



## 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!

