Building Wealth

In the Classroom

Lesson 3

Save and Invest—Put It in the Bank

Federal Reserve
Bank of Dallas

Instructional objectives

Part 1

You will:

- Evaluate the role of banks as financial intermediaries between savers and borrowers.
- Define and describe interest.
- Describe the benefits of using a bank.
- Compare various accounts offered by banks.

Saving Your Money

Where are you keeping it?

A tale of two savers

Do both pictures represent savings?

Save money in your **mattress.**

Save money in a **bank.**

What's wrong with a mattress full of money?

Let's brainstorm.

Understanding the lingo

Bank
A depository institution that makes loans and stores deposits.

Interest
A fee for the use of money over time or money earned on a savings account.

Interest rate
The percentage charged for a loan or the percentage paid on a savings account.

Loan
A sum of money lent at interest.

Roles of savers, banks and borrowers

Savers

Deposit money
into the bank.

Banks

Lend money to borrowers
and pay interest to savers.

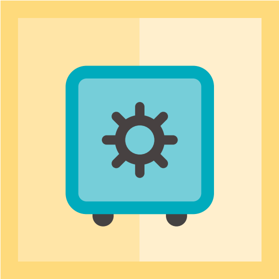
Borrowers

Get loans
from the bank.

Incentives for banking

Interest
Banks pay interest to savers.

Incentives for banking



Safety
Banks protect against theft. Money saved in banks is insured and backed by the full faith of the U.S. government.

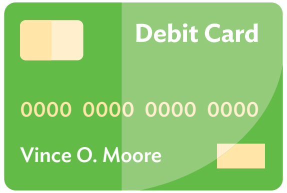
- The Federal Deposit Insurance Corp. (FDIC) insures bank account owners for up to $250,000.
- The National Credit Union Administration (NCUA) insures credit union account owners for up to $250,000.

Incentives for banking

Convenience

- Reduce need to carry large sums of cash.
- Complete online transfers and pay for items online.
- Track spending.
- Access cash from an ATM.

More options for paying: debit card, digital transfers, checks, automatic bill pay, digital wallet apps.



To Bank or Not to Bank?

That is the question.

Understanding the lingo

Fully banked
Has some form of checking, savings or money market account.

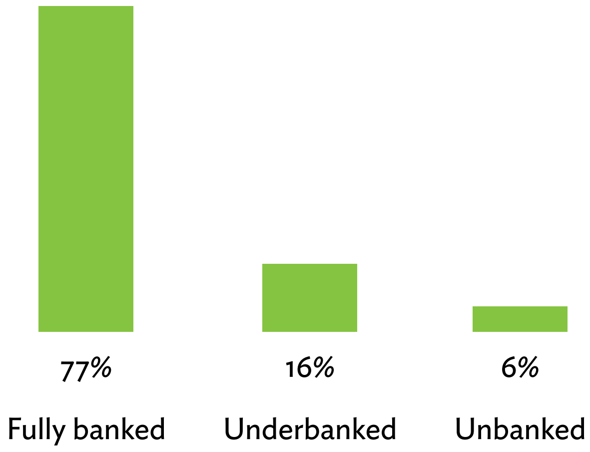
Underbanked
Has some form of checking, savings or money market account but has used some form of alternative financial service such as: money order, check cashing service, pawnshop loan, auto title loan or payday loan.

Unbanked
Does not have a checking, savings or money market account.

85% of adults are fully banked.

True

False



False

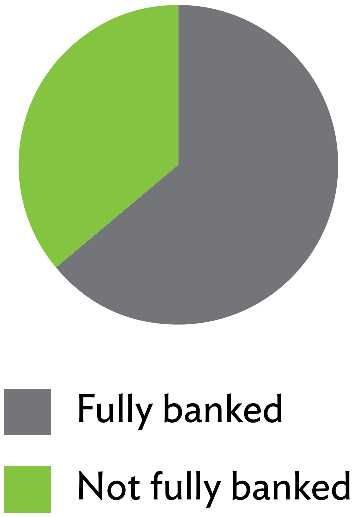
77% of adults are fully banked.

16% are underbanked.

6% are unbanked.

Among families making less than $40,000 a year, what percent are not fully banked?

16%	28%	36%



36%

36% of families with an income less than $40,000 are not fully banked.

Adults with at least a bachelor's degree are more likely to be fully banked than adults with a high school diploma or less.

True

False

True

90% with a **bachelor's degree** or more are fully banked.

79% with **some college** or an **associate degree** are fully banked.

67% with a **high school diploma** or less are fully banked.

Select the correct answer for the percent of adults who are unbanked based on race/ethnicity.

A

4% White
14% Black
11% Hispanic

B

11% White
14% Black
4% Hispanic

C

14% White
11% Black
4% Hispanic

Percent of adults who are unbanked based on race/ethnicity.

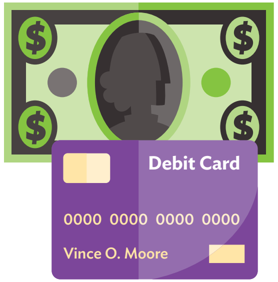
A

4% White

14% Black

11% Hispanic

Why don’t some people use banks?



Types of Bank Accounts

What is right for you?

Understanding the lingo

Brick-and-mortar bank
A bank that has physical locations.

Digital bank
A bank that delivers products and services remotely through electronic channels.

Credit union
A nonprofit depository institution that is owned by members.

Types of bank accounts

Checking account

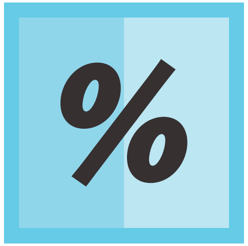
Safe and convenient
Debit access
Bill payment

Savings account

Interest earning
Safe
Small amount for account opening

Certificate of deposit

Fixed period of time
Interest earning
Minimum deposit
Early withdrawal penalty



Money market deposit account

Check writing limits
Higher minimum balance
Higher rate of interest

Bank account comparison chart

Use Handout 2 to record your answers.

Research and compare different types of bank accounts.

Pick 3 different banks and compare the account features, fees, minimum opening deposit and minimum daily balance.

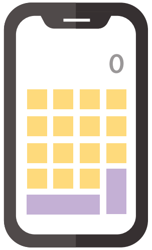
After researching the accounts, explain which one you would choose and why.

Bank name	Checking	Saving	Money market	Certificate of deposit

Instructional objectives

Part 2

You will reconcile a bank statement.



Reconciling a Bank Statement

Where is your money going?

Why reconciling a bank statement is important

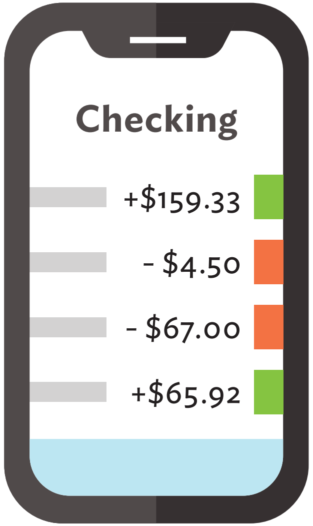
Savers who use banks are still responsible for tracking their money.

It is important to reconcile, or verify the accuracy of, all transactions on a bank statement.

- Track fees and interest.
- Detect errors or fraudulent charges.
- Review automatic payments and subscriptions.
- Verify the accuracy of charges.
- Monitor budgeting goals.

Bank reconciliation

Use Handout 3 to record your answers.



Maria normally checks her bank balance on her phone.

On May 24, she checked her balance before withdrawing money from an ATM at the mall. What Maria forgot to include when calculating her balance was the $4.50 ATM fee. As a result, she overdrew her account when her cellphone bill automatically deducted two days later.

When she looked at her bank statement online, Maria also noticed other errors to charges during the month. Using Handout 3, compare Maria's receipts to her bank statement to find the errors.

Instructional objectives

Part 3

You will:

- Compare the growth of savings using simple and compound interest.
- Use the Rule of 72 to estimate the time required for savings to double in value.

% Interest and the Rule of 72

Budgeting to save.

When savers begin to seek a return through the interest paid by banks, they take the next step in wealth building—budgeting to save.

Understanding the lingo

Interest
A fee for the use of money over time or money earned on a savings account.

Interest rate
The percentage charged for a loan or the percentage paid on a savings account.

Simple and compound interest

$$P \times r \times t$$

$$P \times (1+r)^t$$

Simple
Calculated based on the principal amount and interest rate.

P = Principal amount
r = Annual interest rate
t = Number of years

Compound
Calculated each year based on the principal plus the interest accrued in the previous year.

P = Principal amount
r = Annual interest rate
t = Number of years

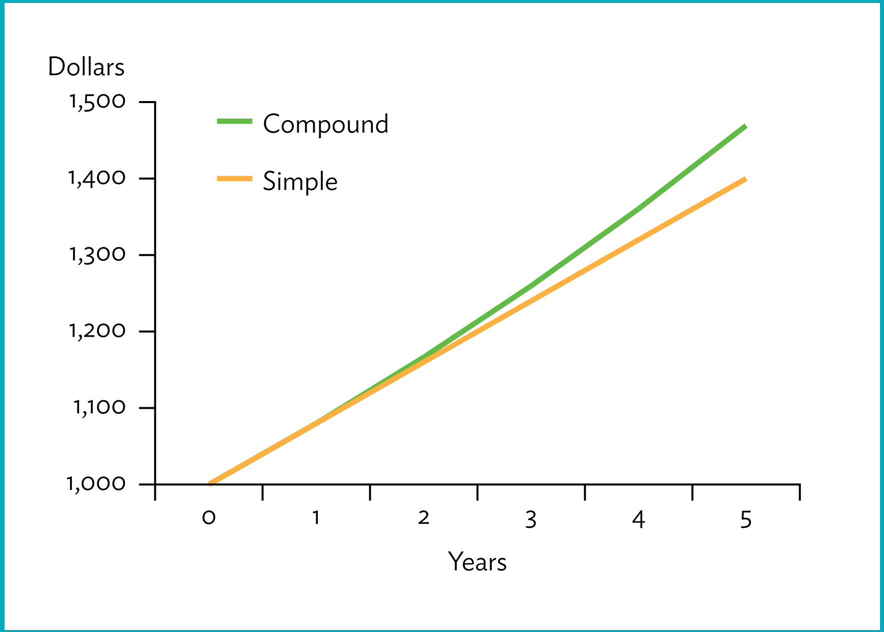
Simple vs. compound

5 years

P = $1,000

r = 8% interest

t = 5 years



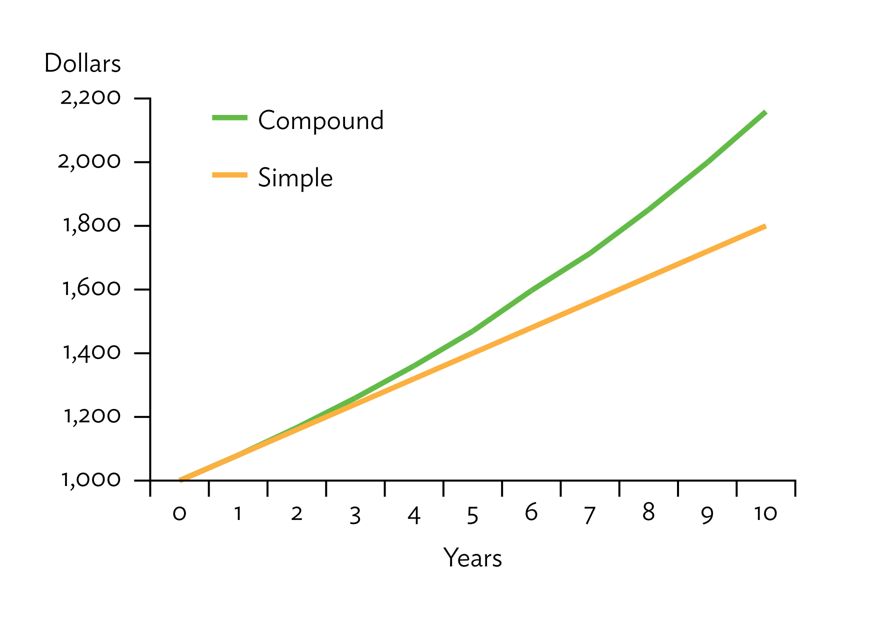
Simple vs. compound

10 years

P = $1,000

r = 8% interest

t = 10 years



Rule of 72

The time it takes for savings to double in value.

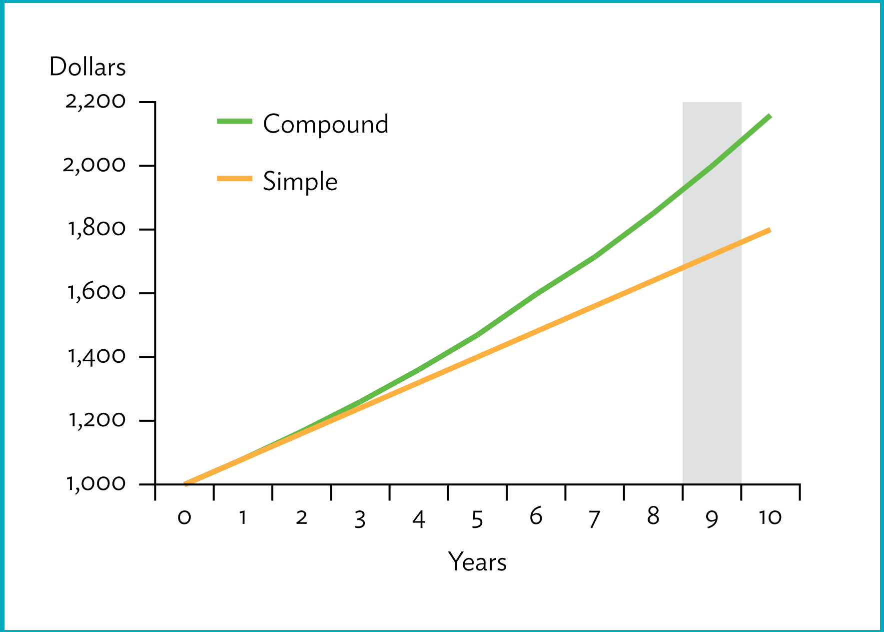
$$\text{Rule of 72} = \frac{72}{\text{interest rate}}$$

Rule of 72 in action

P = $1,000
r = 8% interest

72 / 8 = 9

It will take 9 years for savings to double in value.



Rule of 72 = 72/interest rate

How many years will it take for your investments to double?

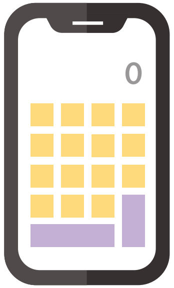
Interest rate	Years to double
4%	72/4 = 18 years
6%	
9%	
12%	

Rule of 72 = 72/interest rate

How many years will it take for your investments to double?

Interest rate	Years to double
4%	72/4 = 18 years
6%	72/6 = 12 years
9%	72/9 = 8 years
12%	72/12 = 6 years

Try it on your own



Handout 4: Interest Rates and the Rule of 72

Use the online compound interest rate calculator from **www.investor.gov** to solve the investment/savings scenarios.

Summarize learning objectives

Banks act as the intermediary between savers and borrowers.

Interest is the price paid to use someone else's money and can also be the payment received if someone else uses your money.

Summarize learning objectives

When savers begin to seek a return through interest paid by banks, they take the next step in wealth building—***budgeting to save***.

A saver can estimate the time required for savings to double in value using the ***Rule of 72***.

Summarize learning objectives

A ***bank*** is a depository institution that makes loans and stores deposits.

Interest is a fee for the use of money over time or money earned on a savings account.

An ***interest rate*** is the percentage charged for a loan or the percentage paid on a savings account.

Summarize learning objectives

A ***loan*** is a sum of money lent at interest.

Savers deposit money into a bank.

Borrowers get loans from a bank.

Summarize learning objectives

Fully banked means having some form of checking, savings or money market account.

Underbanked means having some form of checking, savings or money market account but having used some form of alternative financial service such as: money order, check cashing service, pawnshop loan, auto title loan or payday loan.

Unbanked means not having a checking, savings or money market account.

Summarize learning objectives

A ***brick-and-mortar bank*** has physical locations.

A ***digital bank*** delivers products and services remotely though electronic channels.

A ***credit union*** is a nonprofit depository institution that is owned by members.

Sources

SLIDES

9	**Federal Deposit Insurance Corp.** *fdic.gov/deposit/covered*
9	**National Credit Union Administration** *ncua.gov/files/press-releases-news/NCUAHowYourAcctInsured.pdf*
12, 14, 16, 18, 20	**Federal Reserve** *federalreserve.gov/publications/2019-economic-well-being-of-us-households-in-2018-banking-and-credit.htm*

Building Wealth

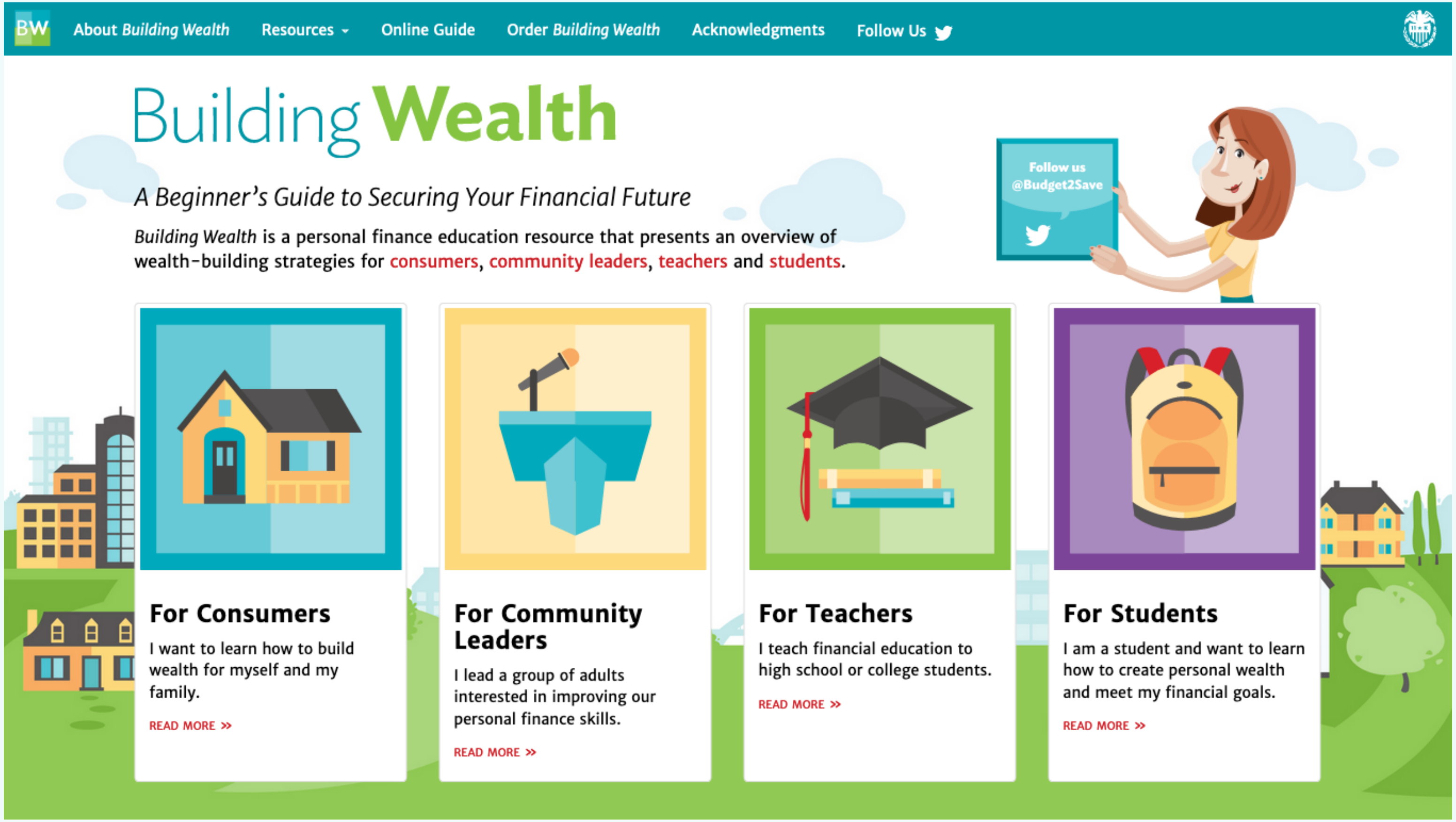
In the Classroom

Up Next: Lesson 4

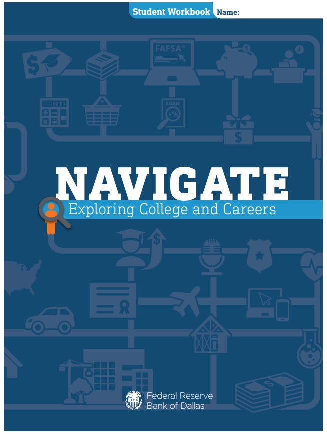
Owning Versus Renting

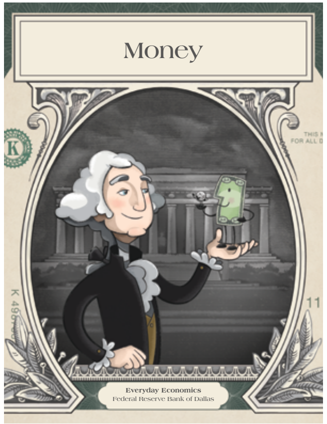
Federal Reserve Bank of Dallas

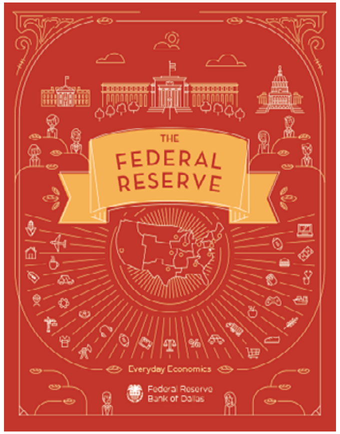
Have you explored **buildingwealth.org?**



Explore Dallas Fed Economic Education Resources







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