FCS7015

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Banking Your Dollars[1]

Nayda I. Torres[2]

It is your responsibility to be accountable for every dollar that comes your way. The money you earn should meet your needs and wants. If the family carefully plans spending and controls its cash reserves, it can become financially secure.

An important part in your plan to become financially secure is the selection of the right banker — one who is knowledgeable and has sufficient assets to finance any bankable project you may want to undertake.

Banking should be a family project. The services offered by the banks are important to the family and its money management. Banks help determine our level of living. People need banking services in order to carry on personal or business affairs. We need to understand these services in order to use them effectively.

Banking Institutions and Their Functions

Banking is a business that attracts customers with the services it offers; to succeed, it must make a profit.

Commercial Banks are privately-owned corporations chartered under federal or state regulations. For safety, the bank is insured by the Federal Deposit Insurance Corporation (FDIC). This means that each account is insured against loss up to \$100,000. Federal law provides up to \$250,000 insurance coverage for self directed retirement accounts.

Commercial banks offer nearly every kind of banking service, including checking, savings, investment services, safe-deposit boxes, financial counseling, charge cards, automatic transfer of funds, and loans. Many offer trust services, including estate settlement.

Commercial banks are also offering a Negotiable Order of Withdrawal (NOW) account. This account is also called an interest checking account because the money you deposit goes into a savings account that earns interest. When you need to make a withdrawal, you fill out a slip that is just like a check.

Savings Banks specialize in handling savings accounts. Funds placed on deposit are used primarily for real estate mortgages and home improvement loans. Savings banks usually do not deal in personal

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2. Written by Nayda I. Torres, Professor, Family and Consumer Economics and revised by Josephine Turner, CFP, Professor, Family and Consumer Economics, Department of Family, Youth and Community Sciences, Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville FL 32611.

loans other than those secured by passbooks. "Passbook loans" permit depositors to borrow up to the amount they have on deposit in their savings accounts. The passbook is kept by the bank until the due date of the loan. Interest is credited to the account just as if the customer had not pledged the passbook as security for a loan. When the loan falls due, the borrower may repay and reclaim the passbook. If the borrower does not repay, the bank deducts the required amount from the passbook balance before returning it to the depositor.

Savings and Loans Associations may also be known as savings associations. Their function is much the same as the savings banks — to use funds on deposit to provide mortgages, home improvement loans, and loans for consumer products. Savings and loan associations are insured by a government agency, the Federal Savings and Loan Insurance Corporation (FSLIC). This means that each account is insured against loss for up to $100,000. Depositors are referred to as "shareholders" since their savings represent a "share" of the association and its ownership. Earnings returned to the shareholders on their savings are called "dividends" rather than interest.

Credit Unions are banking cooperatives. Members pool their resources to provide funds to make loans to each other. Membership in a credit union is restricted to people who share a specified common bond, such as employees working for the same employer, members of the same religion, members of a club or fraternal organization, or state employees. Each credit union must decide what services to offer to satisfy its specific members' needs. In today's market, those services can include share drafts (checking accounts), automatic teller machines, direct deposit, safety deposit boxes, money orders, traveler's checks, money market or cash management funds, loans, and Master Card/Visa.

The cost of funds to credit unions is directly related to the dividends paid on savings deposited by the members. Loan rates are affected by competitive yields that must be paid to attract other members' savings, because those savings are the only source for loanable funds.

Credit unions look like and offer many of the same services as other financial institutions. Credit unions that are federal charters have their accounts insured through the National Credit Union Association (NCUA) for $100,000. Those with state charters often get insurance for their accounts from NCUA, and others participate in state-approved insurance programs. Credit unions are owned and controlled by their members. The credit unions are operated as non-profit organizations. After the expenses are paid and a reserve is set aside for loan losses, everything else is returned to the members in the form of dividends on their investments and savings with the credit union.

Where to Save

Earnings — interest or dividends — are the "something extra" you receive for leaving your money in a savings institution. The greater the return, the more rapidly your family's savings fund will increase. But high earnings, or "yields," are not the only factor to consider in selecting a provider of financial services.

The safety of your deposits is a major consideration on which to base a decision. Are you liable to lose any of your money due to a bank failure or inept management? Earnings and safety of deposits are the two major factors to consider in choosing the best place to save. Other factors of lesser importance may be weighed in light of the family's particular circumstances.

If a primary reason for setting aside funds is to provide for emergencies, the "availability" should be taken into account. How accessible will your savings be if you should need it in a hurry? Most regular savings accounts permit depositors to withdraw their money merely by filling out a withdrawal slip and presenting it to the teller. Special savings accounts may pay higher interest rates, but those accounts generally stipulate and adhere to 60 or 90 day notice regulations. (For additional information refer to FCS 7014 *Saving for Future Use*.)

Checking Accounts

Joint Checking Accounts. Often two people will want to use the same bank checking account. Such an account is called a "joint," or survivorship. This means that if one person dies, the funds in the account will go to the survivor. Each party signs the signature card giving the survivorship claims to the other. For a husband and wife, a joint checking or savings account is an aid to good management of family finances. Each shares a sense of responsibility. It is important to keep the other person informed of withdrawals. A disadvantage to this type of account is that one person can withdraw some or all of the money from the account without the consent of the other.

Power of Attorney. Sometimes a person gives the authority to write a check on his or her account to another person. This is called "power of attorney." At death, the power of attorney stops and the account becomes part of the estate.

Writing a Check. A check is a written order by which one person directs a bank to pay a certain amount of money to another person, business or organization. Because a check is money, make it out carefully and correctly. (See *Figure 1*.)

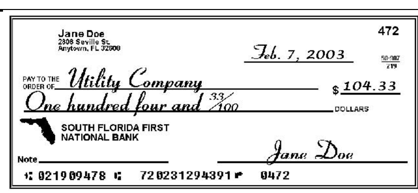

Figure 1. Properly Drafted Check

Record each payment by check immediately on the checkbook stub. It is best to fill in the stub before filling in the check. Record on the check stub the check number, amount of check, date, name of person or business, and the purpose of the check. Next, subtract the amount of check from the balance on the last stub. Checkbook stubs should be kept up-to-date so that the correct balance will be shown.

Writing Personal Checks

1. Write legibly with ink to prevent changes.

2. Write the date on which the check is written.

3. Fill in the correct name of the person or company you are writing the check to.

4. Write, in figures, the amount of the check (for example, $50.00). Write figures close to dollars signs. This will prevent any insertion of additional figures. Use larger numbers for dollars, and smaller numbers for cents. Write a clear decimal point between the dollars and the cents. Draw two lines under the number of cents, starting each line close to the number you wrote for dollars.

5. Write the dollar amount of the check in words on the line provided. Start writing as far left on the line as possible, and fill in the remainder with a drawn line. Be sure the amount written in words and the amount written in figures are the same. If these amounts do not agree, the bank usually accepts the amount in words.

6. Sign the check exactly as you did on the signature card when you opened the account. Write your name clearly. A simple legible signature is hard to copy. Never sign a blank check. If a blank check is lost, the finder could fill in and cash the check. Make out a check to "cash" only if you plan to cash it, and never when you plan to give the check to someone else.

7. If you write a check for less than one dollar write on the "word" line as follows: "Exactly seventy-three cents" or "only seventy-three cents." Cross out the word "dollars."

8. Record the reason for writing the check in the space provided.

9. Record the check on the register. Write the number, the date, the payee (who the check is made out to), and the amount. (See *Figure 2*.)

10. Figure your new balance. Subtract the amount of this check from the previous balance.

RECORD ALL CHARGES THAT AFFECT YOUR ACCOUNT

		DESCRIPTION	DEBIT	✓		CREDIT	$500.00
470	1/8	City of Gainesville	$99.17			$	400.83
471	1/20	Cable	25.00				375.83
472	2/7	Utility Co.	104.33				271.50
	2/9	Work Pay Check				300.00	571.50
473	2/13	Groceries	53.24				518.26

Figure 2. Check Transaction Register

Stopping Payment on a Check

When a check is lost or stolen, you can request that the bank stop payment on it. There is a charge for this service. The bank will usually ask you to fill out a form, giving the number and amount of the check, its date, the name of the person to whom it is payable, and the reason for stopping payment. Although banks will attempt to stop the payment, they may not assume responsibility if the check is paid inadvertently. There are other reasons for stopping payment on a check, but they will not be addressed in this publication.

Responsibility. Your checking account represents a contractual relationship with your bank. Both you and the bank have certain responsibilities with regard to your account. The banks are governed by law. Your responsibilities are based on your legal duty to promptly examine your statements, canceled checks, and other items; and to report errors, suspected forgeries, or alterations on any check or item. You also have a responsibility not to write checks for more than you have in your account. For your protection, report lost or stolen checks promptly.

Credit Reference. A properly-maintained checking account can become a good credit reference; it can indicate the way you handle your finances. It also establishes that you have a banking relationship.

Sound Money Management. Your checking account can be an effective spending plan tool. By recording deposits and checks, you develop an efficient record of income and expenses. By balancing your checkbook regularly, you have a built-in review of your financial situation. You know where your money is going and where spending adjustments are needed.

Prevent Bounced Checks. Regular checkbook balancing is the only way of knowing for sure how much money you have in your checking account. And knowing your account balance is the best way to prevent bounced checks.

- Bounced checks are costly and embarrassing. The bank charges a fee for each "overdraft" or "returned" check. The payee may also charge you a fee for checks that are returned for insufficient funds.

- Checks are being processed faster than ever. A check you write today has a good chance of being posted to your account tonight. With computers, a large bank may process over a million checks in a single day. Planning on "float time" to cover your check with a deposit is risking a bounced check these days.

Bank Statements

You must reconcile the bank statement and your own record. To reconcile means to bring together. You must try to match the two balances and verify the differences. This is an easy step-by-step procedure.

1. If you receive your canceled checks, arrange in order by number.

2. One by one, check off each canceled check against the entry in your check record (stubs or register). Put a check mark next to the number in your record. Make sure the amount you entered is the same as on the canceled check. Enter any check that doesn't appear on your record.

3. Check off each deposit entered in your record that appears on the statement. Make sure the amounts match.

4. Check off any withdrawal or deposit you have made at an automatic teller machine. Make sure the amount you entered is the same as on the bank statement (sometimes people forget to record this type of transaction).

5. Find any items that appear only on one document and not on the other. Items that appear only in your record should be checks or deposits that haven't yet cleared. On the statement there may be direct deposits or

withdrawals, such as mortgage payments, that you have authorized. It's a good idea to enter these on your record at the beginning of each month. In that way, you won't forget about them and overdraw your account. Withdrawals and deposits made at automatic teller machines will also appear on the statement. Bank charges will appear only on the statement.

6. Total all bank charges and enter them on your check register. Subtract this amount from your balance. Add or subtract any items on the statement that weren't entered in your check register.

7. Now add all uncleared checks shown in your check register. Subtract this total from the balance shown on the statement to get the statement balance.

8. Add all deposits that don't appear on your statement. Add this total to the statement balance (the total you calculated in Step 7). This total should agree with the balance in your check record. If both balances aren't the same, review the bank statement for any items not on your record. Check your arithmetic to make sure that it's correct.

Banks can make mistakes. You may find you have been charged for a check you didn't write. You may be credited with a deposit that isn't yours. In either case, you should contact your bank immediately to get the mistake corrected. It's a crime to use money that has been incorrectly credited to your account.

Bank Drafts and Special Checks

A *Bank Draft* is a check from one bank drawn upon funds deposited to its credit by some other bank. It is a convenient means of transferring money safely when the individual who is making payment is not known in the place where the money is to be sent. You may purchase the drafts from a bank. The bank charges a small fee for issuing a bank draft.

Certified Checks are your personal checks that the bank guarantees to be good. The bank certifies it with a special ink stamp. The amount of the check is deducted from your account balance and the check becomes an obligation of the bank. If you don't use a certified check, return it to your bank, where the funds will be credited back to your account. This type of check is used when a personal check will not be accepted, such as in real estate closings.

Cashier's Checks or Treasurer's Checks are a safe method of sending money by mail. They may be used by persons who do not have bank accounts, as well as by those who do. They are drawn on the bank by the bank, and they become direct obligations of the bank. Cashier's checks may be bought with a personal check or with cash, and usually a small fee is charged. Guard such a check very carefully.

Traveler's Checks are one of the safest ways of carrying money when traveling. They can be bought for a fee or may be provided as a service of the banking institution in denominations of $10, $20, $50, or $100 or more. When you buy them, sign each check at the top in the presence of the seller. When you cash one, sign at the bottom (countersign) while the person receiving the check watches. If traveler's checks are lost or stolen without being countersigned, your money will be refunded, according to the terms of the contract.

Keep a record of the serial numbers of the traveler's checks in a different place from the checks. This information will be needed in case you lose them. The bank or company that issued the checks must have the serial number and amount of each check lost.

Tips to Save Trouble

- Treat your checks as you would cash. Keep them as safe and secure as possible.

- Don't make changes on the face of a check that's issued to you and don't take a check that looks as if it has been altered. The bank may refuse to cash such checks.

- Avoid carrying checks made out to "Cash" or "Bearer." If they're lost or stolen, there's no control over who cashes them.

- For the same reason, never sign your personal check until you have filled in the amount and the payee.

- Check all entries the teller makes in your deposit record or duplicate deposit slip to make sure they are legible and correct. If you're taking cash back from the deposit, count your money carefully to see that it's the correct amount. Do both of these things before you leave the teller's window.

- Always inspect new check orders for accuracy. Check the spelling of your name, address, and phone number, and be sure your account number is properly encoded. Any errors should be reported to the bank.

There are numerous checking procedures — some you may need to use only once. If you don't understand a procedure, ask an officer at your bank to explain it to you.

Reference

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