



What You Should Know About...

Banking

- ▶ CHECKING ACCOUNTS
- ▶ SAVINGS ACCOUNTS
- ▶ TYPES OF BANKS



If you use a bank, you already know about the ways banks can make your financial life easier. If you have a checking account, you can deposit money, cash checks and pay your bills for far less than what it would cost at a check cashing company or bill payment center. And that's only a small part of the financial services most banks offer.

In most cases, you don't have any trouble finding banking services either. There are national or regional banks around the country. And there are local options including community banks with only a few branches, savings and loan companies, savings banks and credit unions. Or, if you prefer, you can conduct your banking online.

The key is finding the bank that's right for you, with the right combination of products, services, costs and convenience.

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What a bank offers

You probably have some idea about what banks do. You know they accept your deposits and make loans—but what else do they do? Much more, it turns out.



A range of bank services

When you use a bank, you receive regular statements that tell you how much you have in your accounts, what bills you've paid and how much interest you've earned. You can ask for a debit card to use at an ATM and to make purchases. You may qualify for a credit card. If you need money to buy a home or send a child to college, you can apply for a loan. And if you're ready to invest, you can do that through a bank too.

Banks provide detailed information about the accounts they offer, which they update each time they make a change. They also have customer service representatives whose job is to answer your

questions and help you take advantage of their products and services. Visiting the local branch office of a bank or their website should provide you with a good overview on what products and services they offer, along with their costs.

Your responsibilities

As a bank customer, it's your job to keep track of your accounts by checking the monthly statements you receive. You'll want to compare the bank's record to your own records to be sure all of the transactions are correct. If you have a loan, you're responsible for making payments on time.

Will your money be safe?

Perhaps most importantly, banks offer financial security for you and your money. The **Federal Deposit Insurance Corporation (FDIC)** guarantees deposits for up to \$250,000 per depositor, which means your money is safe even if the bank goes out of business or is robbed.



The unbanked

As many as 30 million households in the US don't have bank accounts or use the other services of traditional or online financial institutions. As a result, these households pay more for check cashing and bill paying than they probably would have to with a bank. And they're not building the financial relationships and potential credit histories that help make it possible to secure a loan or qualify for a credit card should they need to in the future.

Using a checking account

Of all the services your bank offers, you will probably use your **checking account** most often. Whether to pay the rent, buy groceries or cover utility bills, it's an easy, reliable way to pay your bills. That's because checking accounts

let you authorize the transfer of funds from your account to someone else's either in writing or electronically.

How does checking work?

The basics of checking are simple: When you deposit a check or cash, the amount is credited to your account. Then you can write checks



against your balance or transfer some or all of your money to a different account. Some checks you deposit are credited to your account the next business day, which means you have access to the money within 24 hours. In some cases, you may have to wait up to five business days for out-of-state checks or checks for large amounts to be credited to your account.

Different types of checking accounts

Banks offer a variety of checking accounts to appeal to different customers. The one that's right for you depends on your spending patterns and your typical **balance**, or amount on deposit. So you may want to ask a few questions.

Bouncing a check

Your bank won't honor a check when there is not enough money in your account to cover the amount you wrote it for. Not only are you charged a fee by the bank—sometimes as much as \$35—your credit history can be affected as well. And the person or company that has deposited your check is also usually charged a fee.

Returned checks

A returned or unpaid check is often referred to as a bounced or NSF (non-sufficient funds) check.

Ask yourself

- How many checks do you expect to write a month?
- How much money do you expect to keep in your checking account in an average month?
- How many times will you use the ATM?
- Is online banking and electronic bill paying important to you?

Ask the banks you're considering

- What's the minimum balance for opening a checking account?
- What are the fees to use the account (including any minimum balance fees)?
- Are there any special accounts that cost less?



Some banks offer **overdraft protection**, a special line of credit that pays your checks

with a loan to you when there isn't enough money in your account.

You'll pay interest on

the amount that's transferred from the line of credit to your account, but you'll avoid the returned check fee, potential embarrassment of having a check returned for insufficient funds, as well as any potential damage to your credit rating or history by having a check returned unpaid.

Debit cards

Debit cards are a growing, convenient and cash-free way to shop. When you pay with your debit card, the amount is debited, or subtracted, from your checking account and transferred electronically to the account of the person or business from whom you've purchased goods or services.

Sometimes you authorize a debit card transaction with your **personal identification number (PIN)**.

Other times, you sign the receipt. Either way, the amount is deducted from your account immediately upon the acceptance of the transaction.

Tip

Don't assume your checking account has an overdraft protection feature. If you'd like this service, be sure to ask your bank if your account has it, as you may discover that this feature isn't available with all accounts they offer.

Debit card variety

There are different types of debit cards. Basic debit cards, sometimes called bankcards, let you withdraw cash from ATMs and make purchases using your PIN. Those cards usually have just your bank's name on them. Other cards, which usually have both a bank name and a credit company's logo, such as Visa or MasterCard, can be used in more places to handle a variety of transactions. With some cards, you may be able to make both credit and debit purchases.

A word of caution

Debit cards can make your life easier and they can help you avoid using too much credit. But it's possible to overdraw your account. That could cost you a fee. And if you have a line of credit, you can end up borrowing against it and

getting yourself into debt. The way to avoid both problems is to keep track of your balance and not withdraw more than your balance. And, of course, you want to keep track of the card, too, and keep your PIN secret, so no one else can access your account.



PIN penalties

Some banks charge transaction fees each time you make a purchase with your debit card and use your PIN. Be sure to ask your bank about their policy and related fees.

Options for saving

Saving money can be tough, but it's essential if you want to reach your goals. Even if you're only

able to set aside a small amount of money each month, savings can play a key part in establishing your financial security.

Why save?

If you're not sure why you would use a bank savings account, the answer is, in a word, **interest**. That's the money that your money earns for you. Viewed differently, it's the amount of money a bank

pays you for keeping your money on deposit with them. Interest is a percentage of your account balance that the bank pays you at a specific rate on a regular schedule.

You'll find that different types of savings accounts offer different interest rates. In addition, each account has different rules, such as minimum balance requirements, limits on the number of monthly withdrawals, etc. Be sure to choose the one that suits you best—or select a combination to help you meet different needs.



Different ways to save

Regular savings accounts

- Allow you to withdraw your money whenever you want
- Pay a steady—though often small—interest rate, though you may have to maintain a minimum balance to qualify



Certificates of deposit (CDs)

- Generally pay a higher interest rate than regular savings accounts
- If you withdraw your money before the end of the CD's term, you forfeit some or all of the interest



Money market accounts (MMAs)

- Usually pay a higher interest rate than regular savings accounts
- Allow you to write a limited number of checks or make a limited number of transfers each month
- May not pay interest, or impose fees, or both, if account balance drops below required minimum



Compounding

There are two ways interest can be added to your account: simple interest and compound interest. Simple interest is just that, it's added once a year to your balance. If you earn 2.5% interest and you have \$10,000 in the account, you'll earn \$250 the first year, bringing your total to \$10,250 and another \$250 in the second year, bringing your total to \$10,500.

Compound interest, on the other hand, means that your interest rate is calculated on your total

balance, including any interest you've earned in the past. So, in the first year you'd earn \$250, bringing your balance to \$10,250. In the second year, though, the 2.5% interest would be calculated on your \$10,250, meaning you'd earn \$256.25, bringing your total to \$10,506.25. That might not seem like much money, but the difference increases dramatically over time.

How often interest is compounded can vary from bank to bank. Some offer daily compound-

ing while others offer monthly, semi-annual or annual compounding. The more frequently your interest is compounded, the more quickly your earnings will build.

To learn more about calculating compound interest see page 13.

Online banking

Online banking is the latest trend in personal finance, and it can be a powerful tool for managing your personal finances. With online banking, you can check your bank balance, transfer money between your accounts, pay your bills, invest and borrow through a single online account. And you don't have to worry about banking hours—the bank is up and running around the clock.

Fact

According to research conducted by the Pew Internet & American Life Project, more than 50 million U.S. adults now conduct some form of banking online.



Accessing your account

There are two ways you can access your account. You can purchase banking software, which acts as an intermediary between your online account and you. Or, you can connect directly to your account through your bank's website, if your bank offers that option.

Online banking has grown increasingly popular for a variety of reasons. One of the biggest, though, is the real-time account information that's available to you. Knowing exactly what's in your bank account at any given moment puts you in a much better position to answer important questions like, "Is my car payment check going to clear?" Further, online banking is a great way to spot possible account fraud activities in your account earlier.

Pay your bills online

Another great feature of online banking is **electronic bill payment**. You can authorize your bank to pay certain bills

automatically each month just by providing the payment information the bank needs and identifying your account from which you'd like to pay these bills. If you've sometimes been late in paying your bills, using this service can help you make your payments on time. If you'd rather authorize each bill payment as it comes due, you can do that too. And you always have a record of what was paid and when.

Some banks charge a monthly fee for electronic bill payment services, while others offer it for free or link the charge to your account balance.

What the FTC says

To learn more about protecting yourself online, check out this article from the Federal Trade Commission.

www.ftc.gov/bcp/conline/pubs/alerts/phishingalrt.htm

Choosing a bank

Like everything else you shop for, you want to get the best deal you can when choos-

Online bank safety

Banks take a lot of precautions to protect you and themselves from fraud or theft. You have the same legal protections with online accounts as you do with conventional accounts.

ing a bank. More often than not, that means finding the closest bank with the lowest fees for the services you'll be using the most. In choosing where to do your banking, you'll want to consider these three things:

- **Convenience:** Is there a local branch or one of the bank's ATM machines nearby your home or office?
- **Products and services:** What services are offered and is the bank's service department customer friendly?
- **Cost:** What are the fees that the bank charges for its services?

CONVENIENCE
SERVICES
COST

Types of banks

You'll probably be able to choose among a variety of banks.

<p>Large national and regional banks</p>	<ul style="list-style-type: none"> ● Offer many branches, the most ATMs and may have the greatest variety of services ● Most offer online banking as well as conventional banking locations
<p>Local banks</p>	<ul style="list-style-type: none"> ● Typically have a number of branches within a specific county or adjoining counties ● Sometimes are open longer hours than larger banks ● Savings banks and savings and loan associations are usually local banks, and despite their names, offer a full range of banking services
<p>Online banks</p>	<ul style="list-style-type: none"> ● Typically offer some but not all banking services ● Often provide links to your conventional bank accounts ● May pay higher rates on deposits, and charge lower rates on loans
<p>Credit unions</p>	<ul style="list-style-type: none"> ● Not-for-profit organizations that offer banking services ● Range in size from having a national presence to a single office that's open only a few hours a day
<p>Certain financial services companies</p>	<ul style="list-style-type: none"> ● May offer banking services, though their primary business is in another area, such as brokerage or insurance

Each type of institution has its own advantages and disadvantages, including special deals for new customers. You should be able to find information about what a bank offers and what fees it charges by visiting a branch office and its website. The more questions you ask, the more you can find out.

Fees

Banks make your financial life easier. But you should expect to pay for most of the services you use. The actual fees vary from bank to bank, so you'll want to learn exactly what the costs are as part of deciding where to take your business.

Basic fees

To start, ask about the fees associated with the services that you'll use most often. If you write a lot of checks to pay your bills, be sure to find out what the bank's monthly and per-check charges are for a checking account. If you use an ATM frequently, you should also ask what the bank charges to use its own machines, as well as what it charges if you withdraw money from a different bank's ATM. If you plan to bank online, ask about monthly usage fees.

Tip

Choosing the best account

Be sure to ask about all the types of accounts a bank offers. Most banks offer at least one very economical account that may provide all the services you need for very little cost. Young people, seniors and other groups may be eligible for reduced rates or other discounts.



Extra fees

In addition to the charges for basic services, you should expect to pay for optional, special services such as money order and bank check fees or the cost of a wire transfer. You may not need them often, but they're very handy when you do.

There are some fees that you can avoid or keep to a minimum if you're aware of what they are—and if you keep track of your account balances.

- Overdraft fees
- Stop payment fees
- Balance inquiry fees
- Extra check fees
- Replacement statement fees

Where you decide to conduct your banking is an important financial decision. Be sure you explore all of your banking options, and understand the products, services and costs each has to offer you.

The check's on the bank

Although it's nearly impossible to avoid all fees, you can limit the cost of banking. For example, if you keep a certain minimum balance in your checking or savings account, or if you have a home equity line of credit with your bank, you may qualify for free checking.

Calculating compound interest

Calculating how much compound interest you'll earn may seem complicated, but it's actually simple. If your interest compounds annually, you take the annual interest rate you earn, say 2.5% and multiply it by your balance, say \$10,000. 2.5% of \$10,000 is \$250, so you'll earn \$250 in interest, bringing your balance to \$10,250. To calculate the following year's interest, take the balance of \$10,250, and multiply by 2.5%, which is \$256.25. Your ending balance at year two is \$10,506.25 (\$10,250 + \$256.25).

If your interest compounds

monthly, you divide your annual interest rate by the number of months in a year, or 12. The interest rate of 2.50%, expressed as a decimal is 0.025 — 0.025 divided by 12 is 0.0020833. Next, you multiply that number by your balance, or \$10,000, and you get 20.833, or \$20.83 in interest that month. For the next month, you multiply \$10,020.83, which is your new balance, by 0.0020833, or the monthly interest rate, and you get 20.877, or \$20.88 in interest. Your new balance is \$10,041.71. You can continue with the same pattern for each month, and by the end of the year you'll have earned \$252.88 in interest, or \$2.88 more

than if your account were compounded annually.

For other types of interest, such as daily, weekly or semi-annually, the process is the same. Divide your annual interest rate by 365, 52 or 2, and multiply that by your

balance. Don't forget to use this new compound balance when calculating the next period's interest accumulation.

Say you open an account with \$10,000, and earn 2.5% annual interest:

Simple Interest vs. Compound Interest				
Beginning Balance:		\$10,000.00		
Interest Rate:		2.50%		
Simple	Time Period	Beginning Balance	Interest Earned	Ending Balance
	Year 1	\$10,000.00	\$250.00	\$10,250.00
	Year 2	\$10,250.00	\$250.00	\$10,500.00
	Year 3	\$10,500.00	\$250.00	\$10,750.00
	Total Interest Earned:		\$750.00	
Compounded Annually	Time Period	Beginning Balance	Interest Earned	Ending Balance
	Year 1	\$10,000.00	\$250.00	\$10,250.00
	Year 2	\$10,250.00	\$256.25	\$10,506.25
	Year 3	\$10,506.25	\$262.66	\$10,768.91
	Total Interest Earned:		\$768.91	
Compounded Monthly	Time Period	Beginning Balance	Interest Earned	Ending Balance
	Year 1	\$10,000.00		
	Month 1	\$10,000.00	\$20.833	\$10,020.83
	Month 2	\$10,020.83	\$20.877	\$10,041.71
	Month 3	\$10,041.71	\$20.920	\$10,062.63
	Month 4	\$10,062.63	\$20.964	\$10,083.59
	Month 5	\$10,083.59	\$21.007	\$10,104.60
	Month 6	\$10,104.60	\$21.051	\$10,125.65

Month 7	\$10,125.65	\$21.095	\$10,146.75
Month 8	\$10,146.75	\$21.139	\$10,167.89
Month 9	\$10,167.89	\$21.183	\$10,189.07
Month 10	\$10,189.07	\$21.227	\$10,210.30
Month 11	\$10,210.30	\$21.271	\$10,231.57
Month 12	\$10,231.57	\$21.316	\$10,252.88
Year 2			
Month 1	\$10,252.88	\$21.360	\$10,274.24
Month 2	\$10,274.24	\$21.405	\$10,295.65
Month 3	\$10,295.65	\$21.449	\$10,317.10
Month 4	\$10,317.10	\$21.494	\$10,338.59
Month 5	\$10,338.59	\$21.539	\$10,360.13
Month 6	\$10,360.13	\$21.584	\$10,381.71
Month 7	\$10,381.71	\$21.629	\$10,403.34
Month 8	\$10,403.34	\$21.674	\$10,425.02
Month 9	\$10,425.02	\$21.719	\$10,446.74
Month 10	\$10,446.74	\$21.764	\$10,468.50
Month 11	\$10,468.50	\$21.809	\$10,490.31
Month 12	\$10,490.31	\$21.855	\$10,512.16
Year 3			
Month 1	\$10,512.16	\$21.900	\$10,534.06
Month 2	\$10,534.06	\$21.946	\$10,556.01
Month 3	\$10,556.01	\$21.992	\$10,578.00
Month 4	\$10,578.00	\$22.038	\$10,600.04
Month 5	\$10,600.04	\$22.083	\$10,622.12
Month 6	\$10,622.12	\$22.129	\$10,644.25
Month 7	\$10,644.25	\$22.176	\$10,666.43
Month 8	\$10,666.43	\$22.222	\$10,688.65
Month 9	\$10,688.65	\$22.268	\$10,710.92
Month 10	\$10,710.92	\$22.314	\$10,733.23
Month 11	\$10,733.23	\$22.361	\$10,755.59
Month 12	\$10,755.59	\$22.407	\$10,778.00

Total Interest Earned: \$778.00

As one of the world's leading financial services companies, HSBC is proud to support our communities. One of the ways we do this is by promoting financial education and serving as an advocate for consumers. Our goal is to help consumers acquire an understanding of financial concepts and to provide the tools necessary to make sound financial decisions.

HSBC has provided consumers with financial education since 1929. The Your**Money**Counts® educational platform, managed by HSBC's Community Investment department, further advances this longstanding commitment to financial education. Because people learn in different ways, we offer Your**Money**Counts in multiple formats—online at YourMoneyCounts.com, in educational booklets and through financial education workshops.

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