Lesson 10 - Introduction to Personal Banking

Bell Ringer: What personal banking features do you use now? What do you think you might use as an adult?

A. Section 1 - Review financial analysis

1. What are the 4 main areas of analysis
2. What is the main measure for each area

B. Section 2 - Personal Banking

1. The same business principles apply to personal banking as they do to businesses
2. You need to monitor your assets and liabilities (balance sheet)
3. You need to monitor your income and expenses (income statement)
   - You can also do this through your checkbook register
4. You need to have personal “liquidity” (emergency funds)
5. You will probably apply for loans for autos or houses at some point in your life
   - The loan application will include balance sheets and income statements

C. Section 3 - Your personal liquidity

1. A large portion of your personal liquidity will probably be kept in cash, checking accounts, and savings accounts
2. Have a goal of starting each month with at least 1 month’s worth of your living expenses in a checking account. This way you will be able to meet your monthly bills on time.
3. Set a goal of having a savings account with at least 2 months of living expenses in it. This is your “emergency fund”. When you are out of work, or your car breaks down, or your refrigerator breaks, you can pay for it with cash from your savings account instead of using a credit card or getting an emergency loan (high interest rates!).
4. Checking accounts
   a. Most people over the age of 18 should have a checking account
   b. Many employers require that your paycheck be direct-deposited into a checking account
   c. It will help you track your cash flows (income and expenses)
   d. Types of checking accounts:
      - Personal checking accounts (non-student)
         - more features than a student account
         - may or may not earn interest on your account
         - probably has a debit card
         - may come with a credit card
         - may have monthly maintenance fees
         - has higher minimum balances than a student account
      - Student checking accounts
         - a simple checking account, with no bells or whistles
         - probably does not earn interest on the amount in your account
         - probably no maintenance fees or very low fees
         - probably has a minimum balance that you need to keep in the account
         - probably comes with a “debit card”

- Business checking accounts
    - similar to personal checking accounts, but for businesses
        - But it may take several months!

e. Using a checking account
    - Open the account at your bank
    - Make your initial deposit
    - You will get a checkbook full of blank checks and a checkbook register
    - Write down all of your transactions in your checkbook register
        - Compare your entries to the monthly statement you will get from your bank
        - This is called "balancing your check book"

Work through the checkbook balancing exercise

f. Tips on writing checks:
    - always record the checks in your register
        - check number, who it is written to (payee), date, amount (numbers and written)
        - sign your check
        - write a memo on the memo line
        - start your written dollar amount entries at the far left edge of the check
        - draw a line from the last word to the far right edge of the check
        - start your dollar amount (numbers) at the far left edge of the box
            - use a decimal point and the cents afterward

g. Why not just use cash instead of writing checks
    - carrying cash is dangerous
        - loss, theft
    - you tend to spend cash when you have it
        - you spend less with a check because of the trouble of writing all of the information
    - some businesses do not accept cash
    - you shouldn't put cash in the mail to pay bills
    - ATMs and online banking tied to your checking accounts is very convenient
    - Most checking accounts are insured against failure of the bank
        - FDIC = Federal Deposit Insurance Corporation
            - Insures your checking account up to $250,000
            - If the bank fails (goes bankrupt), you will get your money back through FDIC

h. Disadvantages of Checking Accounts
    - may have a monthly or annual maintenance fee
    - it is less convenient than paying with cash or credit
    - You may not be able to get your cash out of the checking account when the bank is closed

5. Savings Accounts
    a. a savings account is used to store your emergency money
    b. it typically pays a rate of return (interest) on your account
        - although the returns are usually quite low
        - do not worry that your savings account doesn't earn a high return

- the purpose of the savings account is to be able to get to your money quickly in the event of a financial emergency

c. you can get money out of your savings account quickly and easily
   - by writing a check
   - by transferring the money to your checking account
   - by using online banking services
d. Savings accounts operate very much like a checking account
   - treat the savings account register like a checkbook register
     - write down every transaction
     - balance your savings account register every month
e. It is usually insured by FDIC

f. Disadvantages of a savings account – same as for checking accounts
   - may have a monthly or annual maintenance fee
   - it may require higher minimum monthly balances than a checking account
   - it doesn't pay a very high return
   - you may have trouble getting your cash outside of regular banking hours

6. Certificates of Deposit (CDs)
   a. CDs are an alternative place to keep your emergency funds
   b. a CD is basically a loan that you make to the bank
      - You write a check to the bank for a stated amount (principal)
      - The bank promises (in writing) to pay you a stated return (interest or yield) over a stated time period (term)
      - At the end of the term, the bank gives you your initial amount (principal)
   c. CDs are usually 100% insured
      - You will get your initial money back in the event of a bank failure
   d. CDs come in different terms
      - 1 month to 10 years is a common range
      - typically, the longer the term (the more years) of the CD, the higher the return (interest or yield)
   e. There is usually an early withdrawal penalty with CDs
      - if you take your money out before the end of the term, the bank will charge you 2-3 months worth of interest as a penalty
      - This makes them good places to keep your emergency money
        - If you know there's a penalty for taking the money out, you are less likely to use that money for foolish purchases!

Materials: **PowerPoint on Introduction to Personal Banking**
In-class Exercise and Key
Take Home Reading

INTRODUCTION TO PERSONAL BANKING

Personal Vs Business

- Same principles apply to personal and business finances
  - *Balance sheets*
  - *Income statement or personal budget*
  - *Liquidity*
  - *Loan applications*
    - Requires balance sheets and income statements

Personal Liquidity

- Most of your personal liquidity will be in:
  - *Cash*
    - Cash you carry for day-to-day expenses
  - *Checking account*
    - To pay your regular monthly bills
  - *Savings account or CDs*
    - Places to hold your emergency money

Personal Liquidity Goals

- Goal 1: Start each month with at least 1 month of living expenses in your checking account
  - *So you can pay your regular bills on time*
- Goal 2: Try to have at least 2 months of living expenses in your savings account
  - *For financial emergencies*
    - When you need to get cash quickly
  - *Avoids the need to get a high-interest loan or rely on a credit card*

Checking Accounts

- Most people over age 18 should have one
- Many employers require that your paycheck be direct-deposited into a checking account
- It helps you track your spending
- Main Types:
  - *Personal*
  - *Student*
  - *Business*

Personal Checking Accounts

- For individuals or families
- May have a monthly maintenance fee
- May pay you a monthly return (interest)
- May have a minimum monthly balance
- You need to keep at least this much in your account, or you will pay a fee
- Probably comes with a debit card
  - *"Electronic checks"*
- May come with a credit card

Student Checking Accounts

- Less "bells & whistles" than a personal account
- Probably does not pay you a return (interest)
- Probably does not have a monthly fee
- Probably has a minimum monthly balance
- Probably comes with a debit card

Business Checking Accounts

- Similar to personal accounts, but are for businesses
  - *If you have a business, have a separate business checking account!*
- May have a "non-use" fee
  - *If you don't write X checks per month, you are charged a fee…*

Using a Checking Account

- Open an account at your bank
  - *Read all of the details*
- Make your initial deposit
- You get a checkbook & a register
  - *You will have to pay for these*
- Write down all of your transactions in the register
  - *Compare your monthly statement from the bank to your register – look for differences*
    - This is called "balancing your checkbook"

Checkbook Exercise

- Write all of your transactions in the register
- Follow the directions for balancing your checkbook register

Tips on Writing Checks

- Always record your checks in the register
  - *Check number*
  - *Date*
  - *Payee (who it is written to)*
  - *Amount*
- Fill out every section of your check
  - *Date*
  - *Payee*
  - *Amount – in writing and in number format*
  - *Memo*
  - *Sign your check*

Tips on Writing Checks

- Written dollar amounts
  - *Ex. "Twenty-five and 75/100 ———"*
  - *Start at the very left edge of the line*
  - *Draw a line from the cents to the right edge of the line*
- Number amounts:
  - *Ex. "$25.75"*
  - *Start at the very left edge of the box*
  - *Include the decimal point and the cents*
    - Even if it is an even dollar amount ($5.00 vs $5)

Advantages of Checking Accounts

- Safe than carrying cash
- Tend to spend less when writing checks
  - *Compared to using cash or credit cards*
- Some businesses do not accept cash
- You shouldn't put cash in the mail to pay bills
- ATMs and online banking are very convenient
  - *For after-hours or out-of-town cash needs*
- Most accounts are insured by FDIC
  - *Up to $250,000 per account!*

Disadvantages

- May have a monthly maintenance fee
- Writing checks is less convenient
  - *Need to write everything down twice!*
  - *Cash or credit cards are more convenient*
- You may not be able to get your cash after banking hours

Savings Accounts

- For quick access to your emergency money
  - *At least 2 months of living expenses*
- Typically pays a low return (interest)
  - *Currently paying less than 1% annually*
  - *Don't worry about this*
    - Purpose is quick access to your money for emergencies
- Savings accounts operate just like checking accounts
  - *Write down each transaction*
  - *Balance your account each month*

Accessing Your Savings Account

- You can get your money by:
  - *Writing a check from your savings account*
  - *Transferring funds from your savings to your checking account - and then writing a check*
    - Online transfers from savings to checking
    - Writing a check from your savings account and depositing it in your checking account

Certificates of Deposit (CDs)

- Alternative place to keep your emergency money
- Basically a loan you are making to your bank
  - *You write a check for a stated amount (principal)*
  - *The bank agrees, in writing, to:*
    - Pay you a stated rate of return
    - For a stated period of time (term)
    - Return your initial principal at the end of that term

Certificates of Deposit (CDs)

- CDs are usually 100% insured
  - *You will get your original principal back*
- CDs come in different terms
  - *1 month to 10-years is a common range*
  - *Longer term CDs tend to have higher returns*
- Early withdrawal penalty
  - *If you take your money back before the end of the term*
  - *Usually pay a penalty of 2-3 months of interest*
    - This keeps you from using this money for non-emergencies!

Introduction to Personal Banking- Notes Organizer

Introduction to Personal Banking

Personal Liquidity	Details	Advantages	Disadvantages
1. Checking Accounts			
2. Student Checking Accounts			
3. Business Checking Account			
4. Savings Account			
5. Cash			
6. Certificates of Deposit (CD)			

Checkbook Balancing Exercise

You opened a checking account on Feb 1, 2023. Your opening balance was $835.25. During the month you had the following activity in your checking account:

Feb 2	Check #1001 – rent	$500.00
Feb 2	Deposit	$100.00
Feb 5	Check # 1002 – insurance	$65.50
Feb 12	Check # 1003 – groceries	$45.35
Feb 15	ATM withdrawal	$50.00
Feb 20	Check #1004 – credit card	$120.85
Feb 20	Service charge – bank	$5.00
Feb 28	Deposit	$25.00

First thing to do is enter all of these transactions into your checkbook register – see the next page. Keep a running total of your checking account balance – do this for each of the transactions. You should end up with $173.55 as the ending balance in your register.

It's Feb. 23, 2023 and you've just received your monthly statement from the bank, along with 2 canceled checks (checks that have cleared your account). Now it's time to balance your check book. Use the following monthly statement to balance your checkbook. Here's how:

1. In the "X" column of your checkbook register, clearly mark (with an X) all of the transactions that are listed on your monthly statement.

2. Use the checkbook balancing worksheet on the monthly statement.

   a. Write the ending balance from the statement on the first line (Line A) of the worksheet.

   b. Total all deposits to your account that have NOT cleared (are not listed on your statement). Write this total on Line B.

   c. Add Lines A and B to calculate the subtotal and enter the result on Line C.

d. Total all withdrawals from your account that are not listed on your monthly statement. Enter the total on Line D.

e. Subtract Line D from Line C. This amount should be exactly equal to the ending balance in your checkbook register. If not, you have made a mistake – go back and do it again!

Checkbook Register

Item Number	Date	Transaction Description	Amount of Payment	X	Amount of Deposit	Balance
	2-1	Opening Balance		X		835.25

Canceled Checks

Joe Smith **1001**

SSN: 215-66-1098
Phone: (919) 515-6092
3500 Broadway
Verona, VA 24588

Feb 2 20 23

Pay to the Order of Foxridge Apartments $ 500.00

Five Hundred and 00/100 ***DOLLARS***

First State Bank of Virginia
5000 Hillsborough St.
Abingdon, VA 23665

FOR

Joe Smith **1002**

SSN: 215-66-1098
Phone: (919) 515-6092
3500 Broadway
Verona, VA 24588

Feb 5 20 23

Pay to the Order of Farm State Insurance $ 65.50

Sixty-five and 50/100 ***DOLLARS***

First State Bank of Virginia
5000 Hillsborough St.
Abingdon, VA 23665

FOR

First State Bank of Virginia

Monthly Bank Statement

for the Period Jan 20 - Feb 20, 2023

Beginning Balance:	$835.25
Deposits:	$100.00
Withdrawals:	$620.50
Ending Balance:	$314.75

Transactions

Deposits:	Feb 5	$100.00	
Checks:	Feb 4	$500.00	# 1001
	Feb 8	$65.50	# 1002
Service Charges & ATM Withdrawals:			
	Feb 15	$50.00	
	Feb 20	$5.00	

Checkbook Balancing Worksheet

A. Ending Balance from Monthly Statement: ______________________________

B. Add Any deposits made, but not Recorded on Monthly Statement: + ______________________________

C. Subtotal: = ______________________________

D. Minus Any Checks Written, but not Recorded on Monthly Statement: - ______________________________

E. Ending Balance: = ______________________________

Checkbook Balancing Exercise (KEY)

You opened a checking account on Feb 1, 2023. Your opening balance was $835.25. During the month you had the following activity in your checking account:

Feb 2	Check #1001 – Foxridge Apartments - rent	$500.00
Feb 2	Deposit	$100.00
Feb 5	Check # 1002 – Farm State Insurance	$65.50
Feb 12	Check # 1003 – Kroger - groceries	$45.35
Feb 15	ATM withdrawal	$50.00
Feb 20	Check #1004 – Townie-corp - credit card	$120.85
Feb 20	Service charge – bank	$5.00
Feb 28	Deposit	$25.00

First thing to do is enter all of these transactions into your checkbook register – see the next page. Keep a running total of your checking account balance – do this for each of the transactions. You should end up with $173.55 as the ending balance in your register.

It's Feb. 23, 2236 and you've just received your monthly statement from the bank, along with 2 canceled checks (checks that have cleared your account). Now it's time to balance your check book. Use the following monthly statement to balance your checkbook. Here's how:

1. In the "X" column of your checkbook register, clearly mark (with an X) all of the transactions that are listed on your monthly statement.

2. Use the checkbook balancing worksheet on the monthly statement.

   a. Write the ending balance from the statement on the first line (Line A) of the worksheet.

b. Total all deposits to your account that have NOT cleared (are not listed on your statement). Write this total on Line B.

c. Add Lines A and B to calculate the subtotal and enter the result on Line C.

d. Total all withdrawals from your account that are not listed on your monthly statement. Enter the total on Line D.

e. Subtract Line D from Line C. This amount should be exactly equal to the ending balance in your checkbook register. If not, you have made a mistake – go back and do it again!

Checkbook Register

Item Number	Date	Transaction Description	Amount of Payment	X	Amount of Deposit	Balance
	2-1	Opening Balance		X		835.25
1001	2-2	Foxridge Apartments	500.00	X		500.00 335.25
	2-2	Deposit		X	100.00	100.00 435.25
1002	2-5	Farm State Insurance	65.50	X		65.50 369.75
1003	2-12	Kroger groceries	45.35			45.35 324.40
	2-15	ATM	50.00	X		50.00 274.40
1004	2-20	Townie-Corp Credit card	120.85			120.85 153.55
	2-20	Service Charge – bank	5.00	X		5.00 148.55
	2-28	Deposit			25.00	25.00 173.55

Canceled Checks

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FOR ____________________

First State Bank of Virginia

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for the Period Jan 20 - Feb 20, 2023

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Transactions

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Checks:	Feb 4	$500.00	# 1001
	Feb 8	$65.50	# 1002
Service Charges & ATM Withdrawals:			
	Feb 15	$50.00	
	Feb 20	$5.00	

Checkbook Balancing Worksheet

A.	Ending Balance from Monthly Statement:	$314.75
B.	Add Any deposits made, but not Recorded on Monthly Statement:	+ 25.00
C.	Subtotal:	= $339.75
D.	Minus Any Checks Written, but not Recorded on Monthly Statement:	- 166.20
E.	Ending Balance:	= $173.55

Personal Finance- Student Driven Activities

Student Driven Learning Activity: After going through the PPT and utilizing the chart for the students to fill out as the teacher reviews the information divide the students up to complete the activity below.

Student Driven Lesson: Have the students read through the take home reading and fill out the chart. Students will then be divided into groups and create advertisements for the bank and market their product to the rest of the class utilizing the information they read about. They may want to include advantages/disadvantages, special features and if they have used the product before. They can design a radio ad, TV ad or flier just as examples.

Personal Finance Take-home Reading

We've spent most of our time talking about the finances of a business. Now, let's spend some time talking about the basics of your personal finances. There is a lot to know about personal financial management, but we will just be talking about personal banking in this lesson.

Many of the financial principles and tools that you've learned for businesses apply to your personal finances as well. Just like a business, you should build a balance sheet for your personal life each year. This personal balance sheet will list all of your Current Assets (checking account, savings account, etc.) and your Non-Current Assets (personal belongings, cars, house, etc.). It will also list your Current Liabilities (credit card balances, portion of non-current liabilities due this year) and your Non-Current Liabilities (auto loans, student loans, home loans). You should track your personal Net Worth (Equity) on a regular basis to see how your financial condition is changing over time. Just like a business, hopefully your personal Net Worth is increasing every year! Another reason to have a personal balances sheet is that it will come in very handy if you ever apply for a personal loan (auto loan, student loan, home loan). Lenders want to evaluate your liquidity and solvency, the same as they do for businesses. The better your liquidity and solvency, the more likely you are to obtain the loan.

Instead of a business Income Statement, you should track your household income and expenses. You can use a format similar to the Income Statement or Enterprise Budgets. Simply list all of your sources of income each month (wages, salary, gifts) and all of your living expenses (rent, food, utilities, loan payments, etc.). The "bottom line" of your monthly budget should show you how much money you have available after you pay all of your expenses – exactly like we did for the business. Again, lenders are interested in seeing your monthly budget so that they can determine whether you will be able to repay a loan.

Personal Liquidity

Businesses need to have cash on hand or in their checking accounts to meet their expenses. The same applies to your personal life. You should try to keep at least 1-2 months of living expenses in your personal checking account. This will allow you to meet your living expenses without having to dip into your emergency savings. Believe me, just doing this takes a lot of financial pressure off of your shoulders. You can sleep a lot better at night when you know that you have enough money in your checking account to pay your bills on time!

Emergency Savings

Sometimes, life happens. Unexpected events seem to pop up at the worst time. Your refrigerator dies right before a big holiday meal. The battery in your car dies on a cold morning. Your appendix decides that it doesn't like you anymore and you have to go to the hospital. All of these require cash – you have to pay for them. For this reason you should try to build your savings account up to at least two months of living expenses. When you have two months of living expenses in your savings account, you can handle a lot of the unexpected events that life throws at you. If you don't have much money in your savings account you will have to rely on credit cards, emergency loans, or the sale of some of your assets (car, house, etc.) to pay these bills. Once you settle down and start a family, you might want to increase the amount you keep in your savings account to 3-6 months on living expenses. This will be your financial “safety net” in case something bad or unexpected occurs. Trust me, having enough money in your savings account is a great stress reducer!!

Here’s a simple example. Assume that Greta’s personal monthly living expenses (not her business expenses) are $3,000/month. How much money should Greta keep in her checking personal account and personal savings account? She would be wise to keep at least $3,000 in her checking account to meet her monthly bills. That is, if she can start each month with approximately $3,000 in her checking account she will be able to pay her bills without any trouble. Greta should set a goal of having at least $6,000 in her savings account – this is equal to 2 months of living expenses. If she were to get sick and have to close down her business temporarily she would be able to meet her living expenses for roughly 2 months – she has about 2 months to get better and get back to work.

Checking Accounts

Most adults over the age of 18 should have a checking account. It is easier to pay your monthly bills with a check instead of using cash or money orders. Also, most employers today are requiring their employees to have a checking account so that they can “direct-deposit” their paychecks. This makes it easier and less expensive for the employer. Here are some other reasons that you should use checking accounts to pay your bills or hold your cash:

- You tend to spend less money when you write checks versus using a credit card or a debit card. The reason – it’s too easy to use a credit card or debit card, and you don’t actually see the money changing hands. When you write a check you realize instantly that you spent money when you record it in your checkbook register.

- Carrying cash around to pay your bills is dangerous. If you lose the money or get robbed, that money is gone. If you lose your checkbook, simply call your bank and tell them – they will not process any checks after that date, and they will help you get a new checkbook and register. Also, the money in your checking account is insured by the bank. If the bank were to go bankrupt you would still get your money bank.

- You should NEVER put money in the mail to pay your bills. Only put checks in the mail to pay your bills.

- Most checking accounts are linked to Automated Teller Machines (ATMs). This makes it convenient for you to get cash from your account whenever you need it.

Most banks offer basic checking accounts with no monthly or annual fees. You pay for your checks (maybe $35 every few years) and that’s about all. Most checking accounts do not pay any interest to the accountholder – if they do the interest rate they pay is very small. Don’t worry about this – the main reason to have a checking account is to easily pay your living expenses and get your hands on your money when you need it.

At this stage of your life you might open a student checking account with your bank. Student accounts are very basic. Here’s how they work - You deposit money into the account when you open the account. You will probably have to order some checks – it takes a week or so to receive your checks. The account may have a “debit card” associated with it. A debit card is basically an electronic check – you swipe your card to pay for something, and the money comes out of your checking account immediately. Your student account may have a “minimum balance” requirement. A minimum balance of $200 is common. This means that you must keep at least $200 in your checking account at all times; if your balance goes below $200 you might have to pay a fee. So – keep your balance about the minimum balance!!

Banks offer personal checking accounts for non-students, too. These accounts may have a few more "bells and whistles" associated with them than a student account. They may pay interest to the account holder. They may have slightly different minimum balances and fees than a student account.

Using Your Checking Account

Once you have opened a checking account and deposited money into the account, it's time to start using it. You will get a supply of checks and a checkbook register. The checkbook register is used to record every deposit you make into your account, every check that you write, and to keep a running balance of how much money is in your account. You should write down EVERY transaction related to your checking account – this is very important!

At the end of each month you will receive a statement from your bank. This statement shows all of the activity in your account that the bank has processed. It will show all of the deposits that have been processed by the bank and all of the checks that the bank has paid out of your account. It will also give you the Ending Balance for your account. The Ending Balance shows how much money is actually in your account at the end of the month.

The Ending Balance of your account may be different from the running balance you have in your checkbook register. This is because some of the checks you wrote have not been cashed or processed yet, or some of the deposits you made have not been processed by the bank yet. For example, if you deposited $100 into your account at the end of the month it may not have been processed before the bank sent out your monthly statement – that $100 is not included in the bank's Ending Balance for your account, even though the funds may actually be in your account.

Well, how do I know if the bank's Ending Balance is correct or if my checkbook register has an accurate balance in it? Good question! To do this we need to "balance your account." You should balance your account every month to be sure that neither you nor the bank has made a mistake. Here's how:

1. When you get your monthly statement from the bank, get out your checkbook register and grab a calculator.
2. In your checkbook register, place an "X" next to every check and deposit that the bank has listed on your monthly statement. We say that these transactions have "cleared the bank". That just means that the bank has processed those transactions.
3. Use the checkbook balancing worksheet that is usally on the last page of the monthly statement.
   a. Write the ending balance **from the statement** on the first line of the worksheet (Line A).
   b. Total all deposits to your account that have NOT cleared (are not listed on your statement). These will be all of the deposits in your checkbook register that do NOT have an "X" next to them. Write this total on next line of the worksheet (Line B).
   c. Add Lines A and B to calculate the subtotal and enter the result on Line C.

d. Total all checks from your account that are not listed on your monthly statement. These are the checks or withdrawals that do NOT have an "X" next to them in your checkbook register. Enter the total on Line D.

e. Subtract Line D from Line C. This amount should be exactly equal to the **ending balance in your checkbook register**. If not, you have made a mistake – go back and do it again!

Savings Accounts

You should think about using a savings account to hold your emergency money. Remember we said that you should have at least 2 months of living expenses in your savings accounts? A savings account is slightly different from a checking account in a couple of ways:

- Most savings accounts pay an interest rate (a rate of return) to the accountholder. This interest rate is usually relatively low, but it's better than earning nothing on your account. Most checking accounts do not pay interest to the accountholder.
- Savings accounts usually do not provide very many checks. Most people transfer money from their savings account to their checking account to pay their bills. But you should still balance your savings account each month in the same way that you balance your checking account.

It is a good idea to link your savings account to your checking account. This will allow you to easily transfer money from one account to the other. It may also offer a service called "over-draft protection". You may have heard the phrase "bouncing a check." This means that you wrote a check for an amount greater than you had in your checking account. For example, your checking account has a balance of $100 and you wrote a check for $150. There isn't enough money in the account to pay the check – you end up "bouncing" the check. Over-draft protection automatically moves enough money from your savings account to your checking account to prevent bouncing a check.

Certificates of Deposit (CDs)

Another place that you can store your emergency money is something called a Certificate of Deposit, or a CD. A CD is basically a loan that you are making to the bank. You write a check to the bank and you sign the CD's certificate (the paperwork). The certificate clearly lays out the terms of this loan. It will clearly specify:

- the amount your loaned the bank (the principal)
- the interest rate the bank will pay you and how often they will pay interest
- the "term" of the loan (length of time)
    - at the end of the term the bank will pay you all of your initial principal and all of the interest it owes you
- any penalty for getting your money before the end of the term
    - the penalties are usually 1-3 months of interest earnings

CDs are usually 100% insured by the bank. This means that you will receive your money (principal and interest) in the slim chance that the bank has financial problems.

The “terms” of CDs typically range from one month to 10 years. CDs with longer terms usually earn a slightly higher rate of interest than the shorter term CDs.

CDs are good places to keep your emergency money. They usually pay a higher interest rate than savings accounts. They are insured – you will be able to get your money back if your bank has to go out of business. And, because they have penalties for taking your money out before the end of the term, they make you think before you pull your money out of the CD – this reduces the probability that you take money out of your emergency savings for something that’s not really an emergency!

Summary

To wrap up this lesson, remember that most of the principles you learned for businesses apply to your personal finances. You should keep good records, especially a personal balance sheet and a personal budget. Liquidity is important for your household as well – try to keep at least 1 month of living expenses in your checking account. And preparing for the unexpected is a smart thing to do – try to keep at least 2 months of living expenses in your emergency savings (3-6 months is better than 2months!).

Take time to learn about your personal finances. The earlier you learn, the better your life will be!