

BANKING



*My Piggy Bank is full
so I need somewhere
to keep my money
What shall I do?*

There are a variety of bank accounts available and some terminology to get used to.

This module explains the most common areas of banks and building societies.



Banks have two basic types of account:

- Current accounts
- Savings accounts

Each bank may have its own names for types of accounts within these categories but the basic principles remain the same.





CURRENT ACCOUNTS

are used for day-to-day transactions with money coming in, such as wages, and money going out such as cash withdrawals, bill payments, cheques etc.

Most current accounts offer:

- Cheque book
- Debit card
- Cashpoint card
- Statements
- Standing orders
- Direct Debits
- Interest
- Overdraft
- Loans

A CHEQUE BOOK is a set of printed forms which allow you to pay amounts of money to a named individual or company.

ANYBANK PLC				11 - 22 - 33
<i>Not to exceed fifty pounds (£50)</i>				Date _____
Pay _____	Account Payee		£ _____	
Cheque No	Branch Sort Code	Account No	Transaction Code	_____
000001	66 6666	9999999	- : 02 :	A N OTHER

You complete:

- the name or company to be paid
- the quantity in words and numbers
- date and signature

ANYBANK PLC			11 - 22 - 33
Not to exceed fifty pounds (£50)			Date <u>12th March 2002</u>
Pay	<u>Mr JOHN WHOEVER</u>		
	<u>TWENTY SEVEN POUNDS AND</u>		£ 27 - 63
	<u>SIXTY THREE PENCE ONLY</u>		<u>A N Other</u>
Cheque No	Branch Sort Code	Account No	Transaction Code
000001	66 6666	9999999	- : 02 :
			A N OTHER

Some cheques have a maximum limit – usually £50 without a guarantee card. In shops, cheques usually have to be presented with a cheque guarantee card – this is used to confirm your signature.

As well as using cheques to pay other people, you can put cheques into your current or savings account by presenting them at the bank's counter as a deposit.





Cheques take a few days to clear – for the funds to move from one bank to another.

There needs to be enough money in the account from which the cheque is paid to cover the amount. Otherwise the cheque will be refused by the bank. This is known as a “bounced” cheque.

Each cheque in your book is individually numbered. This is one way of keeping a track of where cheques have been sent.

Also you can use the cheque stub to write down the details of the cheque such as the date, amount and who it is made payable to.



There are two important numbers shown on a cheque. The Branch Sort Code is made up of three 2 digit numbers e.g. 11-22-33. Each bank branch has a unique number. It is shown in two places on this cheque.

ANYBANK PLC

Not to exceed fifty pounds (£50) Date _____

11 - 22 - 33

Pay _____

Account Payee _____

£ _____

Cheque No	Branch Sort Code	Account No	Transaction Code	
000001	66 6666	99999999	- : 02 :	A N OTHER

The other is your account number. This is usually 8 digits long and is used to identify your account. These two numbers are also shown on your debit card and are required when buying items online or by telephone.

ANYBANK PLC 11 - 22 - 33

Not to exceed fifty pounds (£50) Date _____

Pay _____	Account Payee	£ _____		
Cheque No	Branch Sort Code	Account No	Transaction Code	A N OTHER
000001	66 6666	99999999	- : 02 :	

If you need to make an alteration to something you have written on a cheque you must write your initials beside it.

ANYBANK PLC 11 - 22 - 33

Not to exceed fifty pounds (£50) Date 12th March 2002

Pay Mr JOHN WHOEVER

TWENTY SEVEN POUNDS AND

FOUR AND

SIXTY ~~THREE~~ PENCE ONLY

£ 27 - 63 ⁴ ANO

A N Other

Cheque No	Branch Sort Code	Account No	Transaction Code	
000001	66'6666'	9999999	'-:02:	A N OTHER



Another way to pay for things without using cash is by **DEBIT CARD**

Debit cards allow for payment to be made in a shop or company directly from your current account. Debit cards are not a way to borrow money.

Banks do not normally charge for this service.

You have to make sure that there are sufficient funds in your account to cover the payment.

Debit Cards are used with card readers in shops which contact your bank to confirm the transaction.

They can also be used to pay for things via the internet or telephone.



CASHPOINT CARDS allow you to withdraw money from your current account at a cashpoint – sometimes referred to as an ATM (Automated Teller Machine).

This provides easy, round the clock access to your money.

A cashpoint requires a Personal Identification Number or PIN to access the account. This is a 4 digit code which you will need to memorize and keep secret.

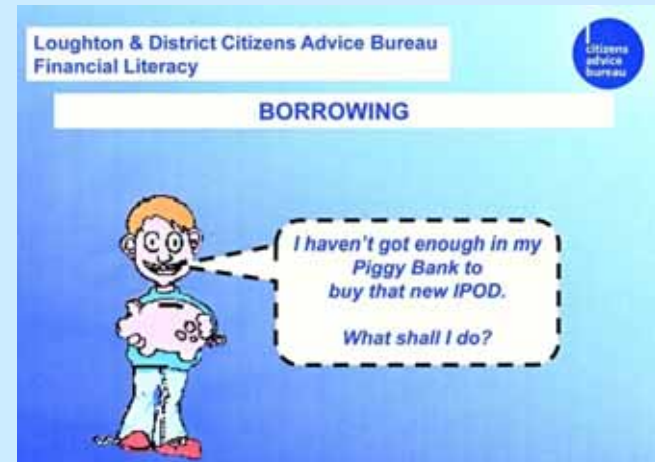
It is also possible to withdraw money from cashpoints provided by other banks but be aware that some charge you for doing this.

Credit cards are not the same as Debit or Cashpoint cards.

Credit cards have a separate account and allow you to borrow money. You can apply for a credit card from any provider as well as your own bank.

Often banks issue multi-function cards which combine a debit card and cashpoint card in one.

The BORROWING module in our financial literacy series provides more information about credit cards.



If you lose a debit, credit or cashpoint card or it is stolen you must report it to your bank building society or credit company as soon as possible. You will find a telephone number for reporting lost or stolen cards on the reverse of your bank statements.

You will only be liable for a maximum £50 for any criminal use of the card before you report it as missing. You will not have to pay for any misuse of the card after you have reported it. If the card is lost or stolen before you receive it, you will not be responsible for any misuse of the card.

Banks suggest that you never keep your card and pin number together in case they are stolen. Also you should never tell anyone else your PIN number.

Chip and Pin

During 2005 new cards were issued which contained a small microchip which holds your account details. Account holders were also be sent a 4 digit personal identification number (PIN) separately.

Instead of signing when you buy goods in shops you enter your PIN number on a keypad just like at a cashpoint.

It is important to keep your PIN number secret to protect your account.

For more information visit

www.chipandpin.co.uk



I ♥ PIN

Chip and PIN couldn't be easier to use. Instead of signing a paper receipt to verify a card payment, you enter a four-digit Personal Identification Number (PIN), just like you do at a cash machine. After 14 February 2006 things got tougher for the fraudsters as everyone using chip & PIN cards now has to use their PIN to be sure they can pay

Thanks to chip & PIN, in 2005, there was a reduction of nearly £60m in counterfeit and fraud on lost and stolen cards when compared to 2004.

Most bank accounts offer an **OVERDRAFT** facility. This allows you to spend more than the total balance in your account and go “overdrawn”. It is a way to borrow money short-term.

You will need to agree with your bank an overdraft limit for example £100 which would then allow you to borrow up to this amount.



An overdraft can be useful if you know that you are about to run out of money but will soon receive some income.

Banks charge you Interest on your overdraft. This is another percentage rate and varies from one account to another.

You will need to find out from your bank what your overdraft limit is and what interest you will pay to borrow this money.



If you were to go overdrawn without the bank's agreement they may impose charges.

Banks and building societies currently charge around £25 to customers who exceed their credit limit, go overdrawn without authorisation, or bounce a cheque. This charge can be made each time a debit is made from the overdrawn account adding up to a large amount of money.

Although banks will tell you about these charges it can be argued that excessive charges are unlawful. If this happens to you seek advice.

You can find more information about Overdrafts in the Borrowing unit.

A **BANK STATEMENT** is a list of transactions made from your account.

Your bank will regularly send you a bank statement and you can sometimes obtain one from a cashpoint.

The statement will list each transaction

- in date order,
- show who the transaction is made with,
- show the amount as either a credit (paid in) or debit (paid out)
- show the total amount of money in your account after all transactions. This is known as the **BALANCE**

55 High Street
Sometown
Somewhere
SO55 77J
tel:0845 67584756



ANYBANK PLC

Mr Someone
55 George Street
Sometown
Somewhere
SO77 55J

Date	Code	Transaction type	Paid out (£)	Paid In (£)	Balance
					850.77
3rd November 2004	CWD	Cash withdrawal	60		790.77
4th November 2004	CHQ	Cheque		25	815.77
6th November 2004	SO	Standing order - TV License	21		794.77
10th November 2004	CWD	Cash withdrawal	30		764.77
11th November 2004	BACS	Wages - Company Job		950	1714.77
13th November 2004	CWD	Cash withdrawal	160		1554.77
14th November 2004	DEB	Sainsburys	81.33		1473.44
18th November 2004	DD	Direct Debit - BT	100		1373.44
19th November 2004	CWD	Cash withdrawal	31		1342.44
20th November 2004	DEB	Dixons	275		1067.44
21st November 2004	SO	South East Water	44		1023.44
24th November 2004	CWD	Cash withdrawal	50		973.44
25th November 2004	DEP	Deposit		140	1113.44

Your bank statement can be a useful tool for budgeting as it provides a record of your monthly income and spending. You can use it to predict the amounts which will need to be paid in the coming months.



If at any time you notice an item on your statement which seems incorrect you should tell your bank, building society or credit company immediately. It could be an error or it could be an incidence of fraud if someone has used your card details.

Be vigilant and report anything unusual.

You can arrange with your bank for a regular payment to be made from your account to a company or other account. This can take the effort out of having to make the payments in person and having to remember to pay on a set date.

This is especially useful for paying bills such as electricity, gas, telephone etc. You could also arrange for an amount to be transferred to a savings account.

There are two ways to do this:

- Standing order
- Direct Debit

STANDING ORDERS allow you to pay a set amount to another bank account on a regular date, such as on the 10th of each month.

You can use this to pay money to companies or individuals or to pay money into a savings account.





A **DIRECT DEBIT** is used to allow a company to take amounts from your account, to pay for bills etc. The amounts may vary but will usually be at the same intervals. You will be informed by the company how much and when the money will be taken from your account.

You will need to make sure that there is enough money in your account to cover the amounts to be paid by both standing orders and direct debits.

Otherwise you may become overdrawn.

If you have not agreed an overdraft limit with you bank they will charge you for the uncleared direct debit. This can happen more than once and the charges can mount up.



INTEREST

The bank pay you for keeping your money with them. This is called Interest.

It is paid as a percentage rate based on the balance in your account.

Interest can be paid on some current accounts and all savings accounts.

Interest Rates vary so it is a good idea to shop around and compare the interest rates that banks are currently offering.



To calculate interest you multiply the current balance by the interest rate

Example: If you had £100 in a savings account that paid 6% simple interest, during the first year you would earn £6 in interest.

$$£100 \times 0.06 \times 1 = £6$$

At the end of two years you would have earned £12. The account would continue to grow at a rate of £6 per year, despite the accumulated interest.

Compound interest calculation

Interest is paid on original amount of deposit, plus any interest earned.

Example: If you had £100 in a savings account that paid 6% interest compounded annually, the first year you would earn £6 in interest.

$$£100 \times 0.06 \times 1 = £6$$

$$£100 + £6 = £106$$

With compound interest, the second year you would earn £6.36 in interest.

The calculation the second year would look like this:

$$£106 \times 0.06 \times 1 = £6.36$$

$$£106 + 6.36 = £112.36$$

Most bank accounts offer telephone or online banking.

Telephone banking allows you to phone a call centre and ask for an operator to make payments and transfers from your account. You can set up standing orders and ask for an update on your account balance. Usually this costs the price of a local call.



Online banking allows you to access your bank account details via the internet and make transactions yourself. It is free, apart from the cost of using the internet.

These facilities can help you manage your money more effectively and are useful tools for budgeting.

Ask about these options when you choose a bank.

Savings accounts, also known as Deposit accounts, are intended for money to be paid in but not often withdrawn. Some allow instant access to your money but others require that you give the bank notice before making a withdrawal or incur a penalty.

They do not offer the same access facilities as current accounts such as cheque books and cashpoint cards.

They usually offer higher rates of interest than current accounts but these too can vary so it is worth shopping around.



Individual Savings Accounts or ISAs are a government scheme to encourage more people to save or invest their money without paying any tax on the interest earned. With an ordinary bank or building society account you pay tax on the interest you earn.

On 6 April 2008 the ISA rules were changed. The old style ISAs were replaced with Cash ISAs and Stocks and Shares ISAs and the annual allowance rose to £7,200.

This means you can invest up to

- £7,200 in a Stocks and Shares ISA, or
- up to £3,600 in a Cash ISA with the balance (within the overall limit) in a Stocks and Shares ISA.

- ISAs can be arranged by banks, building societies, National Savings, some supermarkets and retailers, friendly societies, insurance companies, unit and investment trust companies, financial advisers, fund supermarkets and stockbrokers.
- To open an ISA you have to be aged 18 or over, or for cash ISAs aged 16 or over.
- You also have to be resident and ordinarily resident in the UK for tax purposes.

Student & Young Person Accounts are designed to help young people and students to get control over their money. Many Student Accounts have interest free overdraft facilities and have no charges for using the account.

There is usually a Student Adviser to help students with any money management problems. They may also offer a credit card.

Student and Young Person Accounts offer incentives like cash payments, mobile phones or gift vouchers, discounts on CD's, DVD's, computer games, concert tickets, books and entrance to night-clubs.

Although incentives are tempting they usually apply when you first open the account only. Good interest rates and low charges are usually more helpful in the long run.

Graduate Accounts offer facilities to assist graduates with their money and debt management for time periods of up to 3 years after graduation.

When choosing a bank account, you may find it useful to consider:

- How much interest is paid when your account is in credit?
- How much is the interest free overdraft limit?
- Charges for agreed overdrafts & loans - these vary
- Charges for unauthorised overdrafts. These are overdrafts where you have not received permission from your bank in advance & the charges are much higher
- The qualifying period after graduation to stay in the same account, which will probably have better rates than other accounts. Many of the banks now have an option to move to a graduate account which may also have better terms of interest or charges than an ordinary account, especially if you are still paying off an overdraft or loan.

Other issues you may want to consider when choosing a bank are:

- Location of cashpoints and/or branches
- telephone banking service
- online banking service
- can you use other bank's cashpoints? Do they charge?
- Saturday or late night opening?
- Where can you make cash and cheque deposits?
- Personal banking advisers
- standing orders and direct debits
- what other services are offered, e.g. ethical approach to banking, share dealing, small business advice etc.?

Opening an account

To open a bank or building society account, you will usually have to:

- Complete and application form
- Provide proof of your identity and address
- Put some money in the new account

Wherever possible, the bank or building society will want to verify your identity and address through official documents that contain a photo and ideally a signature, for example,

- a current valid full passport,
- national identity card or
- Driving licence.

If you do not have these documents, the bank or building society may ask for other proof of identity. To check the address, the bank or building society may ask for a recent utility or council tax bill.

A student may provide a letter from her/his college. The same document cannot be used to prove both identity and address.

Joint Accounts

You can open a bank account in your name only or open a joint account with one or more people.

This can apply to either Current or Savings accounts.

Some couples decide to do this and agree to have equal access to the funds, regardless of whether they pay in different amounts. Other couples choose to have separate accounts.

You could set up a joint account from which bills are paid by direct debit or standing order. Both of you can pay into the account.





Although we have referred to banks in this subject Building Societies now offer many of the same features in their accounts.



As well as the well known high street banks there are now several online banks that do not have premises. These can offer the same kind of features as the high street banks.



Understanding the range of services offered by banks can give you better control over your money.

It is worth checking out the various offers to make sure your getting the best deal from your bank.

Activity: Here's a Challenge for you

Research and compare Current and Savings accounts from 4 local banks or building societies.

You could do this by visiting each bank and asking counter staff and collecting leaflets giving details. Or you may find the internet can give you answers via each bank's website.

Find out about:

- Current accounts and Savings accounts
- Facilities available such as cashpoint cards, overdrafts and interest rates.
- Bank charges
- Special accounts for students

Consider also:

Ease of access, location of branches, opening times, online and telephone banking. Using this information decide which bank is best for you.

Highlight anything you are impressed by or disappointed by.

**Epping Forest Citizens Advice Bureau
Financial Literacy**



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