

## REVIEW INFORMATION FOR BAF & PFM

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### Banking

- Types of accounts offered include: savings, checking, CDs – all of which are FDIC insured. Banks also offer Money Market accounts (like a checking account, but not FDIC insured ... pays more interest)
- Bouncing a check (writing a bad check): when you write a check for more than you have in your checking account.
- A negotiable instrument is a written order promising to pay a sum of money. They can include checks (most common), bank drafts, cashier's checks, certified checks, bills of exchange, promissory notes.
- Overdraft protection is a service that banks offer to protect you in case you overdraw your checking account. It's an automatic, short-term loan to cover any checks that you may have written that exceed your balance.
- People use a bank reconciliation report to balance their checkbook – making sure that they account for the differences between their bank statement and their checkbook.
- Blank endorsement – just signing the back of a check (least secure)
- Restrictive endorsement – writing “for deposit only” and signing it
- Full endorsement (also called a regular or special endorsement) – when you sign over a check to somebody else by writing “pay to the order of \_”, and signing it.
- The person who signs a check is the drawer; The payee is the person who is receiving the money from a check.
- If you make a mistake writing a check, write “VOID” across the front of the check and save it for your records.
- People should endorse checks in the presence of a teller, shred old bank statements and cancelled checks, and always fill in spaces on checks.
- When balancing your checkbook, you should subtract outstanding checks from the bank balance.
- Bank tellers are expected to balance their cash drawers, provide money and coins to customers, and sell bank products (like CDs, savings bonds, and other saving/investment products)
- For a bank, deposits are their liabilities and loans are their assets.
- FDIC insures accounts for up to \$250,000 per depositor; depositors are the people who put money into banks.
- The most common form of transaction account is a checking account.
- Banks will often have more strict rules for non-customers who try to cash checks, including higher fees, requiring fingerprints, and even refusing to cash checks for non-customers.
- Time deposits include: savings accounts, money market accounts, and CDs
- Customers are able to rent safe deposit boxes to keep valuables in; these are kept in the bank vault.
- At a modern bank, you are unlikely to encounter a passbook savings account.
- Debit cards transfer money directly from the buyer's account to the store's account.
- Cashier's Check – a check issued against bank funds; Certified Check – a personal check that has a bank's guarantee that it will be paid.

### Banks and the Economy

- The Federal Reserve is the central bank of the U.S.; it regulates banks and conducts bank examinations; provides loans to banks, and conducts monetary policy. There are 12 federal reserve banks.
- The Fed controls the discount rate, which is the rate it charges banks to borrow from it.
- Competition among banks helps to provide more services to customers and it lowers cost of savings products.
- If there is too much money moving in the economy, then prices may rise causing inflation.
- Money creation is affected by the Fed's supply and control of money, banks' use of money, and the demand for money; it is NOT influenced by the actual printing of money by the government.
- If banks hold more money in reserve, then there is less money available to lend.
- Moving money electronically from one account/bank to another is called an electronic funds transfer (EFT).
- The demand for a given currency will be strong if there is: low inflation, high interest rates, a positive trade balance, and a strong economic forecast.
- Prime Rate – the rate banks charge their best customers; Federal Funds Rate – the rate banks charge each other; Discount Rate – the rate the Federal Reserve charges banks.

### Simple Interest, Compound Interest, Rule of 72

- Calculating Simple Interest:  $P \times R \times T$  (Principal x Rate x Time); Calculating Compound Interest:  $P \times (1+R)^T$
- A finance charge is the amount of interest you pay on a loan. To calculate this amount, multiply the amount of each payment times the number of payments; then subtract the original amount of the loan; the amount remaining is your finance charge. To write as a percent, divide the finance charge by the original amount of loan.
- Rule of 72, which tells you how many years it takes to double your money ( $72 \div \text{Interest Rate}$ )
- For purposes of computing interest compounded daily, an ordinary year is considered to be 360 days (NOT 365).

## Credit

- Three C's of Credit: Character, Capacity, Collateral
- Five C's of Lending: Character, Capacity, Collateral, Capital, Conditions
- Revolving credit accounts (also known as open-ended credit accounts) include: credit cards (pay back over time), charge cards (pay back in full each month).
- The minimum payment on a credit card is the smallest amount that you must pay in order to keep your account in good standing. You should try to pay more than the minimum payment each month.
- The grace period is the time period between the billing date and when interest will be charged.
- Installment credit accounts include: mortgages, car loans, student loans
- A "credit limit" or "line of credit" is the maximum amount you can borrow from a creditor.
- Secured loans – backed by assets (like a car loan); you can use any assets for collateral on a loan, including cash, accounts receivable, inventory, equipment, land, investments, etc.
- Unsecured loans – not backed by anything but the creditworthiness of the borrower
- A debit card directly transfers money from your checking account to the account of a store
- The smaller the payments that you make on a loan, the greater the interest you will need to pay on the loan (because it will take you longer to pay it back).
- Payday loans and check cashing services are expensive services and should be avoided.
- Your credit score (FICO score) places the most weight on your payment history
- A fixed rate mortgage has an interest rate that does not change for the term of the loan; the payments and terms are also fixed for the entire life of the mortgage
- On a mortgage, a point is equal to 1 percent of the loan
- A reverse mortgage is repaid when the borrower dies
- An SBA-backed loan may be used to purchase new equipment or expand operations. You may NOT use the funds to pay delinquent taxes, pay existing debt, or finance floor plan needs
- In business lending, a construction loan is often packaged with a real estate loan.
- Commercial lending (lending to businesses) is the largest dollar market for lending

## Paychecks, Income, Budgets, and Taxes

- Direct deposit (or automatic deposit) is a service that employers provide to have your paycheck deposited automatically.
- Payroll cards are an alternative to direct deposit, where the employer gives you a debit card with the balance of your paycheck on it.
- Gross pay is calculated by multiplying the hours worked times the hourly pay. If you work more than 40 hours in a week, then you will be paid 1.5 times your hourly rate for those hours over 40.
- Typical taxes that are withheld from your paycheck include federal income taxes, state income taxes, local income taxes, Social Security/FICA, Medicare. These are REQUIRED deductions.
- The total tax obligation that you owe is called your tax liability.
- Other deductions from your paycheck might include: health insurance, vision insurance, dental insurance, 401K or other retirement deductions, etc. These are OPTIONAL deductions.
- In addition, you have sales taxes (paid on goods you purchase) and excise taxes on certain products (gasoline, cigarettes, alcohol, cars, boats, etc.)
- When you get a tax refund, it essentially means that you paid the government too much money out of your paycheck and essentially gave them an interest-free loan (in other words, it's a bad thing).
- Housing costs should not exceed 25%-28% of your total monthly income.
- A budget is a spending plan for the use of your money based on your goals and expected income.

## Insurance

- Common types of insurance include: health, life, disability, auto, home, renters.
- Premiums – the payments you must make to the insurance company each month; the price paid for insurance.
- Deductible – the amount that you must pay out of your own pocket on a claim before the insurance company starts to pay.
- The beneficiary of a life insurance policy is the individual who will receive the death benefits.
- The higher your deductible, the lower your premium will be. Other things that affect your premium include: auto: gender, age, type of car, driving history, credit history, etc.; Health: lifestyle (smoking, exercise), age, etc.; Home: type of home, age of home, location, security system, etc.
- The type of business insurance that pays for medical care and physical rehabilitation of workers injured on the job is called workers' compensation.

## Currency

- \$100 bill is the largest denomination

## Legal

- A legal claim a lender has on property to secure a debt is called a lien.
- Small claims court deals with disputes for smaller dollar amounts.
- Fair Credit Reporting Act (credit reports); Equal Credit Opportunity Act (no discrimination); Truth in Lending Act (full disclosure to customers about costs of a loan); Fair Debt Collection Practices Act (collection agencies)

## Accounting

- An element of internal control is subsidiary ledgers
- Assets are any items of value

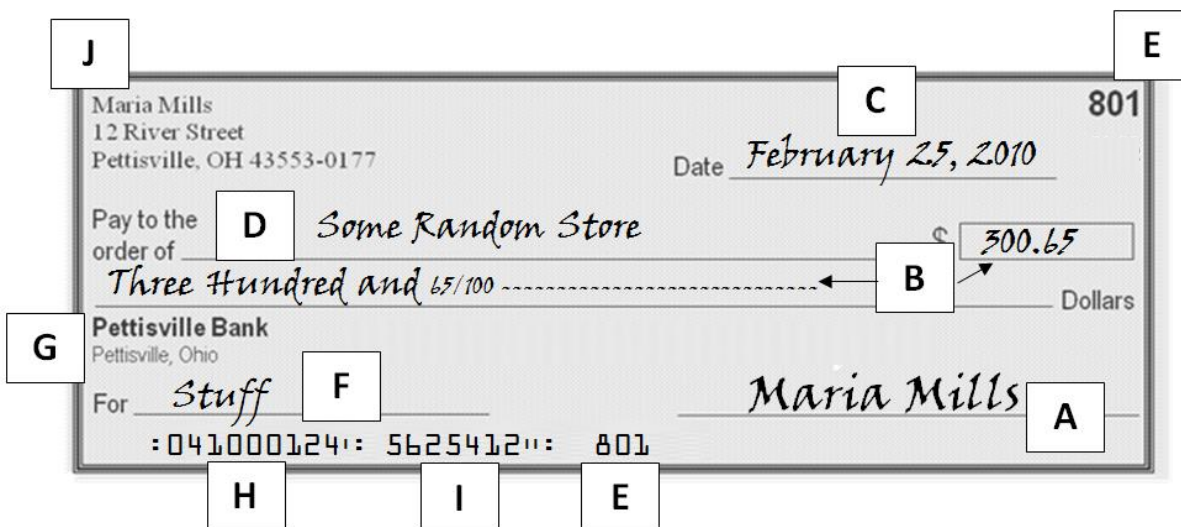
## Retirement / Estate Planning

- A 401k is a retirement product that allow employees to make tax-deferred contributions, which are often matched by the company, to a trust
- 401ks are an excellent way to invest for your retirement ... these are offered by your employer and often the employer will match your payments into your 401k account.
- Wills are an important way to ensure your family is provided for. The people who you designate to receive your assets when you die are called your heirs.

## Investing

- The purpose of investing is to make your money grow.
- Capital gains are earned when you sell an investment (or any asset) for more than you paid for it; you can calculate your return assets by taking the income earned divided by total assets.
- The three major stock markets in the U.S. are the NYSE (New York Stock Exchange, the oldest stock market; has mainly large, well-known companies), NASDAQ (mostly technology stocks), and AMEX (American Stock Exchange, mostly smaller, unknown companies).
- Diversification is when you spread your risk among several types of investments.
- Only corporations can sell stock.
- A bull market is when people are confident in the economy and believe stocks are going up; a bear market is when people are pessimistic about the economy and think stocks are going down.
- Liquidity means how quickly you can get your money back from an investment. Cash in your pocket or wallet is the most liquid (obviously), then checking accounts, savings accounts, CDs, stocks and bonds, and real estate)

## Parts Of A Check



- |   |  |   |                                       |
|---|--|---|---------------------------------------|
| A | Signature of Drawer                    | F | Memo                                  |
| B | Amount (in numbers and words)          | G | Drawee (the bank)                     |
| C | Date                                   | H | Bank Transit/Routing Number           |
| D | Payee (the person receiving the check) | I | Account Number                        |
| E | Check Number                           | J | Drawer (the person writing the check) |

Completing a Checkbook Register

CHECK NO.	DATE	DESCRIPTION OF TRANSACTION	PAYMENT AMOUNT (-)	✓	FEE	DEPOSIT AMOUNT (+)	BALANCE
							290.00
142	9/01/11	Birthday Gift for Jim	50.00				240.00
DEP	9/05/11	Deposit Paycheck				150.00	390.00
143	09/12/11	DEL'S MARKET	48.00				342.00
144	09/15/11	CHECK SMITH	50.00				292.00
DEP	09/19/11	DEPOSIT				116.00	408.00
DC	09/22/11	BURGER QUEEN	8.50				399.50
WD	09/25/11	ATM	20.00				379.50

Completing a Deposit Slip

**Student Name**  
125 Fourth Street  
Middlefield, OH 44062-1250

Date September 19 20 11

Student Signature  
Sign here if cash is received.

First Bank  
Middlefield, Ohio

051504393 3 88953 4 0226

**Check Numbers**

72-439  
515

	CASH		
List		5	50
Checks	123	100	00
	456	20	00
Singly.	789	10	00
Total From Back			
<b>Subtotal</b>		135	50
Less Cash Received		20	00
<b>Net Deposit</b>		115	50