

Lesson Five

Savings Accounts & Checking Accounts

Review

How is a bank like a money store? (it buys and sells money)

What is interest? (money that the bank either pays to depositors or charges loaners)

How does a bank buy money? (It pays interest to people who put money in an account)

How does a bank sell money? (It charges interest to people who borrow money)

Introduction

Last week we learned about how banks work, including how they buy money from you. This week, we are going to discuss savings and checking accounts, which are two ways that banks buy your money.

Savings Accounts

Name some reasons why you might want to have a savings account.

- It is a safe place to keep your money
- Interest is added to your money in a savings account
- It is not as easy to spend if it was in your wallet or purse

Everyone should keep a savings account, especially if you have more than \$100 that you are wanting to hang on to or you have some financial goals to keep. Perhaps you are wanting to buy your own car when you turn 16. Having a savings account is the best way to keep the money you are saving safe and protected.

The challenge

Last week you were challenged to talk to your parents about opening a savings account. If you have not talked to your parents yet, do it this week. Taking a small part of your allowance (even if it is just \$2 or \$3 a week) really does add up over time. Depositing that money into a savings account is the best way to see that money slowly but safely add up. Talk to your parents about becoming financially responsible and having them open a savings account with you.

Checking Accounts

Checking accounts are similar to savings accounts except for a few differences. To understand these differences and what a checking account is used for, you have to understand where checks and checking accounts came from.

History

A long time ago, if you wanted to buy something, you had to pay with cash. If you didn't have any cash on you, you had to make a trip to the bank and get some cash out of your account. However, if the bank was closed, you couldn't buy it that day. This was a real inconvenience.

Then, banks began allowing people to write a permission note. (*take a piece of paper and write "I give Tom Smith permission to take \$50.56 out of my savings account" and sign it*) This note would give the payee permission to take money out of the payers bank account. This made buying and selling much more convenient. It also made things safer. Now a person wouldn't have to be afraid to carry thousands of dollars to buy big things; they could just give the person a permission note.

Eventually, banks began printing these notes and called them checks. (*Hold up a check and let them see how much easier it now is compared to when they were writing permission notes*) The person just had to fill out the amount and who they money was to go to. This new method of banking made the world of finance much more convenient.

Modern Day Checking

Today, people have checking accounts as well as savings accounts. The main differences is that the purpose of savings accounts are to save for big things such as houses, cars or vacations. Checking accounts are primarily designed to hold the money that you are going to spend. Money that you plan to use to buy groceries, pay bills, buy clothes and anything else is best kept in a checking account. If you didn't have a checking account, then you would have to go to the bank every time you wanted to make a purchase. That also might mean that you would have to carry around a lot of money in your wallet which isn't very safe.

How it Works

Let's look at how it works. When you write a check, it goes a lot of places. Let's take a look at the journey of a check.

(*Have 5 volunteers come forward each one to hold one of the following signs: Bob, Sally, Bob's bank, Sally's bank and the federal reserve Give \$50 in fake money to Bob's Bank, The Federal Reserve and to Sally's Bank*) Bob decides that he want to give \$50 to Sally for her birthday. He decides to write a check for that amount and he gives it to her at her party. (*Have Bob give Sally a check*) Sally then takes Bob's check to her bank and she gets \$50 cash in return. (*Have the bank give here \$50 in cash in exchange for the check*) Now Sally's bank goes to its bank, the Federal Reserve. It gives the federal reserve

Bob's check and in return, it gives the Sally's bank \$50 back. (*Have Sally's bank and the federal reserve exchange the check for the money*) Then the Federal Reserve goes to Bob's bank. The Federal Reserve gives Bob's Bank Bob's check. (*Have Bob's bank and the Federal Reserve exchange*) Bob's bank in return pulls \$50 out of Bob's checking account and gives it to the Federal Reserve. Bob's Bank then gives Bob his check back so that he knows that it has cleared. (*Have Bob's bank give Bob his check back*)

This is the world of checking. The important thing is to always know exactly how much money you have in your checking account before writing a check. If you don't, you could write a check for more money than you have in your checking account. Your check would bounce, which means that the bank will not pay the person you gave the check to. You will also have to pay a fine for bouncing a check.

Practice

Have the kids get into groups of two. Give each group a registry and two or three blank checks. Have one person write in the registry while the other writes the check. Then switch and let each partner have a try.

Have the groups write a total in the top of the registry. For example, put in \$495.35. Then, tell the kids that they want to buy a pet hamster at the pet store. They purchase the hamster with a cage and all the other things that go with owning a hamster. The cost is \$38.72 and they want to write a check. Have one partner write the check and the other fill out the registry. Be sure that they fill out the date, amount and the description. Have the person doing the registry derive the new total: \$456.63. Have the partners switch jobs. Now it is three weeks later and your hamster is having some health problems. The hamster needs a special hamster surgery that is going to cost \$349.99. You love your hamster, so you write a check for the procedure. Have one partner write the check and one fill the register. Have the register totaled, \$106.64.

Conclusion

Having a checking account is that simple and convenient. You must remember that you should never write a bad check. Bouncing checks is Financial Foolishness and can get you into trouble with the Bank as well as the Law. Be a good steward and keep excellent watch over your money.

Challenge

The next time you are at the store and they are going to purchase something with a check, ask if you can help. Ask if you can fill out the check or even the register. Remember, they do have to sign it since the account is in their name.