The Battle of the Banks

Hi Teachers welcome to another "Teach the Teacher" podcast episode for the **The 21st Century Student's Guide to Financial Literacy – Getting Personal.** I'm Susan Mulcaire, I wrote this curriculum, and I hope these podcasts help you learning this material, so you can get it to the class to the class to teach it.

In this podcast, we're exploring Lesson 2: **The Battle of the Banks.** As I was preparing the podcast, I was thinking, "You know, I should've called this chapter 'The Battle *with* the Banks' because a lot of the chapter is devoted to helping students learn how to avoid bank account fees and penalties. Alright, let's get started. "The Battle of the Banks" lesson plan begins on page 20 of the Instructor's Guide. Remember that the classroom slide references are in the gray boxes to the right of the text and they're found at www.financialliteracylessons.com. Also as a reminder, if you haven't already done so, sign up for my quarterly newsletter **The Financial Literacy Teacher** on the website. It includes lots of good information about teaching financial literacy and what's going on in the world of financial education.

On page 20 under Supplemental Resources you'll see that the instructional resource for this lesson is basically **any retail bank website**. The goal is to go to a retail bank website with students and explore some of the products offered by the bank and, ideally, demonstrate the bank's all-important account management tools. I'm going to talk more about account management tools later in the lesson but, just a heads up exploring an account in class might be difficult because it could require logging into an active account. Unless you know of someone who would want to log into their bank account with a bunch of students watching, it could be difficult to set this up. There are work arounds, like creating a class account with maybe $50 in it, or asking a local banker to come in and do the demonstration.

Also, any large commercial bank will have plenty of information on their website about products and services, but it's really good if you can demonstrate within the context of an actual, real life account.

If you have the time, I encourage you to explore with students the **website of an online only bank** also. We'll talk more about online only banks in the lesson but knowing how this generation is highly addicted to their mobile devices, there's a likelihood that your students will ultimately use an online only bank and they should know a bit about how they operate.

The Online Resource which can be assigned as an independent exploration for students, is called **findabetterbank.com** This is a great site with a lot of easy-to-understand information if you want to dig deeper into some of these banking topics. It's also a way to differentiate instruction because you can go to their site and select an assign different topics for student to read about and teach to the class. For example there's an explanation of how to use a reloadable debt card -- as great topic for a short presentation by a student. If you really wanted to take this lesson to another level you could have, for example, a school wide weekly fin lit theme of responsible banking and use this site assign out topics to students to creating posters or presentations educating other students.

Let's move down to the vocab list, **What Does That Mean**, on page 21. The vocabulary is not difficult in this lesson, but there's one term "**consumer credit**" which we'll deal with many times over this course. You'll be seeing the term "consumer credit" over and over in this course, so ask students to pay particular attention to it.

Let's move to **Gaining Attention**. Today we are engaging students in a discussion about whether they've had any experience with a bank to activate their schemas about banks and banking. Some students will have had plenty of experience with banks, while others may have had zero. Some will have a checking or savings account and some won't have any, so the discussion here can really be all over the board. But it's really just to get students involved: whether they have a bank account, how they use it, and what's their general experience with their bank.

Moving down to **Presentation of Content**. When writing curriculum I try to build in some for background for what students are learning in the lesson. You may have noticed that, in the last lesson -- information about classes of income is not all that relevant to personal finance -- it's actually more of an econ topic -- but it's a **good place to introduce students to these concepts** to help them build schema for courses they'll be taking in the future. So indulge me a little bit in this lesson where we begin with an introduction to different kinds of banks. Knowing the difference between retail and consumer banks, credit unions, savings and loans, and investment banks is not super-relevant to financial literacy -- in fact there's only a brief nod to these in the National Financial Literacy Standards, but I think it's a little nugget that helps students fill in the gaps in knowledge about money and financial institutions. It's good for students to understand that there are different kinds of banks, so they're not confused and tripped up when they see different bank references. The main difference they should be aware of and understand is that while **retail and consumer banks, savings and loans and credit unions are institutions for everyday people** to deposit their money and to buy and use consumer financial products, **investment banks are a completely different animal.** They are not retail or consumer banks. They're for managing large commercial investments and other transactions by corporations like managing stock offerings and taking a corporation public. Put it this way: When they hear investment bank they should think **Wall Street**. When they hear retail, consumer bank, commercial bank, credit union, savings and loan, they should think **Main Street**.

Commercial banks usually have two divisions: the retail or consumer division where customers go to deposit a check, open a savings account, use an ATM, or get a safe deposit box. Commercial banks also have a business banking division. Businesses have banking needs that are different from individuals and families because they have things like employees, payrolls, and taxes, and they need to have special merchant bank services like the ability to accept credit cards for payment. Commercial banks have a retail or consumer division and they also have a business division.

Credit unions are popular banks. They're built around some **common bond of their depositors**, like they're all a member of a particular trade or they're employees of a particular business or they all have a common profession. There are other things that set credit unions apart from regular commercial banks, you can read about those, savings and loans on page 23.

Moving on to Roman Numeral 2 on page 23, "Bank, Products, and Services" we explore typical products of a consumer retail bank with a focus on the differences between a savings account and a checking account. Savings accounts typically earn a little interest on the balance. They're intended to have the money stay on the account which is why the bank pays a little interest on it. Notice on page 24, there's a brief paragraph about the savings account's function as a financial back up plan. We're going to explore that more thoroughly in a later lesson, but financial experts do recommend that everyone have a savings account and fund a bit into it every month until you have cash in the account to cover 3-6 months of your life if you suddenly didn't have an income. As I said we'll explore that more in depth in a later lesson.

Moving on Checking Account on page 24. A checking account is a **transactional account.** It is a means of funding daily expenses such as rent, groceries, going to the movies, things like that. These accounts come with a debit card. Many students don't realize that when they use a debit card, the funds come directly out of their checking account -- the checking account their card is linked to. Checking accounts are highly manageable. They come with all sorts of account management tools which can be accessed online or on their mobile devices. As a little banking blast from the past, students (and some of you younger teachers) might be be shocked to know how banking has really changed in the last 25 or so years. Banking was so inconvenient! Before banks went digital, every transaction no matter what you were doing had to be done at the bank branch. You had to go to a branch to make a deposit, transfer funds, or withdraw money. And before ATMs existed, you had to make sure you got to the bank before it closed on Friday afternoon and cash a check so you'd have enough money to get you through the weekend.

The checking account information on page 24 is relatively easy to understand when you just read through it but emphasize for students that all checking accounts come with a **monthly statement**. Most banks will allow customers to opt for paper or e-statements they can download using your account management tools. Monthly bank statements are important. They show every transaction that happened on their account in the last month. Anything that happened, whether it's a deposit, a withdrawal, a charge, or a fee will be reflected on the account statement. Bank statements are not to be glanced at and tossed aside. To develop **good banking habits,** students should download their bank statement and review it to verify that the charges on the statement were actually charges that were made by them and that the charges are accurate.They can also use a banking statement to look for spending patterns and habits, most importantly, where they wasted money. A bank statement will tell your sad story of where all your money went that month.

Other common retail bank products are money market accounts, CDs which are certificates of deposit, and credit cards. We're going to explore credit cards in depth in the later lesson. CDs are what is known as time deposits. Depositors commit to leave their deposits for a period of time. If they withdraw the funds before the maturity date or when the time expires, there is a corresponding penalty. Some other miscellaneous products that commercial banks offer are safe deposit boxes, wire transfers and a lot of other products which are listed on page 25.

Let's move on to Roman Numeral 3, page 25, "Bank Account Fees and Charges". First, I want to say, I'm not an anti-bank person. I actually worked at the FDIC and for a large bank for a long time. I have a great deal respect for banks and the role they play in our economy. But make no mistake, **banks are for-profit institutions** and like any business, they want to make money. And they do. Banks make a lot of money. One of the ways they make money is through **bank fees and charges**. Section 3 is a general overview of the kind of fees a bank charge customers. Students should learn that when they get a bank account, they should know exactly what fees a bank can charge on their account. They should know **which fees are unavoidable** and **which fees are avoidable** and how to avoid them. Typical fees that can't be avoided are things like monthly service fees or some accounts come with withdrawal fees or transfer fees. Other fees are avoidable. These are things like overdraft and minimum balance violation fees. ATM use fee is another common fee that a bank can charge. That's when you use an ATM that is not affiliated with the bank that holds your account. These fees can be avoided by developing good banking habits.

We're on page 26 "How to Avoid Bank Fees". The problem with incurring a bank fee is that you often have no idea what you did to cause the fee and by the time you know what you did it's too late because the fee is **automatically deducted from your account**, so theres no getting the money back unless you're able to prove the bank that it made a mistake. Getting into a bad habit of incurring bank fees really can deplete an account quickly because some of the fees are pretty steep, 25, 35 dollars a pop. If you're working with a thin balance, which many people are, fees can make the difference between being in the red and being in the black for the month.

On pages 26 and 27, there are nine things students or anybody can do to try to avoid bank fees. The first one is **shop around**. Students should understand that not all accounts and banks are alike. They can find an account that suits their monthly needs are, how much they will typically have in the account. Many banks have "no frills" or student accounts with very low fees. Some have no minimum balance restrictions and some have free non-bank ATM withdrawals every month. Students can avoid bank fees just by finding the bank product that best suits their banking habits.

Students should know that whenever someone opens a bank account, by law the bank has to provide them with **account disclosures** that tells you how the account operates and when fees will be imposed. Don't assume you know how the account operates. Sit down and read that information and preferably read it before you leave the bank so you can grill the account officer to explain anything in there that you don't understand. Thirdly, **download the bank app**, so you can look at your account at any time, you can move money around, that's kind of a natural for students.

There are other suggestions of how to avoid bank fees. You can read about those. They're all easy to understand. Read through them with students and discuss them. Throughout this lesson we need to point out to students that a part of being financially literate is having **good, responsible banking habits**. That means getting the best account for your needs, monitoring your account and avoiding fees. In the grand scheme of things a bank fee doesn't seem so traumatic, but they add up and that's money you could have used for other more important (or fun) things.

Let's move to Roman Numeral 4: what do banks do with deposits? People often wonder that: what do they do with the money you deposit in the bank. It really just goes into this big money pool and the bank uses that money to make more money by lending it out to other people at a rate that's higher than its paying you on your savings account.

Try demonstrating this in class with a classroom bucks bank account. Everyone draws a $1000 bill an deposits it into their classroom bucks savings account making 1%. Count the total then lend 10% of the money to fictitious credit card holders at 18% interest rate, and 40% of the money to home loan borrowers at 5% and 20% of the funds to car loans at 4%. Have students calculate how much the bank makes in interest on those loans annually. Then pay out on the savings account. It's just a simple way of demonstrating how the ***spread is bank profit****.*

Under Roman Numeral 2, Alternatives to Traditional Banking, we talk about online only banks and virtual currency. As I said earlier in this podcast, it's likely that your students will at some point be engaged with an online only bank. There are no branches, no physical location. The advantages of online banking is that they're able, because of their low operating costs, to pay slightly **higher interest rates on savings accounts.** They were considered fringe a few years ago but they are now **very mainstream with standard products just like any other commercial bank**. They offer home loans, CDs, money market accounts, as any other bank would. You can't walk into a ban and withdraw your money. My grandmother who kept wads of rolled up cash would never have put her faith in this system, but money and banks evolve with the times. Incidentally that is one of the topics we explore in **The 21st Century Student's Guide to Financial Literacy - Going Global.** Money is fascinating. It's really more of a **continuously evolving concept** that an actual thing.

Another alternative to traditional banking is **virtual currency**. Whenever you think of currency, you think of dollars which are created by the US treasury euros that are created by the eurozone. Virtual currency is currency developed by a private developer, **no ties to government or any particular country.** It's **super-highly encrypted** so it can't be duplicated and many people use it as an alternative to traditional banking. They have e-wallets that they store their virtual currency in and they're able to enact transactions around the world by **peer to peer** meaning that the currency **doesn't have to convert** from say USD to british pounds because there's no intermediary government or treasury involved. Bitcoin is fairly enough mainstream now to make it worth mentioning. It's an alternative to traditional banking and something that your students will probably hear about in the future, and should be aware of and how it works.

Starting to wrap it up, the Big Picture on page -- the text is also included in the classroom slide. This is meant to be a read aloud. It is also repeated in the student workbook. The Big Picture reflects on the **key points** of the chapter or the lesson.

Under **Let's Practice, Activity A, there's Eloise and Gunner's Banking Blunders.** This can be completed as whole class exercise or you know as students in teams or individually. **Activity B is Chart It: Battle of the Banks** and is really just a way of comparing the services and products offered by banks.

Activity C, Virtual Currency: Virtuous or Not? This is an opportunity to look more closely at the controversy surrounding virtual currency, how it's made or any aspect students might be interested in. This is a great place to differentiate. If you have students interested in **conflict, national security or administration of justice,** there's quite a history to the use of VC to on the dark web to deal drugs and arms. In fact, the FBI along with its various international counterparts just took down two dark websites which were basically running on Bitcoin. All fascinating cyber cloak and dagger stuff. The curated tech for this is in **Padlet**, this is an online cork board where students can collaborate and share notes, pictures, files, and links. It's a good college readiness resource, just for students to at least experiment with using it.

So that wraps it up for this podcast. Remember if you have any questions about any of the materials, please feel free to contact me through the website www.financialliteracylessons.com. I'll do my best to get right back to you with an answer. Thanks a lot. See you at the next podcast when we look at **Getting a Job -- That Pays.**