

Module 2
Section 1

BANKING BASICS

Understand how to best manage your money through a bank and all they offer.

IN THIS SECTION YOU WILL:

Learn about the differences between credit and debit cards.

Discover why it is important to build your credit and build your credit score.

Explore different types of loans and the dangers of fraud.

Find out about checking and savings accounts and how to avoid overdraft fees.

BANKING BASICS

Using your money

As you handle your money, there are some important things to know about banking. First, it's crucial to start saving and pay yourself first to get ready for the future. Having an emergency savings account can save you money when something unexpected happens.



You should also understand the difference between checking and savings accounts. Checking is for your everyday spending, while savings is for your future. And for unexpected things, make a plan to reach your goals. This plan will be different for everyone, depending on their lifestyle and income.

Debit or Credit cards

The next topic is spending. When you think about your monthly spending, it's really important to figure out what you want and what you need. It's a good idea to write it down or use an app to help you stick to your monthly budget. Also, when you spend money, do you

use your debit card or your credit card? If you use your debit card, you're using your own money from your checking account. But if you use a credit card, you're using someone else's money. It's important to think about whether you can pay back your debt if you use a credit card. The reason is that when you use a credit card, you have to pay interest, which is often a lot of money. It's really important to understand the terms of a credit card.

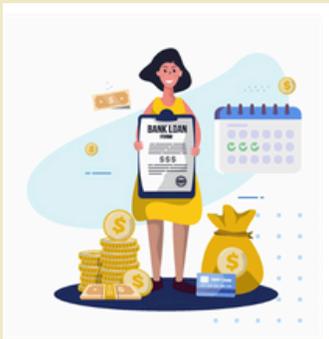


Borrowing money and credit scores

The next thing we will talk about is borrowing. This is the first step in borrowing. The first thing you need to do when you want to borrow is find out your credit score. What is a credit score? A credit score can be anywhere between 300 and 850. There are different companies that keep track of your credit score. Banks use these companies to check your credit. It's important to know what factors affect your credit score. One factor is whether

you have had credit in the past. For example, have you had a credit card before? Have you had a car loan? Have you had a home mortgage? If you haven't had these things or any credit in the past, your credit score will start at zero. This is because you haven't had a history of having credit. That's why it's important to start building credit early. It helps you when you need to make a big purchase, like a car or a home.

One thing bankers talk about with clients is how to improve their credit score. One way to do that is to take care of any debts you haven't paid. Maybe there are some bills you need to pay. Make sure you take care of those and then start building your credit.



Building your credit

Sometimes you can get a secured credit card. This means you use your own money and put it aside to use with the credit card. Doing this can help you start building credit in as little as six months. You can start building credit when you turn 18 years old. At that age, you can enter into a contract to start building credit.

People often ask if having a checking account for a few years builds credit. The answer is no, it does not. Another question people have is if being on a parent's credit card helps build credit. It does not.

You have to be responsible for the credit yourself in order for it to build and increase your credit score. When you're ready to buy a car and have good credit, there are some things to think about. You need to figure out how much your monthly payments will be. This will help you budget and know what you can afford. The term of the loan is how long you have to pay it back. It's important to know your payments, the term, and the interest you'll be paying. You'll have to pay back the initial loan amount plus interest.

It's important to consider all of these things when deciding if you should take out a loan. Lenders look at certain things to decide if you can get a loan. One thing they look at is your debt-to-income ratio. This means they want to see if you can pay back the loan based on your income and other debts you have. They want to make sure you can afford to pay it back.

What is considered a good credit score to get a loan?

When banks look at your credit score, they want to see if it is good. A good credit score for many loans is around **640**. This means

you need to have a credit score of at least 640 in order to get a loan. Banks also look at your ability to pay back the loan and how long you have had credit. All of these things together determine your credit score. If you are getting a loan that is secured by something like a car, make sure the car is worth enough to cover the loan amount.

There are many things to think about when getting a loan. If you have questions, talk to your banker. They can help you with any lending questions you have, even if you are just starting to think about borrowing money. It all depends on your income and your ability to pay it back.

Two types of loans

There are two types of loans: installment loans and lines of credit. An installment loan has a fixed rate, and you make the same monthly payments every month. These loans are usually for things like cars or homes.

A line of credit is like a credit card. With a line of credit, you only have to pay the interest. This can change depending on how much money you borrow. The big difference between the two is that an installment loan has collateral, like your car or home, while a line of credit does not.

Credit cards and lines of credit are usually revolving loans. The interest rates for these loans are higher because the bank takes on more risk without collateral.



Beware of fraud

The next thing to think about is keeping your account safe. Right now, banks are seeing a big increase in fraud. Fraud can happen in many different ways. It can be when someone uses your check card without permission, when someone tries to steal your checks, or when someone takes money out of your account without you knowing.

It's important to protect yourself. Try to lower your chances of having your identity stolen and be careful with your personal information. If something doesn't feel right, don't give your information to a website. Don't answer every request. Keep your mail and personal information safe. Check your accounts regularly. This means looking at your checking account, checking your online statements, looking at how much money you have, and looking at your transactions.

If something doesn't look right, contact your bank right away. Stay informed and learn about how to protect yourself. If something seems wrong, call your bank directly. Don't call the number on the screen but call the number you already have for your bank. They can help you figure out what's happening. If

you have already given your information to someone; the bank can take steps to close your account and open a new one. You might also want to clean out your computer.

It's also a good idea to check your credit report every year. You can do this for free at annualcreditreport.com. This report looks at information from three different credit agencies. You can see if there's anything you need to argue or if there's anything that doesn't look right.

Fraud is a big problem in the banking world right now. It's not just affecting older people, but also younger people and middle-aged people. It's affecting everyone in different ways. Make sure to protect yourself and your information.

Again, remember not to call the number you see on the screen or in an email. Call your local bank instead. In this fraud situation, they are even tricking people with fake numbers. The number might look like it's from your bank, but it's not. Hang up the phone and call the local branch using the number you know. If something doesn't look right, don't do it. If something seems too good to be true, it probably is.

Savings vs. checking accounts

accounts. Checking accounts are for things you buy every day, like food, gas, and bills. The last thing we're looking at is accounts. Banks have different kinds of accounts. The two main ones are checking and savings. Savings accounts are for saving money for things you'll need in the future.

So how do you open an account? One way is to go to a bank or one of its branches. It's a good idea to make an appointment so they can spend time with you and understand your goals and what's important to you.

What do you need to open an account? Usually, the bank will want to see a picture ID, like a driver's license or passport. You'll also need to know your social security number, birth date, current address, and phone number. And you'll need some money to put in the account to start it. You can use cash or a check.



Overdrafts

One question people often ask the bank is "What happens if I spend more money than I have in my account? What do I do?" First, it's important to talk to your banker. If you spend more money than you have and the bank pays for it, you'll need to pay the bank back. You'll also have to pay a fee called an overdraft charge. Some banks let you return the item you bought and you won't have to pay the fee if the money goes back into your account. Most banks won't let you spend more money than you have if you're using a debit card. You need to make sure you have enough money in your account before you buy things.

Realistic Ways to Save Money

When money is tight and it's hard enough to simply pay the bills every month, the thought of starting a savings account seem impossible. It's not if you follow some money saving tips.

1. **Keep Track of Your Money**

The first thing you need to do to save more money is to know how you spend it. Keep track of every dollar you spend during the month and put them into different categories based on what you spent the money on. Once you know how much you spend in each category, it will be easy to see where you can make improvements.

2. **Make a Budget**

It's hard to avoid spending too much money if you don't have a plan. That's why you need to make a budget. A budget is a plan for how you will use your money. One common rule for budgeting is the 50-30-20 rule. This means you should spend half of your money on things you need, like food and clothes. You should spend 30% on things you want, like toys or games. And you should save 20% of your money. But you can also start with a smaller amount of money to save or have a specific goal in mind.

3. **Don't Waste Your Money**

Try not to spend money on things that don't really matter or don't give you much value. For example, if you have an expensive cellphone plan or eat out at restaurants a lot, you could try finding cheaper options. This way, you can have more money to spend on things that are really important to you.

4. **Have Goals**

It's important to have goals when you are trying to save money. Goals can help you stay motivated and keep track of your progress. When you set goals, it's a good idea to use the SMART model. SMART stands for Specific, Measurable, Achievable, Relevant, and Time-bound. This model can help you make clear and achievable goals.

5. **Save Automatically**

To make sure you always save money, set up a system that automatically puts money into your savings account. Many banks already have this option, so it should be easy to set up. This way, you won't forget to save money and it will happen automatically.

6. **Cancel Subscriptions You Don't Need**

Check your subscriptions regularly and cancel any that you haven't used in a while. This can save you money without much effort. And if you ever want to subscribe to the same service again, you can always do it later.

7. **Pay Off Your Debts Quickly**

If you have debts, it's important to pay them off as soon as possible. The longer you take to pay off your debts, the more money you will give to the banks instead of saving it. Look for strategies to help you pay off your debts faster.

8. Save Any Extra Money

Your budget, which is the money you have to spend, needs to already be enough to cover what you need. So, when you get unexpected money, like gifts or extra earnings, think about putting it into your savings.

9. Buy Generic Brands

Most of the time, the store brand items at the grocery store are just as good as the well-known brands. If you do some research, you can find no-brand items that are just as healthy and tasty as the ones you usually buy, but they cost less.

10. Pack Your Lunch

Eating lunch out might be easy, but it costs a lot of money. So, try to pack your lunch as much as you can to save even more money on food. If you're short on time, you can prepare multiple lunches at once by meal prepping.

11. Sell Anything You Don't Need

Sell things you don't need any more to clean up your home and make some extra money. You can have a garage sale or sell your used stuff online on websites like Facebook Marketplace or eBay.

12. Use Cash-Back Apps

Cash-back apps can help you save money, and many of them work with your debit or credit cards. All you have to do is set up the app once, and then you can get money back when you use your card.

13. Avoid Impulse Purchases

One of the biggest mistakes you can make with your money is buying things or services that you don't really want or need. Before you decide to buy something, it's a good idea to wait a few days first. Use this time to research the product and think about whether it's worth spending your money on.

14. Reduce Your Household Bills

You can't avoid paying your household bills, but you can try to lower them like you do with other expenses. Look for cheaper options for bills that you have to pay every month, like your internet or cable. For bills that are based on how much you use, try to use as little as possible.

15. Use The Cash Envelope Budgeting System

The cash envelope budgeting system is a great way to stop yourself from spending too much and save more money. It limits how much money you can spend on different things. Put the cash needed for each area of expense in separate envelopes. Only use what is in the envelope and when it's empty, you can't spend more. The traditional way to do this is by using physical cash and envelopes, but there are also apps like YNAB that let you do it digitally.

DISCUSSION QUESTIONS

1

How do you currently save money and plan for the future?

2

What are some ways you can improve your credit score?

3

Have you ever borrowed money or bought something big? How did you decide how much you could afford to pay back?

4

What are some strategies you use to protect your personal information and prevent fraud?

5

Have you ever had to dispute a charge or incorrect information on your credit report? How did you handle it?

6

What are some advantages and disadvantages of having a checking account versus a savings account?

7

How do you determine if taking out a loan is the right decision for you? What factors do you consider?

8

What are some things you really need versus things you just want? How do you decide what to spend your money on?

MORE TO CONSIDER

1 Money tip: Consider doing the 52-week money challenge.

Deposit an increasing amount of money into your savings each week for a year.

- Save \$1 the first week,
- \$2 the second week,
- \$3 the third week and so on until you put away \$52 in week 52.

If you're consistent, you'll save \$1,378 by the end of 52 weeks.

2 Saving isn't just about covering expenses when the unexpected happens. It's also about financially securing your future.

The easiest way to save for your future self is through a retirement savings account. If you want to put money away for your future but think you don't have enough money to do so, think again. You can invest with as little as a few dollars a week in a retirement account. What matters more is getting started as early as possible. The more time your investments have to grow in the stock market, the more your retirement savings will be worth decades from now — thanks to compound interest.

How compound interest works: Compound interest is essentially the interest you earn on interest. You earn interest on the principal (the initial amount deposited) and on the interest that accumulates over time.

Investing \$25 a month in a retirement account could grow to nearly \$300,000 over 45 years.

Investing \$100 a month in a retirement account could grow to \$975,000 over 45 years!