Notes on Banking

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| What are the four main ways you can put money in a bank? | Ø Savings Account<br>Ø Checking Account<br>Ø CD (Certificate of Deposit)<br>Ø Savings Bond |
| Why do I want to put my money in the bank? | Ø Protection<br>Ø Collect interest<br>Ø Less likely to spend<br>Ø Won't lose it |
| What is a Savings Account? | A simple account at the bank where you can make deposits and withdrawals at the bank or through a debit card.<br>- Makes low interest (1-3%)<br>« There is a very low minimum (~$100)<br>« You can add or subtract money at any time. |
| What is a checking Account? | An account similar to a savings account, but you can also make payments written on a check rather than cash.<br>- Makes little to no interest (less than 2%)<br>- Can be more dangerous than cash if someone gets your checking account because they can write it out for any amount.<br>- Easier to counterfeit than cash.<br>« Positives same as the savings account and:<br>« The check can be safer because it is written to a specific person<br>« Used to pay bills.<br>« Send money through the mail.<br>« An alternative to carrying cash. |
| What's a CD? | A certificate of deposit you purchase from the bank for a certain amount and it collects interest.<br>- Needs to be kept in the bank over a course of time (3 months-6 years) or there will be a penalty.<br>- CD's have a high minimum ($500-$2500)<br>« Collects a higher amount of interest (5-8%) than a savings or checking account.<br>« CD's have a <u>fixed</u> rate meaning the percent of interest doesn't change. Good when the economy is good and bad when the economy is bad.<br>« Money invested in a CD is used for loans in the community so you are helping your neighbors. |
| What's a Saving Bond? | A bond is a slip of paper that you purchase under face value.<br>« Does not need to be kept in the bank for any time period.<br>« Collect higher interest (5-8% (whatever the 1 yr. CD is getting)) than a savings or checking account.<br>« Bonds have a <u>variable</u> rate of interest, which means when the economy gets worse; the percentages go down and vice versa. Better to get than CD's when economy is bad, worse when economy is good.<br>« Savings Bonds are cheap (cost $25 and up).<br>« The federal government uses money invested in a Savings Bond. Helps the nation. |

Rule of 72

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| What is the rule of 72? | A way to calculate the number of years it takes to double your money,<br>Or to find the percent of interest it takes to double your money. |
| How do I calculate the years? | Take 72 ÷ percent = years<br>Ex. If you get 4% in a savings bond you would divide 72 by 4:…72 ÷ 4% = 18 years<br>This means it would take 18 years to double your money at 4% |
| How do I calculate the percent? | Take 72 ÷ years = percent<br>If you wanted to know what percent you would need to double your money in 10 years you would divide 72 by 10.<br>Ex. 72 ÷ 10 years = 7.2%<br>This means you would need to get 7.2% to double your money in 10 years. |
| Why does it work?<br>To double your money you actually have to add another 100% so why don't we divide into 100 instead of 72? | Because your interest collects interest (compounding interest).<br>Example: Starting with $100 and getting 8% interest using the rule of 72 would take 9 years. So after 9 years you should have about $200.<br>1. $100 x 1.08= 108<br>2. $108 x 1.08= 116.64<br>3. $116.64 x 1.08= 125.97<br>4. $125.97 x 1.08= 136.05<br>5. $136.05 x 1.08= 146.93<br>6. $146.93 x 1.08= 158.69<br>7. $158.69 x 1.08= 171.38<br>8. $171.38 x 1.08= 185.09<br>9. $185.09x 1.08=199.90 (about $200) |