Tips and Answers: Banking Basics Case Studies

Case Study: The Piggy Bank

Twins Emma and Emmett are excited to be starting college next year. Emma is leaving home behind and heading to college in Florida while her brother Emmett is going to live at home and attend a local university. Up until now, they have always used cash or gift cards received for holidays or birthdays to pay for their expenses. Any savings they had was in their piggy banks in their rooms. Now that college is almost here, they realize that cash may not be the best option.

1. Why is cash not always a good option?
   - Cash can be lost or stolen. A bank will keep your money safe from loss or theft.
   - Using cash sometimes makes you spend without thinking and it starts to add up. A bank will give you monthly statements of your financial transactions so you can track your spending and help you budget your money wisely.
   - There is no proof of payment with cash, but if you write a check or use debit card, the bank will have proof that you paid.
   - Cash can’t earn interest on its own. A bank will help you build savings and earn interest. Interest is the compensation an individual or business gets for lending their money to a bank.
   - You can’t use cash to establish credit. Having a bank account will help you to establish a credit history.
   - Having a bank account creates a relationship with the bank so you can obtain loans when needed.

2. What should Emma consider when picking a bank? What about Emmett? Do they have different needs?
   - Location: Emma is away from home, Emmett is local
     - National or regional banks usually offer more convenience
     - Local banks provide more personal service
     - Virtual banks provide at-home banking convenience
   - Find the right combination of products and services, convenience and cost. Both Emma and Emmett need to ask lots of questions so they can pick the right bank for each of their needs:
     - Is it convenient? Do they have a good network of ATMs?
     - What will it cost to have a checking account? Is there a minimum balance requirement?
• Are there any special accounts that cost less, like teen or college checking accounts?
• What will it cost to use the bank’s ATM, and what fees will you be charged for using another bank’s ATM?
• Is there a minimum balance to earn interest on a savings account? What is the current interest rate for savings accounts?
• Do they offer online or mobile banking? Is there an additional charge?
• What are the fees and penalties?
Case Study: The Disappearing Money

Emmett is having a great first semester and thinks he’s in good shape with his new college checking account.

On Monday morning, he checks the balance in his checking account and it is $30. He goes ahead and uses his debit card for $20 to replace his lost ear buds. Later that day, the bank deducts $15 from using his debit card on Saturday night for pizza with his friends. His account has a negative balance so the bank charges an overdraft Fee of $30.

Tuesday comes and Emmett does not check the balance thinking he has enough, so he picks up a quick coffee and breakfast for $5 before class. The bank approves the transaction, and charges another $30 overdraft fee. Later that day, the bank deducts $15 for Check #104 that Emmett wrote last week to cover his dues for the basketball club which he forgot to record. His account doesn’t’ have enough money to cover the check, so the bank rejects the check and charges a $30 NSF or Non-Sufficient Funds fee.

Tuesday evening, Emmett checks his account expecting to see $5 but is shocked to see all the bank fees and a very large negative balance.

Complete Emmett’s bank ledger to calculate his new balance:

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction Type</th>
<th>Description</th>
<th>Transaction Amt $</th>
<th>Balance $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mon AM</td>
<td>Debit card</td>
<td>Replace ear buds</td>
<td>-$20</td>
<td>$10</td>
</tr>
<tr>
<td>Mon PM</td>
<td>Debit card</td>
<td>Pizza (Sat)</td>
<td>-$15</td>
<td>-$5</td>
</tr>
<tr>
<td>Mon PM</td>
<td>Fee</td>
<td>Bank overdraft fee</td>
<td>-$30</td>
<td>-$35</td>
</tr>
<tr>
<td>Tues AM</td>
<td>Debit card</td>
<td>Breakfast</td>
<td>-$5</td>
<td>-$40</td>
</tr>
<tr>
<td>Tues PM</td>
<td>Check</td>
<td>Check #104 for basketball club dues</td>
<td>-$15</td>
<td>Not paid</td>
</tr>
<tr>
<td>Tues PM</td>
<td>Fee</td>
<td>Non-sufficient funds fee</td>
<td>-$30</td>
<td>-$70</td>
</tr>
<tr>
<td>Tues PM</td>
<td>Fee</td>
<td>Bank overdraft fee</td>
<td>-$30</td>
<td>-$100</td>
</tr>
</tbody>
</table>

How can the bank charge a fee with a negative balance?

- Banks can approve transactions when you don’t have enough money, and most times they charge you a fee for that service, called Overdraft Protection. However, they must allow you to opt out of this overdraft “protection” for debit card purchases and ATM
withdrawals. Having your card declined will let you know right away that your account is in the red.

Why does the bank sometimes process transactions a day (or a few days) after a check is written, debit card swiped, or deposit made?

- Banks work on “business days” which is Monday through Friday, minus federal (or designated state) holidays. Not all electronic bank transactions immediately change your account balance. In some cases, transactions made after “banker’s hours” will show up on your account the next business day. Read your bank’s policy about the cutoff time, or when they stop processing transactions for that day.

How can Emmett avoid unnecessary fees?

- Emmett should record ALL of his transactions: debit cards, checks, deposits, ATM withdrawals, and be more careful to check his balance.
- If you opt in for the debit card overdraft protection plan and there isn’t enough money in your checking account to cover the ATM withdrawal or the in-store debit purchase, you’ll get hit with the bank fee. If you do not opt-in for the coverage, the transaction will be declined, but you won’t pay a fee. You need to ask your bank about their fees and rules and then make sure your account has the feature that you want.
- Some banks will link your checking to a savings account to prevent overdrafts but usually charge a fee.
Case Study: Money Tracking

Annie needs help managing her checking account. Can you help her?

- Track her money
- Determine what transaction types she is using (deposit or withdrawal)
- Decide what she can buy after she pays her bills
- Determine her final balance
- Suggest other things she can do with her remaining money

Annie received two paychecks for $75 and three birthday checks for $20, $25, and $15. Her expenses/bills are a $34 phone bill, $60 ticket to school prom, $20 for carfare, and $30 for lunch. What does she have left?

<table>
<thead>
<tr>
<th>Transaction type</th>
<th>Item</th>
<th>Deposit (credit)</th>
<th>Withdrawal (debit)</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit</td>
<td>Paycheck</td>
<td>$75</td>
<td></td>
<td>$75</td>
</tr>
<tr>
<td>Deposit</td>
<td>Paycheck</td>
<td>$75</td>
<td></td>
<td>$150</td>
</tr>
<tr>
<td>Deposit</td>
<td>Birthday check</td>
<td>$20</td>
<td></td>
<td>$170</td>
</tr>
<tr>
<td>Deposit</td>
<td>Birthday check</td>
<td>$25</td>
<td></td>
<td>$195</td>
</tr>
<tr>
<td>Deposit</td>
<td>Birthday check</td>
<td>$15</td>
<td></td>
<td>$210</td>
</tr>
<tr>
<td>Withdrawal</td>
<td>Phone bill</td>
<td></td>
<td>$34</td>
<td>$176</td>
</tr>
<tr>
<td>Withdrawal</td>
<td>Prom</td>
<td></td>
<td>$60</td>
<td>$116</td>
</tr>
<tr>
<td>Withdrawal</td>
<td>Carfare</td>
<td></td>
<td>$20</td>
<td>$96</td>
</tr>
<tr>
<td>Withdrawal</td>
<td>Lunch</td>
<td></td>
<td>$30</td>
<td>$66</td>
</tr>
</tbody>
</table>
Annie would also like to buy the following items:

- New sneakers for $70
- A CD for $18
- A new outfit for $59

Does she have enough money for all three items?

- No, Annie cannot buy all three items.

Which items can she buy?

- Annie can buy either the CD or new outfit.

How will she pay for the items?

- She can pay with a check or cash from ATM. Debit card is also acceptable.

What will she have left over?

- If she buys CD, she has $48 left.
- If she buys outfit, she has $7 left.

What can she do with her remaining money?

- Annie should also consider saving some of her money.
Case Study: Banking on the Go

Emma’s bank in Florida offers state of the art banking. She downloaded the bank’s mobile app so she can deposit her campus job paycheck while walking back to her dorm. When roommate Tina bought concert tickets for their group of friends, Emma was able to pay her back for her ticket using the mobile app too.

Discussion some of the new functionality that banks and others are offering and which would be most useful to you? Why? How do these help you more successful managing and monitoring your money? What are the risks or issues you could encounter using the new mobile technology?

- Check account balance
- Deposit your check by taking a picture of the check
- Pay bills
- Transfer money between accounts
- Find the nearest fee-free ATM for your bank
- Get text message alerts any time your account balance falls too low
- “Virtual Wallets.” Enter a PIN and a number from the receipt into an app and you’ve paid using your mobile phone. (Examples: Google Wallet, PayPal, PNC Virtual Wallet, Venmo)
- “Tap-and-Pay.” Log in to an app, then tap or wave your phone at the checkout terminal to pay.

NOTE: Don’t forget to check for any fees associated with mobile banking.

Reminders:

- The more payment tools and programs you use, the harder it will be to track your spending, so pick and choose what makes sense for you and with the least fees.
- More tools and technology also give thieves more ways to steal and exploit your financial information, so protect your usernames and passwords, and review all online accounts regularly. Keep track of your phone — if you lose it, your data and personal information could be compromised.
Case Study: Stop That Thief

Emma was at an ATM and a guy walked up behind her. She thought he was just waiting his turn. But she realized he was uncomfortably close — looking over her shoulder — as she was ready to enter her PIN.

What should Emma do?
- Be aware of surroundings and the possibility that someone might watch your actions.
- Cancel the transaction. Don’t complete the withdrawal or deposit.
- Verify your account record to see if any unauthorized transactions have been recorded.

Emmett found a pair of basketball sneakers at a great price on a Web site he discovered on Facebook. He starts the check-out process and noticed that the padlock at the bottom of your computer screen is open and that the Web page address starts with “http” instead of “https.”

What should Emmett do?
- Be alert to instances when a website may be unsecure, especially if you did not initiate contact with the site or if the site displays an unsecure address.
- Don’t place an order or process a payment transaction on the site.
- Verify your account record to see if any unauthorized transactions have been recorded.

Summary: Deter Identity Theft
- Protect your password and PIN. Don’t give it out to anyone, don’t write it on your cards, shield it from others in a public place. There are some free or low cost software to help manage passwords.
- When using an ATM, always cover the keys when entering your PIN.
- Do not throw out your ATM receipt in a public trashcan.
- Only carry the credit cards you need.
- Only carry your driver license for identification. Leave birth certificate, passport, and social security card at home or in another safe place.
- Monitor all your statements for accuracy.
- Collect your mail daily, do not leave overnight.
- Check your credit report every year.
- Shred your mail with personal info, expired credit cards, and important documents.
- Protect your credit and debit cards by making sure you get your card back after you make a transaction.
- Immediately cancel lost or stolen credit cards and bankcards.
- Keep information safe on your computer, use virus or anti-spy protection.
• When you receive an email with a link, be extra careful and do not "click through" a link. Instead retype the URL for that company yourself in your browser, so you are sure to be going to the legitimate website.
• Reminder: Legitimate banks and credit card companies will NEVER ask for a password or identifying info by sending you an email or calling you by phone. Only provide this information if you call them first to conduct business.