

## Financial Organizations in the Community

### LESSON DESCRIPTION (Background for the Instructor)

In this lesson, students will learn about different types of financial organizations in the community including banks, credit unions, and alternative financial services (AFS) sector firms such as check-cashing stores and payday lenders. They will watch and discuss videos about financial institutions, payday loans, and check-cashing stores; compare features and costs of various financial products and services; complete case study problems with an APY calculator; and discuss financial organizations in the news.

The lesson includes five activities that instructors can select from. In these activities, students will:

- ◆ View the video *Are Credit Unions Better Than Big Banks?* and answer debriefing questions
- ◆ Conduct an “apples to apples” comparison of a local national bank, community bank, and credit union
- ◆ Learn about compound interest and annual percentage yields on savings through case study problems
- ◆ View the videos *Payday Loans Explained* and *How Much Does a Check Cashing Store Charge?* and answer debriefing questions
- ◆ Conduct a *Web Quest* to search for current events information about financial organizations

The lesson also contains 10 assessment questions (5 multiple choice and 5 True-False), learning extensions (i.e., suggested learning activities beyond the scope of the lesson plan), and references and resources.

### INTRODUCTION (Background for the Instructor)

The term “financial organizations” casts a wide net. Included are traditional banking institutions (i.e., commercial and community banks and credit unions), other firms in the financial services field (e.g., investment companies, brokerage firms, and insurance and mortgage companies), and alternative financial services (AFS) sector firms (e.g., check-cashing stores, car title lenders, pawn shops, and payday lenders). For the purposes of this lesson, only traditional financial institutions and two AFS firms will be covered.

Having a relationship with a mainstream financial service (e.g., a bank or credit union) is very helpful in building financial resources and security. Just like any financial decision, people need to learn *decision-making skills* for selecting a financial account and account provider and *management skills* to review financial account statements regularly and avoid fees and penalties. Without a banking relationship, many people use alternative financial services firms which can be very expensive.

There are many benefits of having a bank or credit union checking and/or savings account versus being unbanked and relying on high-cost AFS products and services for check-cashing and money orders:

- ◆ Keeps hard-earned money safe vs. storing cash in an unsecured location at home
- ◆ Avoids the risk of carrying around a lot of cash and having it lost or stolen
- ◆ Grows money through the power of compound interest
- ◆ Provides a safe place for direct deposit of paychecks and government benefits
- ◆ Establishes a financial relationship for future banking services such as credit cards and loans
- ◆ Demonstrates financial stability for such things as business loans, mortgages, and even job offers

Banks and credit unions are the main financial service providers. It is important to know the difference. A bank is a profit-making business. Money deposited in a bank is insured by the Federal Deposit Insurance Corporation or FDIC. Current FDIC insurance is \$250,000 per depositor per account. Examples of well-known national banks include Bank of America, Chase, Citi, and Wells Fargo.

A credit union is similar to a bank with respect to its products and services, but the structure is different. Credit unions are a cooperative business (i.e., they are owned by their members). Anyone who makes a deposit is considered a member. To become a member, an affiliation of some type is generally required – through family, employment, a faith-based group, and/or by living or working in a specific community.

Some credit unions, just like banks, are small and some are large with many locations. They provide similar services as banks, but the accounts may have different titles. Deposits in credit unions are insured by the federal government through the National Credit Union Administration or NCUA. The levels for insurance of accounts in credit unions are the same as accounts held at banks.

Bank and credit union accounts basically fall into two categories – transfer accounts and deposit accounts. A transfer account is used to pay bills and make payments. The best known transfer account is a checking account. A checking account at a credit union is called a share draft account. Some transfer accounts earn a modest amount of interest and some do not.

Deposit accounts are used for saving money and earn interest. A savings account, share account (a credit union savings account), or Certificates of Deposit (CDs) are all deposit accounts. They are all insured by the federal government. Banks pay “interest” on deposit accounts and credit unions pay “dividends.”

Consumers need to comparison shop for the types of accounts, fees, and minimum deposits they can afford and that will fit their needs. The “Rule of Three” suggests involves comparing at least three different account providers. Consumers can access bank/credit union websites, visit institutions and request written materials, or speak with bank/credit union employees to get information to make an informed decision.

Annual percentage yield or APY is the effective interest rate on savings over a one-year period taking into consideration the effect of compounded interest. APY includes the amount that will be accumulated through compound interest or interest earned on interest. There are many online calculators that can help people determine how much their account will earn over time. Even with an APY of 1%, a starting deposit of \$1,000 with \$50 added each month can grow to thousands of dollars over time.

The Truth in Savings Act is a federal law that requires banks and credit unions to disclose any fees charged and interest rates paid on bank and credit union accounts. The APY must be in all advertising and disclosed to depositors before opening an account to inform account selection decisions. The higher the APY earned on a financial account, and the more frequently interest is compounded, the faster money will grow.

Alternative financial services involve billions of dollars that are spent annually by their customers for check-cashing, payday loans, and other products. Many people who use AFS firms don’t even know how much they spend on this service. It is not uncommon for some people to spend one to two weeks of salary annually on alternative financial services. This is a lot of money, especially for low-income families.

Some people think that having a bank or credit union account will cost them more money in fees (e.g., for “bounced” checks and low balances) than the cost of using alternative financial services. However, once people understand the advantages of earning interest and deposit insurance and how to manage an account at a financial institution, they often see the advantages. Individuals can “do the math” to compare the costs of various services provided by banks or credit unions and alternative financial services firms.

Payday loans are single-payment, short-term loans made in return for a delayed deposit of a borrower's personal check. These loans go by a variety of names that indicate that borrowers are receiving cash in advance of a future paycheck, including cash advance or check advance loans and quick cash loans.

Payday loans are technically illegal in New Jersey. According to state statutes, a check cashing licensee cannot advance money on a postdated check (i.e., a check with a future date on it). However, many payday lenders operate on the Internet, sometimes from foreign countries, and state residents can access their services. Therefore, it is important to understand how payday loans are structured and how much they cost.

Here's how payday loans work. A borrower writes a postdated personal check to the lender, typically for a sum between \$100 and \$500. Payday loan fees can seem "cheap" at first but, in reality, they are a very expensive way to borrow money when the amount of the fee is considered in relation to the short two-week length of the loan. Consider a \$100 payday loan with a \$15 fee. The annual percentage rate for paying \$15 to borrow \$100 for two weeks is 390% (15% biweekly x 26 biweekly periods in a year = a 390% APR).

What happens after two weeks? One option is to "redeem" the postdated check with \$115 cash or to have the lender simply deposit it (this assumes that there are adequate funds in the borrower's checking account, of course). Unfortunately, many borrowers don't have enough money to repay the lender after two weeks. A second option is to extend the payday loan with another fee (e.g., another \$15 for the same \$100 loan).

After a few roll-overs, the fee charged for payday loans can actually exceed the amount borrowed. If you extend a \$100 loan three times (i.e., three more bi-weekly periods), you will have paid \$60 to borrow \$100: the original \$15 fee plus \$45 for three more extensions (\$15 x 3). After six roll-overs the finance charge (fees) will be greater than the amount borrowed. The word "interest" is often not used in payday lending agreements. Instead, payday lenders call their charges "fees." This way, they reason, they don't violate state usury laws which cap the amount of interest that can be charged on loans.

Check cashing stores charge fees for people to cash a government (e.g., income tax refund), payroll, or personal check. They are popular among low-income and elderly consumers and are often located in inner city neighborhoods where banks and credit unions are scarce or inconveniently located. In New Jersey, check cashing outlets must be licensed by the state and the license must be conspicuously displayed. There are also limits on fees, which are set by the state Commissioner of Banking and Insurance.

Many check cashing companies also sell money orders, sometimes at twice or one and a half times the cost at a bank, post office, or Wal-Mart. Thus, consumers often pay a check cashing outlet twice: once to cash their check and a second time to pay their bills with the proceeds. National surveys of check cashing store costs have found fees that range from 1% to 20% of the face amount (e.g., \$100) of a check. The average cost is usually between 2% and 6% (e.g., a \$25 fee on a \$500 check is 5% of the face amount).

Personal checks often have higher fees than government checks or employer payroll checks because they pose a higher risk to lenders. Individual borrowers are more likely to "bounce" checks (i.e., write checks against an account with insufficient funds) than a company or a state or federal government.

Check cashing outlets appeal to "unbanked" individuals who need a way to access paychecks, government benefits, and money from other sources. They can be very expensive, however. One study found that a family of four with a \$24,000 annual income would spend \$396 a year to cash checks at an outlet charging a 1.5% fee and buy six money orders a month.

**Note:** Related information about financial institutions can be found in the following lesson plans:

Standard 9.1.12 [B8](#) lesson plan, *Compound Interest: Your Best Friend or Worst Enemy*

Standard 9.1.12 [E1](#) lesson plan, *Monetary Transaction Tools*

Standard 9.1.12 [B2](#) lesson plan, *Saving and Investing Strategies and Influences*

## OBJECTIVES

Students will be able to:

- ◆ Define basic banking terms such as compound interest, APY, credit union, and payday loan.
- ◆ Describe similarities and differences between a bank and a credit union.
- ◆ List five benefits of having an account at a bank or credit union.
- ◆ Describe what an annual percentage yield (APY) is and how it can be used by consumers.
- ◆ Discuss how payday loans and check-cashing services work and their pros and cons.

## NEW JERSEY PERSONAL FINANCIAL LITERACY STANDARD

- ◆ Standard 9.1.12.B.9: Research the types and characteristics of various financial organizations in the community.  
See <http://www.state.nj.us/education/aps/cccs/career/FLFAQ.htm#gradcredit> and <http://www.state.nj.us/education/cccs/2014/career/91.pdf> for information about Standard 9.1

## TIME REQUIRED

45 to 180 minutes (depending upon student progress and content depth and number of activities used)

## MATERIALS

- ◆ YouTube video (5:24): *Are Credit Unions Better Than Big Banks?* and video debriefing questions: <https://www.youtube.com/watch?v=GIMsbgIQiDE>
- ◆ *Two Banks and a Credit Union* activity handout
- ◆ *Money Math: Compound Interest, APY, and AFS* activity handout
- ◆ YouTube Video (1:53): *Payday Loans Explained*: <https://www.youtube.com/watch?v=3rOVmUnUM7A>
- ◆ YouTube Video (1:27): *How Much Does a Check-Cashing Store Charge?* <https://www.youtube.com/watch?v=jSEcWplC5GU>
- ◆ *Payday Loans and Check-Cashing Debrief* activity handout
- ◆ *Web Quest: Financial Organizations in the News* activity handout
- ◆ *Financial Organizations Quiz (ASSESSMENT)*

*Teachers are encouraged to use as many of the student learning activities as time permits to provide a fuller understanding of financial organizations. The activities can also be used for extra credit assignments, homework, or after-school activities.*

## PROCEDURE

1. Ask students to name different types of financial organizations where people put their money.

*Answers will vary. Students will probably name banks and, perhaps, credit unions. After students have run out of ideas, fill in with other types of financial organizations listed on page 1.*

2. **Activity 1:** Show the video *Are Credit Unions Better Than Big Banks?* and ask students to take notes about key points. Debrief the activity by asking students the following questions (large group activity):

**What are some past “issues” about large commercial banks that were described in the video?**

- ◆ Establishing fraudulent fake accounts and sham insurance policies (Wells Fargo bank)
- ◆ Bundling of toxic junk securities by major banks that led to the financial crisis of 2008
- ◆ Paying high executive bonuses to bank CEOs after they received government bailout funds

**According to a Gallup poll, what percentage of Americans have confidence in banks?**

27%

For more information about the Gallup poll findings, see <https://news.gallup.com/poll/236243/military-small-business-police-stir-confidence.aspx>.

**What are community banks and what are their advantages?**

A community bank is a depository institution that is locally owned and operated and focuses on the banking and lending needs of local residents and businesses. Advantages include the following key points:

- ◆ Lower fees and charges (vs. big national banks)
- ◆ Less risk taking with deposited funds (vs. big national banks)
- ◆ Make investments in the local area that they serve

**What are online banks and what are their advantages?**

An online bank (a.k.a., internet bank) is an electronic banking platform that enables customers to conduct various financial transactions entirely through the financial institution’s website. Advantages include the following key points:

- ◆ Lower fees (vs. “brick and mortar” financial institutions) because they do not have branch locations
- ◆ May not have account minimums and overdraft fees
- ◆ 24/7/365 access to financial accounts

**What are credit unions and what are their advantages?**

A credit union is a financial cooperative that provides traditional banking services such as checking and savings accounts and loans. Credit Unions are owned and operated by their customers (e.g., savings account depositors) who are called members. Advantages include the following key points:

- ◆ Provide the same financial services as banks (e.g., checking accounts and loans)
- ◆ Return profits to members via lower fees, higher savings rates, and better loan terms
- ◆ National network of credit unions provides expanded ATM access

**What are some advantages of using the services of big national banks?**

The term “big banks” refers to very large banks with total assets in the billions of dollars. In the United States, the four largest banks are Chase, Bank of America, Wells Fargo, and Citibank. Each has from \$1 trillion to over \$2 trillion in assets. Advantages include the following key points:

- ◆ Better (than other financial institutions) at providing international banking and lending services
- ◆ Enhanced digital services (e.g., apps and online accounting tools)

3. **Activity 2:** Distribute the *Two Banks and a Credit Union* activity handout. Ask students to work together in small groups and go online to investigate and compare the features and costs of three financial institutions in the local area: a big national bank, a community bank, and a credit union. Then ask them to pick a favorite financial institution and to justify their decision. Debrief the small group findings with the entire class. A miniature version of the student activity handout is shown below:

Account Feature	National Bank	Community Bank	Credit Union
Checking account minimum deposit			
Savings account minimum deposit			
Checking account interest rate			
Savings account interest rate			
Monthly service fee (when balances fall below minimum)			
Overdraft fee			
Non-sufficient funds fee			
Online bill-paying access?			
Convenient locations?			

The best financial institution for our needs is \_\_\_\_\_  
because \_\_\_\_\_

*To save some time, teachers may want to provide names and website links for financial institutions in the local community. In addition, teachers should complete the activity themselves first so they are very familiar with the features and costs of local banking services.*

4. **Activity 3:** Distribute the *Money Math: Compound Interest, APY, and AFS* activity handout. Note that this activity is designed to show the impact of compound interest frequency on the annual percentage yield (APY) of bank savings products and the high cost of alternative financial services (AFS) firms.

Ask students to work together in small groups to answer each question. Then debrief the correct answers with the entire class. Below are answers to the activity questions:

### Part 1: Compound Interest and APY

**Instructions:** Use the APY Interest Calculator at <https://www.omnicalculator.com/finance/apy> to solve the following case study problem.

**Lisa set up a bank account with a very generous “Sweet Sixteen” \$5,000 gift from her grandmother. She wants to use this money for post-college expenses such as a working wardrobe and a reliable used car. An online bank account pays 2.5% interest on savings accounts. What is the APY and final balance after five years if compound interest is credited daily, monthly, quarterly, and yearly?**

Compound Interest Frequency	Annual Percentage Yield (APY)	Final Balance
Daily	2.531424 %	\$5,665.72
Monthly	2.528846 %	\$5,665.01
Quarterly	2.523535 %	\$5,663.54
Yearly	2.5%	\$5,657.04

**Based on the above analysis, describe the relationship between compound interest frequency and annual percentage yield (APY)?**

APY is derived from the interest rate paid on a bank account. It takes into account the frequency of compounding and indicates the total amount of interest earned on a bank account over the course of the year. The more frequently interest is credited (e.g., daily vs. yearly), the higher the APY because more interest is earned on interest. While the differences in APY percentages and final balances for the four different compound interest frequency periods seem small, the gap between them will widen over time as the effects of compounding start to add up.

## **Part 2: Alternative Financial Services (AFS)**

**Earl earns \$525 per week gross income (\$27,300 annually) and \$450 per week net income (\$23,400 annually). He is unbanked and pays \$5.90 to a check-cashing store to cash his weekly paycheck. In addition, he pays \$2.00 for money orders 12 times per month to pay various bills and expenses. What is his total annual cost for AFS firm fees?**

AFS Firm Service	Fee Calculation	Yearly Cost
Cash weekly paycheck	\$5.90 x 52 weeks	\$306.80
Money orders	\$2.00 x 12 times/month x 12 months	\$288.00
Total fees		\$594.80

**What is the relationship between Earl's net income and the total fees spent on AFS expenses?**

Earl is spending 1.3 weeks of his net income on check-cashing fees and money orders ( $\$594.80 \div \$450$ ).

*Note that New Jersey check cashers are among the most highly regulated in the country. For example, the current maximum permissible fee for public assistance checks is 1%, for Social Security and SSI checks, 1.5%, and for all other checks (e.g., employer payroll checks), 2.21%. For additional background information about check-cashing fees in New Jersey and states across the U.S., see <https://www.natcnc.com/wp-content/uploads/2016/10/FISCA-State-CC-Laws-2013.pdf>.*

5. **Activity 4:** Show the videos *Payday Loans Explained* and *How Much Does a Check-Cashing Store Charge?* and ask students to answer the questions on the *Payday Loans and Check-Cashing Debrief* activity handout. Discuss the answers with the entire class. Note that, while payday loans are technically illegal in New Jersey, an estimated half million New Jerseyans obtain roughly four million [payday loans](#) (primarily through the internet) according to New Jersey Financial Service Centers, Inc.



### **What exactly is a payday loan?**

A payday loan is a high-cost cash advance against future income that is expected to be paid back in full in two weeks when borrowers receive their next paycheck. Payday loans are typically small loans of \$500 or less. Loan proceeds can be provided in cash or electronically deposited into a bank account (online loans). Borrowers are charged a flat fee to borrow a certain amount of money such as \$15 to receive \$100.

### **Where are payday loans available?**

- ◆ In legally regulated storefront payday lending stores in some states, but not in New Jersey
- ◆ Through online payday lenders, many of which are overseas and beyond state regulations
- ◆ In a small number of banks and credit unions (fees are typically less than storefront check cashers)

### **What two things do people need to qualify for a payday loan?**

- ◆ A source of income (e.g., a job or self-employment)
- ◆ A bank checking account

### **What is the average payday loan amount that is borrowed?**

\$375

### **What happens when people cannot pay off a payday loan?**

An unpaid payday loan can result in bank overdraft fees, constant calls to collect the amount owed, wage garnishment, and other negative outcomes. Another thing that happens, as illustrated in the video, is that borrowers who are unable to pay off their payday loan debt are charged another fee to postpone payment on the same original amount that was borrowed (e.g., another \$15 for the original \$100 that was received).

### **Who primarily uses check-cashing stores?**

People without a bank account who need to cash checks and pay bills.

### **What is a big disadvantage of check-cashing stores?**

Their high cost over time as seemingly small one-time check-cashing fees add up.

### **In the video illustration of paying \$2.50 to \$5.00 to cash a \$100 check and actually receiving only \$95 to \$97.50, how much would this cost if a check-cashing fee was paid weekly?**

From \$130 ( $\$2.50 \times 52$ ) to \$260 ( $\$5.00 \times 52$ ). In relation to the \$100 face amount, fees would consume 1.3 to 2.6 of the \$100 checks, a steep price to pay for access to cash.

6. **Activity 5:** Distribute the *Web Quest: Financial Organizations in the News* activity handout and ask students to work together in small groups to find a current events news article (or advertisement) about some type of financial organization (e.g., national bank, community bank, credit union, payday lender, check-cashing firm, pawn shop). Debrief the activity with the entire class.

*Answers will vary. Students may find articles about available banking products, current interest rates, fees, online banking, government regulations, and the APY paid on banking products such as savings accounts and certificates of deposit (CDs).*



## CLOSURE

Ask students if they have any remaining questions about financial organizations. Close out the lesson by telling them a story about someone's experience with a financial organization. It can be a personal story, a story about someone you know, or a story that was published in a newspaper or online.

## GLOSSARY

**Alternative Financial Services (AFS)**- The term used to describe financial organizations that operate apart from traditional banking institutions. AFS firms are typically used by unbanked low-income individuals and include check-cashing stores, car title lenders, pawn shops, and payday lenders.

**Annual Percentage Yield (APY)**- The annual rate of return on a bank product (e.g., checking account, savings account, and certificate of deposit) that takes into account the frequency of compound interest.

**Bank**- A for-profit financial institution that is licensed to accept deposits, clear checks, and make loans. Banks may also provide additional financial services such as safe deposit boxes and wealth management.

**Banking**- General term for the industry sector that handles financial transactions such as saving and checking accounts, credit cards, and loans. Both banks and credit unions provide banking services.

**Check-Cashing Store**- A company that charges a fee for people to cash a government, payroll, or personal check. The amount of fee charged depends upon the type of check and state laws that regulate this industry.

**Checking Account**- A bank account against which checks can be written (or debit cards can be swiped) to make payments from the account owner to others.

**Community Bank**- A locally owned and operated for-profit financial institution that provides similar services (e.g., savings accounts and loans) as large multi-state national banks.

**Compound Interest**- Interest that is credited daily, monthly, quarterly, semi-annually, or annually on both principal and previously credited interest.

**Credit Union**- A cooperative financial organization that exists to provide banking services (e.g., saving and checking accounts and loans) to its members.

**Deposit Account**- A type of bank account that allows money to be deposited and withdrawn by the account owner. Examples of deposit accounts are savings accounts and certificates of deposit.

**Financial Organization**- Broad term for a wide variety of companies that handle savings, loans, investments, and other types of financial services.

**Money Order**- A check-like document that is used to make a payment for a specific amount of money. Money orders are issued by check-cashing stores, the U.S. Postal Service, and retailers such as Wal-Mart.

**Payday Lender**- Company that issues a high-cost, single-payment, short-term loan in return for a delayed deposit of a borrower's personal check.

**Rule of Three**- The process of comparing at least three alternative vendors for goods and services.

**Savings Account-** An interest-bearing account at a financial institution that pays a relatively low rate of interest in return for safety (FDIC insurance) and liquidity (i.e., ability to immediately withdraw cash).

**Transfer Account-** A type of bank account that is used to pay bills and make payments. The best known transfer account is a checking account (banks) or share draft account (credit unions).

**Truth in Savings Act-** A federal law that requires banks and credit unions to disclose any fees charged and interest rates paid on bank and credit union accounts.

**Unbanked-** People who do not have any relationship with a bank or credit union and make all of their financial transactions with alternative financial services (AFS) firms.

**Underbanked-** People who have a bank and/or credit union account but also make financial transactions with alternative financial services (AFS) firms.

## LEARNING EXTENSIONS

If time permits, the following activities can be used to extend the depth of this lesson:

- ◆ Show the YouTube video *The Payday Lending Show* and discuss the costs and ethics of payday loans and possible alternatives to high-cost loans: <https://www.youtube.com/watch?v=0lnXz14Uoi4&t=228s>
- ◆ Invite a local bank or credit union representative as a guest speaker to discuss banking products, banking fees, banking careers, and other topics of interest.
- ◆ Have students complete the following “Data Crunch” activities from Next Gen Personal Finance about payday loans and checking and savings accounts.
  - Data Crunch [#1](#): How Often Do Payday Loan Borrowers Use Them in a Year?
  - Data Crunch [#2](#): What Are Trends With Checking Account Fees?
  - Data Crunch [#3](#): How Do Consumers Access Their Checking Accounts?
  - Data Crunch [#4](#): Why Should You Start Saving at a Young Age?
- ◆ Show the YouTube video *How Does Savings Account Interest Work?* by Discover Bank: <https://www.youtube.com/watch?v=8edPzh71RIQ>. Discuss the concept of annual percentage yield (APY) and how it affects the amount of interest earned on savings.
- ◆ Make up some hypothetical payday lending scenarios (e.g., amount borrowed, loan fee, repayment time) and have students use the Payday Loan APR Calculator (CSG Network.com) at <http://www.csgnetwork.com/apr4calc.html> to calculate the annual percentage rate of interest (APR).
- ◆ Have students write a summary of what they learned about financial organizations and alternative financial services for the school newspaper.
- ◆ Have students interview a family member to learn more about the places where they put their money and the amount of interest that they earn.

## **ASSESSMENT:** *Financial Organizations Quiz*

Instructors are encouraged to use the questions below for content review or as a pre-and/or post-test to determine gains in student knowledge about financial organizations after teaching this lesson.

Correct answers to the multiple choice and True-False questions are shown in boldface type.

### **Multiple Choice Questions**

1. Which of the following is a locally owned and operated for-profit financial institution?
  - a. Credit union
  - b. Commercial bank
  - c. Community bank**
  - d. Deposit-only bank
2. Which of the following is the maximum amount of money insured by the federal government (FDIC) per depositor per account?
  - a. \$100,000
  - b. \$150,000
  - c. \$200,000
  - d. \$250,000**
3. Which of the following is the best-known type of transfer account?
  - a. Checking account**
  - b. Savings account
  - c. Deposit account
  - d. Certificate of deposit (CD)
4. The effective interest rate on savings over a one-year period is called the
  - a. Annual percentage rate
  - b. Annual percentage yield**
  - c. Compound interest rate
  - d. Compound interest yield
5. Which type of check is likely to have the highest fee to cash at a check-cashing store?
  - a. Government check
  - b. Personal check**
  - c. Employer payroll check
  - d. Money order

### **True-False Questions**

1. A checking account at a credit union is called a share account (**FALSE: Credit union savings accounts are called share accounts. Credit union checking accounts are called share draft accounts because account owners can write a check (a.k.a., a draft) to withdraw their money**)

2. Some checking accounts earn interest and some do not (**TRUE: Checking account interest can vary among financial institutions. Interest payments will depend upon specific bank/credit union policies and/or the amount of money that is kept on deposit with a financial organization**)
3. A pawnshop is an example of an alternative financial services company (**TRUE: Alternative financial services companies are those that operate apart from traditional financial institutions such as banks and credit unions. They include payday lenders, pawnshops, and check-cashing stores**)
4. The annual percentage rate (APR) of interest on a two-week \$100 payday loan that charges a \$15 fee is 150% (**FALSE: The APR is 390%: a \$15 fee x 26 bi-weekly periods in a year**)
5. A check-like document that is used to make payments is called a money order (**TRUE: Money orders are typically purchased by people without bank accounts and are sold at banks, check-cashing stores, the post office, and retailers such as Wal-Mart**)

## REFERENCES AND RESOURCES

*Alternative Financial Services: A Primer* (Federal Deposit Insurance Corporation):

<https://www.fdic.gov/bank/analytical/quarterly/2009-vol3-1/fdic140-quarterlyvol3no1-afs-final.pdf>

*APY, APR, and Interest Rates: What You Need to Know and the One Thing You Don't Want to Overlook* (Ally): <https://www.ally.com/do-it-right/banking/apy-vs-apr-what-is-apr-what-is-apy/>

*Bank Account Comparison Worksheet* (Consumer Credit): <https://www.ally.com/do-it-right/banking/how-is-annual-percentage-yield-calculated/>

*Do Check-Cashing Services Provide a Banking Alternative?* (The Simple Dollar):

<https://www.thesimpledollar.com/banking/blog/a-deeper-look-at-check-cashing-services-do-they-really-provide-an-alternative-banking-opportunity/>

*How APY Works and What It Means for Your Savings* (Ally): <https://www.ally.com/do-it-right/banking/how-is-annual-percentage-yield-calculated/>

*How to Cash a Check Without a Bank Account* (U.S. News):

<https://money.usnews.com/banking/articles/how-to-cash-a-check-without-a-bank-account>

*Understanding Alternative Financial Service Providers* (United Way): <https://www.unitedway.org/my-smart-money/immediate-needs/i-need-more-affordable-financial-products/understanding-alternative-financial-service-providers>

*What are the Nine Major Financial Institutions?* (Investopedia):

<https://www.investopedia.com/ask/answers/061615/what-are-major-categories-financial-institutions-and-what-are-their-primary-roles.asp>

*Where to Cash a Check Without a Bank Account* (Value Penguin):

<https://money.usnews.com/banking/articles/how-to-cash-a-check-without-a-bank-account>

*Where to Cash a Check Without Paying a Fee* (The Balance): <https://www.thebalance.com/free-check-cashing-315472>

# **Are Credit Unions Better Than Big Banks?**

## **Debriefing Questions**

**Instructions:** After watching the videos on credit unions and banks, work together in a small group with other students to answer the following questions:

**What are some past “issues” about large commercial banks that were described in the video?**

**According to a Gallup poll, what percentage of Americans have confidence in banks?**

**What are community banks and what are their advantages?**

**What are online banks and what are their advantages?**

**What are credit unions and what are their advantages?**

**What are some advantages of using the services of big national banks?**

# Two Banks and a Credit Union

**Instructions:**

Work together in small groups and go online to investigate and compare the features and costs of three financial institutions in the local area: a big national bank, a community bank, and a credit union. Then pick a favorite financial institution and justify your decision.

Account Feature	National Bank	Community Bank	Credit Union
Checking account minimum deposit			
Savings account minimum deposit			
Checking account interest rate			
Savings account interest rate			
Monthly service fee (when balances fall below minimum)			
Overdraft fee			
Non-sufficient funds fee			
Online bill-paying access?			
Convenient locations?			

The best financial institution for our needs is \_\_\_\_\_  
 because \_\_\_\_\_

# Money Math: Compound Interest, APY, and AFS

## Part 1: Compound Interest and APY

**Instructions:** Use the APY Interest Calculator at <https://www.omnicalculator.com/finance/apy> to solve the following case study problem.

Lisa set up a bank account with a very generous “Sweet Sixteen” \$5,000 gift from her grandmother. She wants to use this money for post-college expenses such as a working wardrobe and a reliable used car. An online bank account pays 2.5% interest on savings accounts. What is the APY and final balance after five years if compound interest is credited daily, monthly, quarterly, and yearly?

Compound Interest Frequency	Annual Percentage Yield (APY)	Final Balance
Daily		
Monthly		
Quarterly		
Yearly		

Based on the above analysis, describe the relationship between compound interest frequency and annual percentage yield (APY)?

## Part 2: Alternative Financial Services (AFS)

Earl earns \$525 per week gross income (\$27,300 annually) and \$450 per week net income (\$23,400 annually). He is unbanked and pays \$5.90 to a check-cashing store to cash his weekly paycheck. In addition, he pays \$2.00 for money orders 12 times per month to pay various bills and expenses. What is his total annual cost for AFS firm fees?

AFS Firm Service	Fee Calculation	Yearly Cost
Cash weekly paycheck	\$____ x 52 weeks	
Money orders	\$____ x ____ times/month x ____ months	
Total fees		

What is the relationship between Earl’s net income and the total fees spent on AFS expenses?



# Payday Loans and Check-Cashing Debrief

**Instructions:** Watch the videos *Payday Loans Explained* and *How Much Does a Check-Cashing Store Charge?* and answer the following questions

**What exactly is a payday loan?**

**Where are payday loans available?**

**What two things do people need to qualify for a payday loan?**

**What is the average payday loan amount that is borrowed?**

**What happens when people cannot pay off a payday loan?**

**Who primarily uses check-cashing stores?**

**What is a big disadvantage of check-cashing stores?**

**In the video illustration of paying \$2.50 to \$5.00 to cash a \$100 check and actually receiving only \$95 to \$97.50, how much would this cost if a check-cashing fee was paid weekly.**

# Web Quest:

## Financial Organizations in the News

Use an online search engine (e.g., Google, Bing) to search for a current events news article (or advertisement) about three types of financial organizations (e.g., national bank, community bank, credit union, payday lender, check-cashing firm, pawn shop). List several key take-aways about each of the three financial organizations in the spaces below.

Information Source	Information About Financial Organization

# *Financial Organizations Quiz*

## **Multiple Choice Questions:**

**Circle the correct answer from among the four answers provided.**

1. Which of the following is a locally owned and operated for-profit financial institution?
  - a. Credit union
  - b. Commercial bank
  - c. Community bank
  - d. Deposit-only bank
  
2. Which of the following is the maximum amount of money insured by the federal government (FDIC) per depositor per account?
  - a. \$100,000
  - b. \$150,000
  - c. \$200,000
  - d. \$250,000
  
3. What of the following is the best-known type of transfer account?
  - a. Checking account
  - b. Savings account
  - c. Deposit account
  - d. Certificate of deposit
  
4. The effective interest rate on savings over a one-year period is called the
  - a. Annual percentage rate
  - b. Annual percentage yield
  - c. Compound interest rate
  - d. Compound interest yield
  
5. Which type of check is likely to have the highest fee to cash at a check-cashing store?
  - a. Government check
  - b. Personal check
  - c. Employer payroll check
  - d. Money order

## **True-False Questions:**

**Mark "T" for True or "F" for False in the space before each question.**

- \_\_\_ 1. A checking account at a credit union is called a share account.
- \_\_\_ 2. Some checking accounts earn interest and some do not.
- \_\_\_ 3. A pawnshop is an example of an alternative financial services company.
- \_\_\_ 4. The annual percentage rate (APR) on a two-week \$100 payday loan that charges a \$15 fee is \$150%.
- \_\_\_ 5. A check-like document that is used to make payments is called a money order.



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