one account to another. Customers may also use other banks' ATMs, but they should be careful in doing so. Other banks may charge a fee for the use of their machines. Customers also should be cautious using ATMs for another reason. Crimes of theft and fraud associated with the use of ATMs have been reported. Customers should therefore use

- care when they withdraw or deposit cash at an ATM. Distribute a copy of **Reading 8.3** to each student; have the students read it to learn about additional safety precautions. Suggest that the students might share this information with their parents.
- b. The “debit card” enables account holders to use another method of electronic payment. (The card used at ATM machines is usually the same one used as a debit card.) A debit card looks like a credit card. A customer using a debit card (at a store or a restaurant, for example) swipes the card in making a purchase, as if it were a credit card. The debit card is scanned and the customer enters a PIN or signature. No cash changes hands. But using a debit card differs from using a credit card in one very important way. When a customer uses a credit card, she takes out a “loan” from the card issuer and will be billed later for repayment of the loan. When a customer uses a debit card, he immediately transfers money, electronically, from his checking account to the merchant’s account. Using a debit card is simple, fast, and convenient.
- c. When using electronic banking services, customers must always remember to record the transactions in their check register. Display **Visual 8.2**. Explain that an account holder can keep a running balance of a checking account in the check register. Each time a check is written, the account holder can simply write in the date, the check number, to whom the check was written, and the amount of the check. The account holder deducts the amount of the check from the previous balance. This is very convenient because the pad of checks and the check register are contained in the same book. However, with electronic transactions, the check register may not be handy when the transaction occurs. The account holder then must remember to note the automatic deposits and withdrawals, as well as debit card transactions. Many banks provide access to checking accounts online, where customers can check their account balance, view statements and payment records, transfer balances, and pay bills.
8. Ask the students if they’ve ever watched their parents sit down to pay the bills. Bills for goods and services—the telephone, cable TV, electricity, etc.—come every month. These bills can’t be handled by debit cards or ATMs, so many consumers write out checks, address envelopes, pay postage, and make a trip to the post office to mail the checks off. However, there is an electronic alternative. Bank customers can use “online bill payment” for paying many of these bills. One method is to have the financial institution where you have an account pay your regularly-scheduled bills electronically from your account. Examples include monthly payments for rent, mortgages, and utilities. Another method allows the consumer to make payments electronically. Using this type of online banking, consumers can transfer funds from their accounts to other accounts in order to pay bills.
9. Money that bank customers receive regularly by check can be electronically transferred to the customers’ accounts. This service is called direct deposit. People often use this service to deposit their paychecks; sometimes, direct deposit is required. Instead of receiving a paycheck, workers paid by direct deposit receive confirmation that their money has been deposited. There are several advantages to using direct deposit. They save trips to the bank to cash or deposit checks; they eliminate the possibility of losing the checks; and the money usually gets into the account sooner.
10. Turn to some matters of detail about using a checkbook. Ask the students if they have ever received a check as a gift, or if they have ever seen a check. If they have, they may remember what information a check contains. Distribute a copy of **Exercise 8.1** from the *Student Workbook* to each student. Instruct them to reproduce a check in the blank space provided. When the students have completed the task, display **Visual 8.3**. Have the students compare their versions with an image of a real check.

11. By reference to **Visual 8.3**, discuss check symbols and entries as follows:

- The information in the upper-left corner includes the name and address of the check writer. Often people have their phone number printed on their checks for convenience; however, this practice is no longer recommended because telephone numbers are sometimes useful to people engaged in identity theft.
- The number in the upper-right corner is the check number. Check numbers enable the check writer to keep track of the checks she or he writes.
- The Date line provides a space for recording the date on which a check is written. Check writers must be sure to have enough money in their accounts to cover the checks on the day the checks are written. It is unwise to write a check based on the anticipation of a deposit that will take place in the next few days.
- The Pay to the Order Of line provides a space for the name of the person or business to be paid. This person or business is entitled to make a claim against the check writer's checking account for the dollar amount stated on the check.
- The Pay to the Order Of line is followed by a box in which to write the amount of the check in numbers. Check writers should write the numbers as close as possible to the dollar sign so that no one can squeeze in additional numbers.
- The next line provides a space for the amount of the check in words. The amount written on this line must agree with the numeric entry. Check writers should draw a line after having written the amount. The line fills up the space so that no one can add more to the space.
- The lower portion of the check includes the name of the bank or financial institution in which the check writer's account is held. This is important when the check is presented for clearing purposes.
- The Memo line provides a space for the check writer to make a note as to the purpose of the

check. For instance, if the check is being written to a health care provider, this line can be used to write the person's account number. If the check is being written for a cousin's birthday, the check writer can include a birthday message. Never include a credit card account number, Social Security number, PIN, or other confidential information on this line.

- The Signature line follows the Memo line. The signature of the account holder shows that he or she wants the payment made from his or her checking account. It can be compared with a signature card held in the bank to verify that the account holder wrote the check.
- The first nine numbers at the bottom of the check are the "routing numbers," which provide information about the financial institution. The next numbers include an account number and a check number. These numbers are scanned when the check is processed to ensure accuracy.

12. Distribute a copy of **Exercise 8.2** from the *Student Workbook* to each student. Explain that this activity will provide practice in keeping a checkbook register. The balance at the end of the transaction list is \$124.37. When the students complete the exercise, display **Visual 8.4** so that they can check their work. Make sure the students follow the rules for writing checks presented earlier.

13. Display **Visual 8.5**. Tell the students that Mr. Smith has a problem. Ask: Do you know what it means for a checking account to be "overdrawn"? (**Discuss the students' answers briefly. In discussion, establish the point that a checking account becomes overdrawn when the owner of the account writes checks for amounts greater than the amount of money available in his or her account. That is what Mr. Smith has done.**)

14. Explain that the bank may have paid Mr. Smith's checks even though he was overdrawn. However, that is unlikely. The more likely scenario is that the checks Mr. Smith wrote "bounced." Explain that a "bounced check," or an "overdraft," is a check written for an amount

greater than the amount of money in the check writer's account. Banks usually refuse to pay on an overdraft; instead, they "bounce" it back to the person who tried to cash it. An overdraft is often referred to in bank statements as an "NSF" (which stands for "non-sufficient funds"). Checking account holders should take care to avoid writing overdrafts. For one thing, overdrafts are expensive. The bank will charge a fee, as high as \$35 or so, for each overdraft an account holder writes. The business to which an overdraft is written is also likely to charge a fee. Another very serious consequence is that a bounced check harms the check writer's reputation—in the eyes of the banker and the person to whom the check is written. While debit card transactions also withdraw money from checking accounts, as of 2010, the rules for overdraft are different for checks and debit cards; if a checking account does not have enough money for a transaction, a debit card purchase will be denied, unless the account holder has agreed to overdraft protection. In that case, the overdraft will be covered, but the account holder will pay an overdraft fee.

CLOSURE

Point out that people now handle many transactions without using cash—thanks to credit cards, debit cards, and various electronic innovations. Invite the students to speculate about whether a time will come when people stop using cash altogether. Explain that a cashless society has been predicted for a long time; however, most people still like to have a little cash in their pockets for emergencies or small purchases. What would it take to create a cashless society? What types of banking services would bring it to reality? **(The students may identify more widespread uses of ATMs, debit cards, direct deposit, automatic withdrawals, and online banking.)**

ASSESSMENT

Instruct the students to use the information they gathered on checking accounts in Procedure 4 of this lesson for this assignment. Tell them that they will act as public relations persons for a financial institution. Instruct them to write an advertisement about the institution's services. Their ads should include the institution's features, such as location and banking hours, and the features of the accounts offered, such as per-check fees, minimum balances, and so on. Distribute a copy of **Lesson 8 Assessment** from the *Student Workbook* to each student. The students may consult this assessment for ideas about the features and costs of checking accounts that might be included in their ads.

EXTENSION

Ask the students to go to www.bankrate.com and click on the "Check and Savings" tab. Here they will find a feature called "Find a Checking Account." Have them compare internet-based and local checking accounts to explore the similarities and differences between these types of accounts and ask them to report their findings in class.

Electronic Banking

Electronic banking may sound impersonal, but it's actually a fast and easy way to use banking services.

Electronic banking includes:

- Automated Teller Machines (ATMs)
- Debit cards
- Automatic withdrawals/transfers
- Direct deposits
- Online banking services

You can use an ATM to:

- make deposits
- make withdrawals (get cash)
- transfer money between accounts
- check your account balance

(Most debit cards can be used at the ATM)

You can use a debit card to:

- pay for purchases at the point of sale
- pay for purchases online


You can use a computer/smart phone to:

- check your account balance
- transfer money between accounts
- pay bills
- make payments on loans

Check Register

| PLEASE BE SURE TO DEDUCT CHARGES THAT AFFECT YOUR ACCOUNT | | | | | | | | | | |
|---|------|-------------------------|-----------------------------|---|---|------------|-----------------------|---------|-------|----|
| CHECK # | DATE | TRANSACTION DESCRIPTION | WITHDRAWAL/ TRANSACTIONS | T | ✓ | FEE IF ANY | DEPOSIT/ ADDITIONS | BALANCE | | |
| | | <i>Starting balance</i> | | | | | | | \$172 | 52 |
| | | | | | | | | | | |
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Write a Check

| | | |
|---|-------------------------------|--|
|  Blank Check Foundation 123-457-7891 23 W. Blank Check St. New York City, New York | 90-29304/2934 1930000000 | CHECK No. <u>0001</u> |
| | | DATE <u>July 30, 2011</u> |
| PAY TO THE ORDER OF <u>Elvis Building Company</u> | | \$ 49.03 |
| <u>Forty nine and 03/100</u> | | _____ DOLLARS |
| MyBank USA 123-457-7891 19204 W. Blank Check St. New York City, New York | | |
| MEMO / NOTES: <u>lumber supplies</u> | SIGNATURE: <u>Grace Owens</u> | |
| ⑆ 823949929 ⑆ 2384829 9290 ⑆ 0001 | | |

Check Register Answer Sheet

| PLEASE BE SURE TO DEDUCT CHARGES THAT AFFECT YOUR ACCOUNT | | | | | | | | | | |
|---|------|---------------------------|-----------------------------|----|--------|------------|-----------------------|----|---------|----|
| CHECK # | DATE | TRANSACTION DESCRIPTION | WITHDRAWAL/ TRANSACTIONS | | ✓ T | FEE IF ANY | DEPOSIT/ ADDITIONS | | BALANCE | |
| | | Starting balance | | | | | | | \$172 | 52 |
| | 9/4 | album purchase | 10 | 00 | | | | | 162 | 52 |
| X | 9/8 | Deposit | | | | | 83 | 46 | 245 | 98 |
| | 9/11 | Grayson's Service Station | 24 | 50 | | | | | 221 | 48 |
| | | oil change | | | | | | | | |
| | 9/15 | Acme Jewelers | 15 | 00 | | | | | 206 | 48 |
| | | deposit on class ring | | | | | | | | |
| ATM | 9/19 | Cash withdrawal | 40 | 00 | | | | | 166 | 48 |
| X | 9/22 | Deposit | | | | | 63 | 88 | 230 | 36 |
| 8455 | 9/23 | Lee Johnson | 5 | 00 | | | | | 225 | 36 |
| | | loan repayment | | | | | | | | |
| 8456 | 9/26 | American Publishing | 16 | 50 | | | | | 208 | 86 |
| | | subscription | | | | | | | | |
| 8457 | 9/27 | Neighbor's Store | 33 | 63 | | | | | 175 | 23 |
| | | mom's birthday gift | | | | | | | | |
| X | 9/29 | Deposit | | | | | 12 | 00 | 187 | 23 |
| X | 9/30 | Automatic withdrawal | 56 | 96 | | | | | 130 | 27 |
| | | auto loan | | | | | | | | |
| auto | 10/1 | Service charge | 5 | 90 | | | | | 124 | 37 |

A Hard Lesson for Mr. Smith

Banker:

Mr. Smith, your checking account is overdrawn.

Mr. Smith:

How can that be?
I still have checks!