

## Reading for Meaning

After reading the chapter, outline the key points and compare your outline to the text. This will help you retain what you have read and identify what needs to be read again.

# Financial Institutions and Services

commercial bank

Federal Deposit  
Insurance  
Corporation  
(FDIC)

savings and loan  
association

credit union

National Credit Union  
Administration  
(NCUA)

mutual savings bank

electronic funds  
transfer (EFT)

automated teller  
machine (ATM)

ATM card

endorse

bank statement

cashier's check

certified check

money order

traveler's checks

## CHAPTER OBJECTIVES

After studying this chapter, you will be able to

- **identify** different types of financial institutions.
- **select** the financial services that will best meet your needs.
- **use** ATM and debit cards responsibly.
- **manage** a personal checking account.
- **write** and endorse checks correctly.
- **calculate** a checkbook balance.

A low-angle photograph of a modern glass skyscraper, the Bank of America building. The large, three-dimensional logo 'Bank of America' is prominently displayed on the facade. The sky is clear and blue. On the right side of the page, there is a vertical decorative border with a green and white geometric pattern. On the left side, there is a partial orange circular graphic.

## Central Ideas

- Financial institutions are vital to the economy because they make financial transactions possible.
- A checking account is a basic tool to help you manage your financial resources.



The economic system could not function without financial institutions. These institutions—including commercial banks, savings and loan associations, and credit unions—are financial go-betweens. They keep money flowing throughout the economy among consumers, businesses, and government.

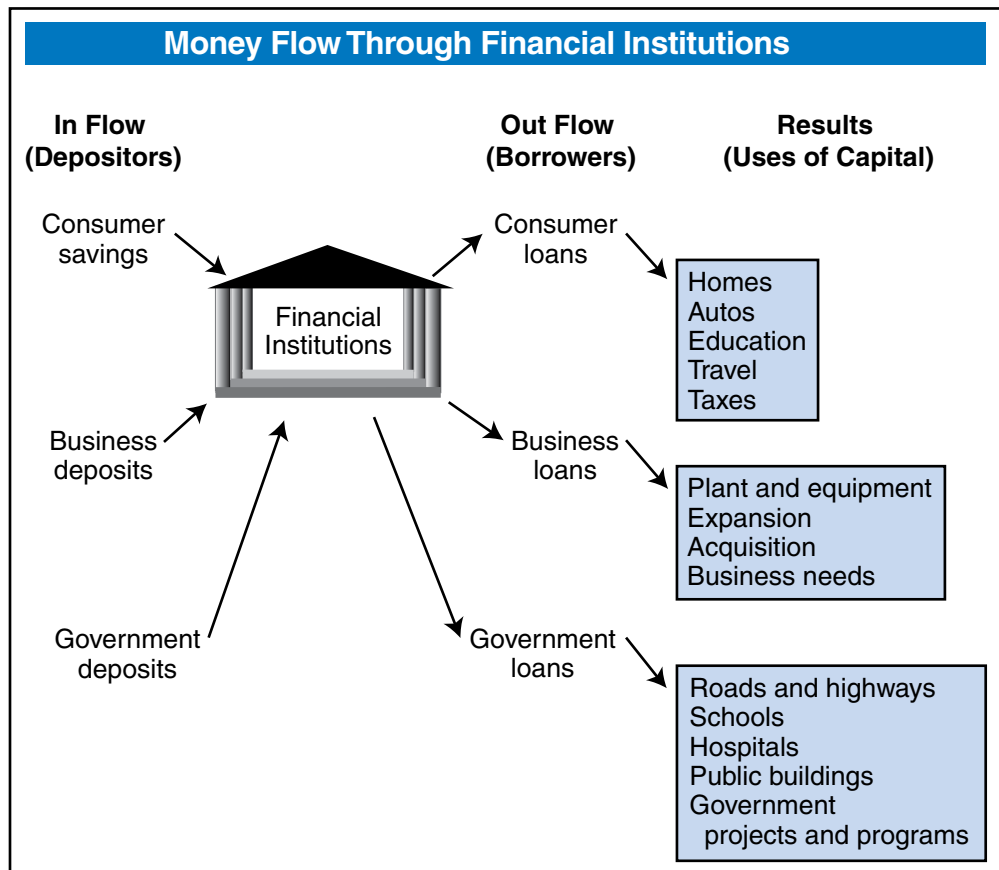
When people deposit money in a bank, that money does not sit in a vault. The bank lends the money to other consumers and businesses. The dollars may be loaned to consumers to help finance new cars, homes, college tuition, and other needs. Businesses may borrow the money for new equipment and expansion. State and local governments may borrow to build new highways, schools, and hospitals. The interaction that financial institutions create between consumers, businesses, and governments keeps the economy alive, 8-1.

Without financial institutions, consumers would probably keep their cash under a mattress or locked in a safe. Money could not circulate easily. The nation’s money supply would shrink. Funds would not be available for consumer spending. Demand for goods and services would fall. Businesses could not get the money to modernize plants and develop new products. The economy would slow down. Jobs would become scarce. As you can see, the economy depends on the flow of money and the services financial institutions provide.

This chapter looks at the many types of financial institutions and services and describes different types of checking accounts and special checks. Later chapters cover other services of financial institutions. Credit

**8-1**

Financial institutions keep money flowing through the economy among consumers, businesses, and government.





is discussed in Chapter 9, savings accounts in Chapter 11, and investment services in Chapter 12.

## Types of Financial Institutions

In the past, financial institutions were more specialized. Each type of institution offered a distinct set of services to a specific set of customers. Deregulation, computer technology, and recent economic conditions have made these institutions more alike. Following are brief descriptions of financial institutions and their services.

### Commercial Banks

A **commercial bank** is owned by stockholders and operated for profit. Its primary functions are to receive, transfer, and lend money to individuals, businesses, and governments. Commercial banks are often called full-service banks. They offer a wide variety of services.

These banks may be chartered by the federal government or by a state government. Federally chartered banks are called national banks and may use the word *national* in their names. These banks must comply with federal banking regulations. State chartered banks are regulated by state banking commissions.

The **Federal Deposit Insurance Corporation (FDIC)** is a U.S. government agency that protects bank customers by insuring their deposits. It also examines and supervises financial institution policies and operations. Its goal is to help maintain consumer and business confidence in the banking system. To do this, the FDIC insures bank deposits. This guarantees that depositors are protected if their bank fails or cannot repay deposits on demand. See 8-2.

In the past, the FDIC insured \$100,000 of a customer's total deposits in a given bank. This amount has been temporarily increased to \$250,000 until the end of 2013. Then, in 2014, it will revert to \$100,000.

Suppose a depositor has \$240,000 in savings and \$10,000 in a checking account at the bank. All \$250,000 would be returned by the FDIC to its owner if the bank were unable to pay. On the other hand, if the person has \$256,000 in checking and savings deposits, FDIC insurance covers all but \$6,000.

It is possible for that customer to have a separate type of account at the bank (such as a business account). In this case, the total of the customer's accounts is insured up to \$250,000. If the person opens an account at another bank, the FDIC also insures this account for \$250,000.



#### 8-2

Accounts in commercial banks are insured by the FDIC.

# ECONOMICS in ACTION

## A Banking System Breakdown

The U.S. economy depends on the flow of money and the services financial institutions provide. When that flow stops, all parts of the economy are negatively affected. Such an event began in the fall of 2008.

Many financial institutions in the United States and around the world lost billions of dollars on risky real estate loans and other investments. Some of them, including banks and big Wall Street financial firms, failed. Other firms were weakened and taken over by stronger companies. Still others received funds from the federal government to help them stay in business.

Even with billions of dollars pumped into the banking system by the federal government, money

did not circulate freely. Banks drastically reduced lending, triggering a downward spiral in the economy. Many consumers could not get loans for cars, homes, or other needs. Businesses could not borrow to expand, meet payrolls, or pay for inventories. They grew cautious and cut spending. Firms focused on survival by cutting spending as well as their workforce.

Unemployment grew to new highs. Even consumers who had jobs lost confidence and cut their spending. Demand for goods and services fell. Many businesses posted losses, and eventually some failed. The economy went into a serious recession.

## Savings and Loan Associations

**Savings and loan associations** (S&L) are financial institutions that previously only made mortgage loans and paid dividends on depositors' savings. Today savings and loan associations offer most of the services commercial banks do. They may be state or federally chartered. There are two types of savings and loans.

- Mutual savings and loan associations are owned by and operated for the benefit of their depositors. These depositors receive dividends on their savings.
- Stock savings and loan associations are owned by stockholders. Like commercial banks, these companies operate for profit.

## Credit Unions

A **credit union** is a nonprofit financial cooperative owned by and operated for the benefit of its members. Its services are offered only to members. Membership is available through affiliation with an employer, a union, religious organization, community organization, or some other group.

Since credit unions are not-for-profit organizations, they pay no federal income taxes. Members often run them, and operating costs may be relatively low. For these reasons, successful credit unions can lend funds to members at slightly lower rates than other financial institutions. They

may also pay slightly higher interest rates on savings. Today, larger credit unions are run by professional management. They offer most of the services banks and other financial institutions provide.

Credit unions may be either federally or state chartered. The **National Credit Union Administration (NCUA)** grants federal charters and supervises credit unions across the country. NCUA also insures deposits in all federally chartered and many state chartered credit unions.

## Mutual Savings Banks

A **mutual savings bank** is owned by its depositors. After deducting operating costs and cash for reserves, earnings are divided among depositors. These earnings are dispersed in the form of dividends. Traditionally, mutual savings banks received and paid dividends on deposits and made home mortgage and improvement loans. Now, they, too, offer a wider variety of financial services.

Only state governments charter mutual savings banks. They exist in only 17 states, mostly in the northeast.

## Choosing a Financial Institution

When choosing a financial institution, consumers generally look for checking, savings, investment, and credit services. Before opening an account, it is wise to do some research. Web sites of banks and other institutions have information about their services and fees. To assess whether an institution has a helpful staff, you may want to visit it in person.

Compare local banks, credit unions, savings and loan associations, and other providers of financial services. Find the place that best serves your current and ongoing financial needs. Once you choose a financial institution, it pays to establish a good working relationship. Make your financial needs known and learn how the institution can help you manage your money.



### Check-Cashing Services

Check-cashing services are not financial institutions, but businesses that provide certain financial services for a fee. People who

turn to check-cashing services generally have no bank account and need cash immediately. Financial experts advise consumers to avoid check-cashing services for two reasons. They are not federally insured and they charge high fees, which quickly surpass bank fees. By contrast, many banks offer free checking and low-cost services if the account balance stays above a certain level. Many check-cashing services also make payday loans, which are even more costly. For most consumer needs, bank accounts are less costly and more reliable than check-cashing services.

## Safety

Before you open an account, find out if the banking institution is insured by the federal government. A sign stating “Insured by FDIC” or “Insured by NCUA” should appear by the front window or near each teller station.

You can learn if an institution is FDIC-insured by checking the Federal Deposit Insurance Corporation’s Web site at [www.fdic.gov](http://www.fdic.gov). Access its *Bank Find* feature and provide the name and address of the banking institution you want to check. When customer deposits are federally insured, it means the bank, savings and loan, or credit union is regularly checked. The institution must pass ongoing examinations into its financial holdings, operations, and management.



### Bank Examiners

Bank examiners ensure or enforce compliance with laws and regulations governing banking transactions. They examine and verify the accuracy of financial institutions’ records.

## Services of Financial Institutions

Today many of the services offered by financial institutions are provided through *electronic funds transfers*. An **electronic funds transfer (EFT)** refers to the movement of money electronically from one financial institution to another. These electronic transactions occur much faster than check and cash transactions. You may find some of the following electronic services helpful in managing your money.

### Automated Teller Machines

An **automated teller machine (ATM)**, also called *cash machine*, is a computer terminal used to transact business with a financial institution. See 8-3. An **ATM card** allows customers to withdraw cash from and make deposits to their accounts using an ATM. The card is coded with account

## Linking to.. History

### U.S. Department of the Treasury

In 1789, Congress created the Department of the Treasury to manage government finances and to promote the growth and stability of the economy.

Alexander Hamilton, a Founding Father and economist, was the first Secretary of the Treasury. He is credited with helping to create a strong federal government and central banking system.

Some specific functions of the Treasury Department are

- produce U.S. bills and coins
- collect taxes, duties, and other payments to the government
- pay the government’s bills, borrowing money when necessary
- advise the President on economic matters
- supervise financial institutions
- guard against threats to the U.S. economic system
- enforce finance and tax laws

For more information, visit [www.treasury.gov](http://www.treasury.gov).









## Webmasters

Webmasters develop Web sites for financial institutions that deliver services of the institution, such as online bill payment and 24-hour banking services. They also make financial sites secure for online banking.

and *Moneydance*. Also, many banks and brokerage firms offer their own personal finance programs for customers to download free of charge.

These programs can make managing your finances and keeping important records much easier. While each program has unique features, most of them allow you to do the following:

- access bank and brokerage accounts
- pay bills online
- balance your bank statements
- set up a personal budget based on your income, goals, and expenses
- keep a detailed record of spending
- keep detailed tax records
- plan ahead for major expenditures
- access money management and investment information from reliable sources
- transfer funds from one account to another

## Case Study: Using Dollars and Sense

### What About Online Banking?

For her birthday, Alyssa received a new computer that was faster and performed more functions than her old one. She was eager to experiment with all the new things she could do. Alyssa had a checking account at a local bank. She wanted to pay her bills and track her account from home.

Alyssa visited her bank's Web site to research its online services. Then she signed up for the service. After selecting her user ID and security code, she accessed her account online.

Alyssa directed her rent and insurance premiums to be paid online. She would pay her other bills as she received them. Alyssa also decided to have her paycheck deposited directly to her account. All in all, Alyssa felt she had gained new control over her financial affairs.

### Case Review

1. Would you conduct your financial business online?
2. What questions would you ask before signing up for online banking services?
3. What are some of the advantages of online banking? Can you identify any disadvantages?

## Overdraft Protection

An *overdraft* is the act of writing a check for an amount greater than the balance of the account. With overdraft protection service, a financial institution will honor a check written by you even if it exceeds your account balance. Banks normally charge a \$25 or higher fee for each overdraft. Customers can avoid overdrafts by managing their accounts well.

Although overdrafts are not encouraged, some banks offer overdraft protection. This involves automatically moving money from the customer's savings account to the checking account to cover the amount of the check. You can ask the bank about its policies as well as its fees or charges for this service.

## Stop Payment

Upon your request, a financial institution will refuse to honor a check you wrote. This service is useful if a check is lost or stolen and you want to prevent others from cashing it. Stop payment is also useful when you have a grievance concerning goods or services paid for by check. A charge generally applies for this service, but it may be well worth the cost.

## Drive-Up and Mail-In Services

Many financial institutions offer customers the convenience of making deposits and withdrawals by mail or at drive-up windows. Drive-up banking may even be available at times when the lobby is closed.

## Safe-Deposit Boxes

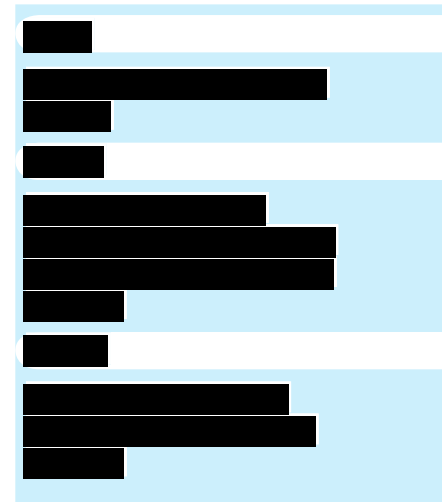
Some financial institutions rent boxes in their vaults for the storage of valuables. Jewelry, birth records, insurance policies, and other important items are often kept in safe-deposit boxes. This is an important feature if you need a safe location for valuable or irreplaceable items. Rental charges for these boxes vary.

## Financial Counseling and Special Programs

Specialized services may include a trust department, tax reporting assistance, and financial planning. Additional offerings may include money market funds, and mortgage loans. There may be associated fees.

## Personal Checking Accounts

When earning a regular income, the first financial service many people need is a checking account. It offers a safe place to keep your money. It provides a convenient way to buy goods and services and pay bills, 8-4. It provides a record of deposits and receipts of payments. Responsible use of checking accounts aids in money management. It also helps you build a sound credit rating.



**8-4**

A checking account is the most common way of paying bills.

and check-printing costs. These charges can vary among institutions and different types of accounts. Higher minimum balance accounts usually reduce or eliminate these fees.

## Accounts and Services

Look for financial institutions that offer the accounts and services you want in a checking account. Consider the following features.

### Restrictions and Penalties

Ask about minimum balance requirements, withdrawal limitations, and penalties for overdrafts or late payments on credit accounts. These items can increase the cost of services and make managing your money more complicated.

### Fees and Charges

Ask about all fees and charges associated with the type of account you want. These may include a maintenance fee, charges for ATM use, low-balance penalties, check-writing fees,

## Interest Rates

Compare the interest rates on interest-bearing checking accounts. In addition, examine the rates charged to borrow money or use a bank credit card. Look for high yields on savings and low rates for using credit.

## Convenience Services

Look for financial institutions that make banking and other financial transactions easy for you. Services that save you time and effort include convenient hours, ATMs in various locations, online banking, and credit cards.

## Checking Account Types

Financial institutions use different names to describe checking account services they offer. The best account type for you depends largely on the amount you can deposit, the number of checks you expect to write each month, the account features you want, and the fees associated with the account. For interest-bearing accounts, your choice also depends on the interest rate that deposits earn.

When you shop for a checking account, the following questions can help you make the best choice:

- Is there a minimum deposit requirement? If so, what is it?
- What are the charges if the balance drops below the minimum?



### Bank Tellers

Bank tellers help customers use their checking, credit card, escrow, investment, loan, and savings accounts. They also sell savings bonds, accept payment for customers' utility bills and charge cards, process certificates of deposit, and sell traveler's checks.

- What are the fees per month and per check?
- Does the institution offer an interest-bearing checking account? If so, what is the interest rate and the minimum balance required?
- What other services are offered in connection with different types of accounts?
- What fees are charged for different services and accounts?

Three common types of checking accounts—basic, interest-bearing, and lifeline—are described here.

## Basic Checking Account

This type of account permits you to deposit and withdraw your money and write checks. It usually requires a minimum balance to avoid service charges. If you fall below this minimum, you are charged a fee. There also may be a monthly service charge and a fee per check. Fees vary from one financial institution to another. A basic account may be a good choice if you write many checks and can keep the minimum balance.

## Interest-Bearing Checking Account

This is a combination savings and checking account. Your money earns interest, and you can write checks on the account. In credit unions, these accounts are called *share drafts*. In banks and savings and loan associations, they are called *negotiable orders of withdrawal* or *NOW accounts*. Financial institutions offer this account with varying interest rates, minimum-balance requirements, and service charges.

## Lifeline Checking Accounts

These relatively new accounts are intended for low-income customers. In some states, banks are required by law to make these accounts available. They feature low minimum-deposit and minimum balance requirements, low monthly fees, and limits on the number of checks that may be written per month.

## Opening a Checking Account

Opening a checking account requires only a few simple steps. Certain restrictions may apply if you are under 18 years of age. Some banks require a parent or guardian to be on the account with you.

When you open an account, you are asked to sign a signature card. This is the only signature the financial institution will honor on checks and withdrawal slips. Over the years, you will sign contracts, Social Security forms, tax forms, and other documents. Sign your name the same way on all these documents to avoid confusion, 8-5.





### Bank Checking Draft Signature Card

Submit one card to establish an optional check redemption privilege which allows you to write checks against your account.

Name of Account \_\_\_\_\_

Account Number \_\_\_\_\_ Date \_\_\_\_\_

The registered owner(s) of this account must sign below. By signing this card, the signatory(ies) agree(s) to all the terms and conditions set forth on the reverse side of this card.

Signature \_\_\_\_\_

Signature \_\_\_\_\_

Signature \_\_\_\_\_

Signature \_\_\_\_\_

Institutional Accounts:

- Check here if any two signatures are required on checks
- Check here if only one signature is required on checks

Joint Tenancy Accounts:

- Check here if both signatures are required on checks
- Check here if only one signature is required on checks

#### 8-5

When you open a checking account, you will be asked to sign a card with the signature you intend to use for all your financial and legal transactions.

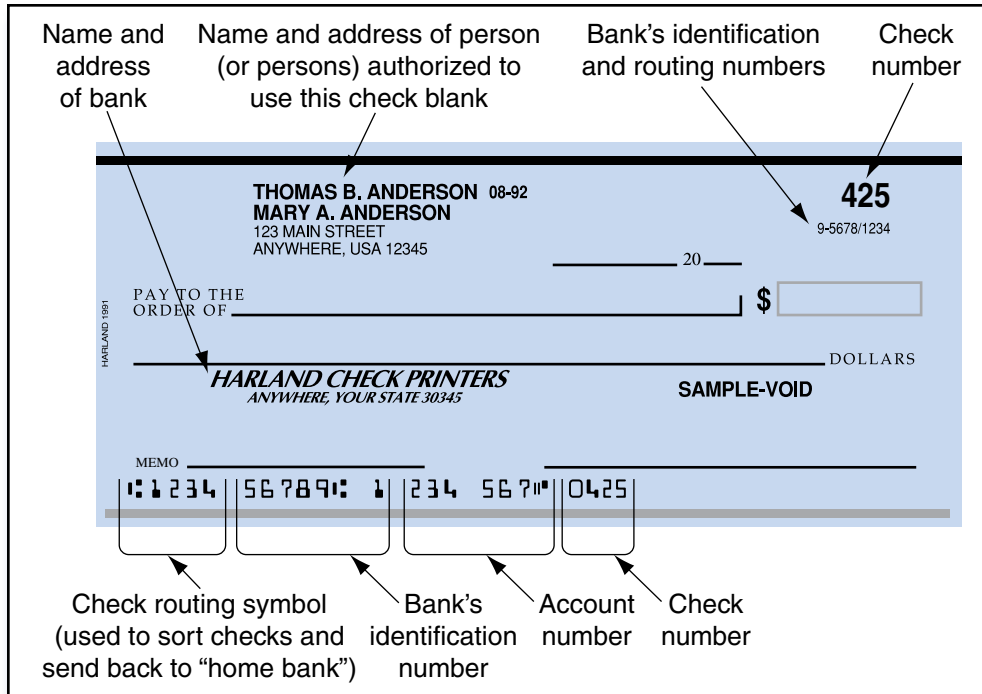
If you want someone else to have check-cashing privileges on your account, he or she also needs to sign a signature card. This may be helpful if you want someone else to be able to access your account in the event that you are unable to do so. If you share an account with a parent or a spouse, it becomes a *joint account*. This requires a clear understanding of who will write checks and how records of transactions will be kept.

When you open a checking account, you receive a small book of starter checks. These starter checks are blank but show your account number. You use them until your personalized checks arrive. They will be printed with your name, address, and account number, 8-6. The checkbook includes a *register* for keeping track of your transactions, 8-7.

## Managing the Cards Linked to Your Account

You may be offered credit, debit, and ATM cards when you open a checking account. (Credit and credit cards are described in more detail in the next chapter.)

Inquire about the service fees associated with using your ATM and debit cards and any limits applying to their use. To avoid errors in your account balance, record all transactions and fees in your checkbook register. Keeping your receipts will also help. If used wisely and responsibly, these cards can provide you with greater financial flexibility.

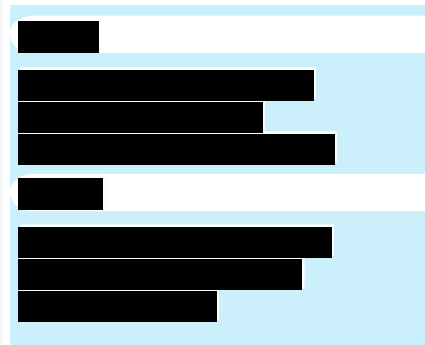


**8-6**  
Your personalized checks include information financial institutions need to process checks correctly.

**RECORD ALL CHARGES OR CREDITS THAT AFFECT YOUR ACCOUNT**

NUMBER	DATE	CODE	DESCRIPTION OF TRANSACTION	PAYMENT/DEBIT (-)		✓ T	FEE (IF ANY) (-)	PAYMENT/CREDIT (+)		BALANCE \$	
	3/1		Opening balance		00			100	00	100	00
										100	00
101	3/2		Lee's Grocery	15	32					15	32
			Groceries							84	68
	3/3		Cash withdrawal	20	00					20	00
										64	68
102	3/4		The Book Shelf	11	75					11	75
			Calendar							52	93
	3/6	DC	No Limits	35	13					35	13
			Jeans							17	80
	3/8	D	Deposit					130	00	130	00
										147	80
103	3/9		Lee's Grocery	18	35					18	35
			Groceries							129	45
	3/11	AP	Unifed Utilities	23	07					23	07
			Electric bill							106	38
	3/14	DC	Mary's Dept. Store	34	60					34	60
			Navy skirt							71	78
104	3/16		Richard's Records	21	20					21	20
			CD							50	58
	3/22	D	Deposit					130	00	130	00
										180	58
105	3/26		Lee's Grocery	47	58					47	58
			Groceries							133	00
	3/29		Cash withdrawal	30	00					30	00
										103	00
106	3/30		Dr. Hawey	65	00					65	00
			Dental checkup							38	00
	4/1	D	Deposit					130	00	130	00
										168	00
			Service charge	5	00					5	00
										163	00

**8-7**  
Make a point of recording all your checks, debits, ATM transactions, and deposits in your checkbook register.



## ATM Cards

An ATM card allows you to get cash from your account at any time. ATMs are located at banks, malls, airports, grocery stores, and other places. ATM cards can also be used at machines in other cities, states, and countries. This is a great convenience when you are traveling.

Generally, you may use an ATM owned by your bank at no charge. There is usually a charge for any transaction you make at an ATM not owned by or affiliated with your bank. Fees charged for using an ATM card vary; however, they can add up quickly. Make sure you understand these fees and know which ATMs are affiliated with your bank's network.

With an ATM card, you receive a unique PIN. Safeguard your card and your PIN so no one else can gain access to your account. When you insert an ATM card, the machine will ask you to enter your PIN. Then you will enter information about the transaction you want to make. With the push of a few buttons, the ATM processes your request and delivers cash and accepts your deposits. For your own protection when using the ATM, follow the safety tips listed in 8-8.

## Debit Cards

Banks usually offer a combined debit and ATM card. You can use the debit card at ATMs and any business that accepts credit cards. When you make a purchase, you present the card or swipe it through an electronic scanner. Then you enter your PIN to authorize the payment. The purchase amount is subtracted immediately from your checking account.

Using a debit card is similar to writing a check because the purchase amount comes directly from your checking account. Be sure you have an adequate balance in your account to cover your debits. If your account is overdrawn, you will be charged a fee.

### 8-8

Since money is withdrawn at ATMs, this makes them a target for crime. Follow these tips to use ATMs safely.

### Safety Tips for Using an ATM

- **Memorize your personal identification number (PIN).** Do not tell anyone your PIN or carry it with you. If someone stole both your card and PIN, they would have complete access to your account.
- **Protect your privacy.** Do not let anyone see you enter your PIN. If a friend is standing too close, politely ask the person to step back. If a stranger is too close, cancel your transaction and use the ATM at another time.
- **Watch for suspicious people.** Criminals may target ATMs as easy places to steal money. Before approaching, see if anyone is standing around. If so, use another machine or return later.
- **Use an ATM in a well-lighted area.** Generally avoid nighttime use, but if necessary, choose a machine in a grocery store or other high-traffic area. If at the bank at night, choose a drive-up ATM rather than a walk-up machine.
- **Make transactions at walk-up ATMs quickly.** Approach the ATM with your card out and ready. Then, leave the area immediately and count your money later.

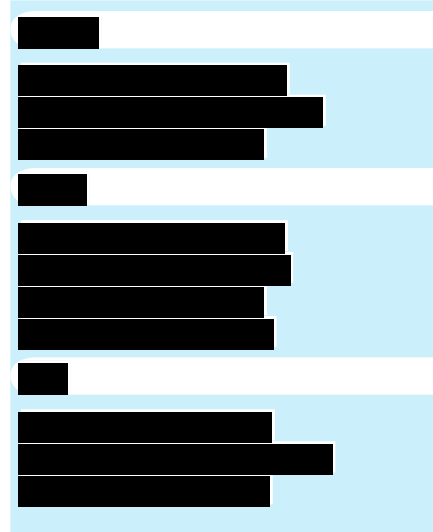
Credit cards, debit cards, and ATM cards offer several advantages. They eliminate the need to carry large amounts of cash. They allow you to access your money any time of day or night. They let you purchase goods and services in places where checks are not accepted.

## Making Deposits

To deposit money in your account, fill out a *deposit slip* as a record of the transaction. A deposit slip states what is being deposited—currency, coins, or checks—and the amount of each item, 8-9. Follow these steps when filling out a deposit slip:

1. Write the date.
2. Enter the amount of money being deposited in checks, currency, and coins. If you need more room, you may continue listing checks on the back of the deposit slip.
3. Total the amount of currency, coins, and checks to be deposited. Write this number after the word *Subtotal*.
4. If you want to withdraw cash at the same time you make a deposit, enter the amount after the words *Less cash received*. You must sign the slip if you want cash back from your deposit.
5. Subtract the amount in *Less cash received* from the *Subtotal*.
6. Enter the actual amount deposited after *Total deposit*.
7. Record the deposited amount in your checkbook register.

When you make a deposit in person, you receive a receipt. If you deposit by mail, the bank sends you a receipt. When you make deposits at an ATM, you receive a receipt detailing the transaction and showing the current balance in your account. Save your receipts to help balance your checkbook.



**THOMAS B. ANDERSON 08-92**  
**MARY A. ANDERSON**  
 123 MAIN STREET  
 ANYWHERE, USA 12345

DATE March 11 20XX  
CHECKS AND OTHER ITEMS ARE RECEIVED FOR DEPOSIT SUBJECT TO THE TERMS AND CONDITIONS OF THIS FINANCIAL INSTITUTION'S ACCOUNT AGREEMENT. DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL.

Mary A. Anderson  
SIGN HERE ONLY IF CASH RECEIVED FROM DEPOSIT

**HARLAND CHECK PRINTERS**  
ANYWHERE, YOUR STATE 30345

CURRENCY		
COIN		
US FUNDS	LIST CHECKS SINGLY	150.00
TOTAL FROM OTHER SIDE		
<b>SUB-TOTAL</b>		<b>150.00</b>
TOTAL ITEMS	LESS CASH RECEIVED	20.00
<b>TOTAL DEPOSIT</b>		<b>130.00</b>

**SAMPLE-VOID**

9-5678/1234

**DEPOSIT TICKET**  
PLEASE ITEMIZE ADDITIONAL CHECKS ON REVERSE SIDE

⑈0641⑈
⑈ 234 567⑈

**8-9**

A deposit slip is a record of money you put into your account.



## Endorsing Checks

Before you can cash or deposit a check made out in your name, you must *endorse* it. To **endorse** a check, sign your name on the back of the check in the space indicated for a signature. There are three ways to endorse a check:

- **Blank endorsement.** This requires only the signature of the payee. The *payee* is the person to whom the check is written. A check endorsed this way may be cashed by anyone. For your protection, use this type of endorsement only at the time and place you cash or deposit a check.
- **Restrictive endorsement.** A check with this type of endorsement may be used only for the specific purpose stated in the endorsement. *For deposit only* is a common restrictive endorsement. It is often used when banking by mail or depositing at an ATM.
- **Special endorsement.** This is used to transfer a check to another party. Only the person named in the endorsement can cash the check. To use a special endorsement, write *Pay to the order of* \_\_\_\_\_ (the name of the party to receive the check). Sign your name as it appears on the check.

## Writing Checks

A blank check has important information on it. This information helps financial institutions process checks correctly. For checks to be processed, they must also be written correctly. When writing a check, enter the following items in the correct spaces. See 8-10.

1. date
2. name of the payee—the person, business, or organization receiving the check

### 8-10

Write checks neatly and carefully to avoid mistakes.

The image shows a sample check with the following details:

- Payee's name:** THOMAS B. ANDERSON, MARY A. ANDERSON, 123 MAIN STREET, ANYWHERE, USA 12345
- Date:** Mar 2, 20XX
- Amount in numbers:** \$ 15.32
- Amount in words:** Fifteen and 32/100 DOLLARS
- Signature:** Thomas B. Anderson
- Reason for writing the check:** Groceries
- Bank/Printer:** HARLAND CHECK PRINTERS, ANYWHERE, YOUR STATE 30345
- Other markings:** 08-92, 425, 9-5678/1234, MEMO, 1234 567890 1234 5678 0425, SAMPLE-VOID

Arrows point from labels to these specific fields on the check:

- Payee's name
- Date
- Amount in numbers written close to the dollar sign
- Reason for writing the check
- Amount in words, written as far to the left as possible, and a line drawn through remaining space
- Signature that matches your bank signature card

3. amount of the check in numbers
4. amount of the check in words
5. reason for writing the check, after the word *Memo*, if you want a record
6. your signature, which should look like that on your bank signature card

For your own protection, write checks in dark ink. If you make a mistake, destroy the check and write a new check. Do not make corrections on the check.

When you write a check, record the check number, date, payee, and amount in your checkbook register. Subtract the check amount from your balance. Record a destroyed check by writing its number and the term *void*. When you make a deposit, also record the date and amount of the deposit and add it to your balance. If you follow these guidelines, you will always know how much money is in your account.

## Balancing Your Checkbook

Once you open a checking account, you will generally receive a bank statement each month online or in the mail. A **bank statement** is a record of checks, ATM transactions, deposits, and charges on your account, 8-11.



National Bank Anytown, U.S.A.		ACCOUNT NUMBER 123-45-67-8			
		PAGE 1			
		NO. OF CHECKS 10			
THIS STATEMENT DATE AND BALANCE	DEBITS AMOUNT	NUMBER	SERVICE CHARGE		
3/31/XX      \$48.73	\$246.29	10	5.00		
LAST STATEMENT DATE AND BALANCE	CREDITS AMOUNT	NUMBER			
2/28/XX      \$50.02	\$250.00	2			
<b>STATEMENT OF ACCOUNT</b>		Sarah Student 2647 Evergreen Drive Anytown, U.S.A.			
DAY	REF	CHECKS AND OTHER DEBITS AMT	CHECKS AND OTHER DEBITS AMT	DEPOSITS AND OTHER CREDITS	DAILY BALANCE
3/2	488	15.32			34.70
3/4	489	25.00			9.70
3/9	490	5.25			4.45
3/11				130.00	134.45
3/15	ATM, National Bank	80.00			54.45
3/16	492	23.07			31.38
3/21	493	18.35			13.03
3/23				120.00	133.03
3/25	494	34.60			98.43
3/26	495	12.20			86.23
3/28	496	7.50			78.73
3/30	497	25.00			53.73
3/30		5.00	SERVICE CHARGE		48.73

**8-11**  
A bank statement is a record of all deposits, checks, charges, and other transactions involving your account during the statement period.



- List all deposits you made that are not on the statement.
- Add the amounts from steps 1 and 2. Write the total.
- List by number and amount any checks and ATM withdrawals not included on the statement. Add these amounts together and enter the total at *Checks outstanding*.
- Subtract the amount in step 4 from the amount in step 3 and enter the *Balance*.

The balance on your worksheet should match the current balance in your checkbook register. If they do not agree, go through the above steps very carefully to check your math. If the figures still do not agree or come close, you may want to contact your bank for help.

## Special-Use Checks

In addition to personal checks, other types of checks can be used to transfer funds from payer to payee. Each serves a special purpose. They are available from most financial institutions, usually for a fee.

### Cashier's Check

You buy a *cashier's check* from the bank and use it to make a payment to another person. A **cashier's check** is drawn by a bank on its own funds and signed by an authorized officer of the bank. The bank guarantees payment.

### Certified Check

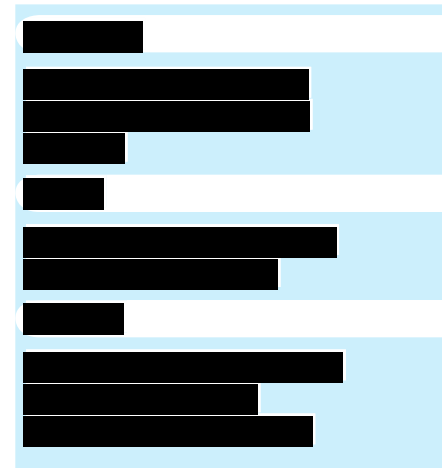
A **certified check** is a personal check with a bank's guarantee the check will be paid. When a bank certifies a check, the amount of the check is immediately subtracted from your account. A certified check is used to make a payment to a payee who does not accept personal checks.

### Money Order

A **money order** is an order for a specific amount of money payable to a specific payee. People who do not have checking accounts may use money orders to send payments safely by mail. Money orders are sold in financial institutions, U.S. post offices, and other convenient locations.

### Traveler's Checks

People who travel and do not want to carry large amounts of cash often use **traveler's checks**. They can be cashed at many places around the world. If the checks are lost or stolen, they can be replaced at the nearest bank or by the agency selling them. Keep a record of check numbers separate from the checks. You need identifying numbers to replace lost or stolen checks. Sign the checks only at the time you cash them.







## Academic Connections

15. **Research.** Examine three financial institutions in your area and develop a checklist for comparing their services.
16. **History, writing.** Investigate the beginning and the development of one of the following: ATM machines; online banking; or traveler's checks. In a written report, trace your topic from its beginning to the present day usage.
17. **Research, speech.** Research EFT systems, how they originated, and how they benefit consumers. Present your findings to the class.
18. **Social studies, writing.** Examine consumer banking and banking services in an industrialized country of your choice. Write a report on your findings.

## MATH CHALLENGE

19. Balance a checking account that recorded the following activity since the last statement.

Deposits: \$25.00 and \$120.00

Checks: \$25.00, \$8.50, and \$98.00

ATM withdrawals: \$20.00

There was a \$3.00 bank fee for using an ATM outside the bank's network, and the last statement's balance was \$250.00. How much is in the account?

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## Tech Smart

20. Using presentation software, make an electronic presentation that shows how to write and endorse a check. Be sure to cover the three types of endorsement.
21. Search the Internet to find three local banks. Access each bank's Web site and examine the requirements for opening a basic checking account with no limit on the number of checks written. Using a computer program, graphically compare each bank's requirements. (Some banks may offer more than one type of account.) Explain which bank and account you prefer and why.
22. Imagine that you manage a local bank with six outlets and ATMs at each. Your bank also has ATMs at city hall and the local shopping mall. Working as a Web designer, create a home page that welcomes new customers and announces the bank's locations and basic services. (Assume the bank offers all the services discussed in the chapter.) What words and images would you use? Share your creation with the class.