

This lesson will help you learn what banks do and how you can use them. Use it with core lesson 8. 1 Savings and Banking to reinforce and apply your knowledge.

## Key Concept

Financial institutions provide consumers with services such as checking and savings accounts to help them manage their money.

## Core Skills & Practices

- Analyze Events and Details
- Get Meaning from Context

## Banks

Banks provide three basic services: keeping money safe, transferring funds, and loaning money.

**Directions:** Read the following questions. Then select the correct answers.

- What three basic services do banks provide?
  - keeping money safe, charging fees for services, and loaning money
  - keeping money safe, transferring funds, and charging fees for services
  - charging fees for services, transferring funds, and loaning money
  - keeping money safe, transferring funds, and loaning money
- Banks lend out most of their depositors' money: the rest of the deposits are called
  - reserves.
  - loans.
  - accounts.
  - cash.

**Directions:** Use the chart below to complete question 3.

- Complete the chart below by writing the name of the financial institution in the chart next to the reason it was originally created.

	Provide emergency loans for its members	commercial banks	credit unions
	Help individuals buy homes	savings and loan associations	
	Serve the needs of business		

## Types of Banks

Over time, several types of banking institutions arose to serve specific needs. Today, most financial institutions serve all those needs.

**Directions:** Read the questions below. Then select the correct answers.

4. What trend has affected the initial purpose of different financial institutions?
  - A. Most financial institutions today offer the same services.
  - B. Commercial banks outnumber all other financial institutions combined.
  - C. Credit unions require members to live in the same community.
  - D. Savings and loans provide most of the money for new home buyers.
5. Consumers generally trust that their banks will not lose their money because
  - A. consumers know their local bankers.
  - B. banks have unlimited resources.
  - C. banks buy insurance to cover losses.
  - D. consumers are uninformed about their deposits.
6. How do banks earn a profit?
  - A. They charge customers more to borrow money than they pay to customers who save.
  - B. They only loan money to individuals and businesses with excellent credit ratings.
  - C. They transfer funds to overseas banks who pay greater interest.
  - D. They invest customers' savings in the stock market.
7. \_\_\_\_\_ are financial institutions that serve people with a common concern, workplace, or community.
  - A. Savings banks
  - B. Community agencies
  - C. Commercial banks
  - D. Credit unions
8. What does 'payable on demand' mean with regard to checking accounts?
  - A. A bank must exchange a signed check for cash upon receipt.
  - B. A bank can demand cash in exchange for a signed check.
  - C. A bank can hold a check for one week upon receipt.
  - D. A check does not have to be signed in order to be cashed.

## Personal Banking

In addition to keeping your money safe, banks also offer other services. Some of these services require a fee.

**Directions:** Read the questions below. Then select the best answers.

9. If you have a personal checking account, you can
  - A. pay bills late.
  - B. earn a huge amount of interest.
  - C. have someone write a check using your name.
  - D. withdraw money by writing a check or using an ATM.
10. When you write a check for more than the balance in your checking account, the bank will probably
  - A. forgive you, if it is the first time.
  - B. close your account temporarily.
  - C. charge you a penalty fee.
  - D. hold the check until you have enough money in the account.
11. Every reputable bank is required to
  - A. protect customer privacy.
  - B. offer savings incentives.
  - C. offer free checking.
  - D. publicize consumer account information.
12. When you withdraw money from a bank, a form of identification is required. What is the rationale behind this policy?
  - A. It keeps a person's money safe.
  - B. It allows the tracking of personal spending.
  - C. It eases the transfer of funds.
  - D. It prevents someone from loaning money.
13. Why do banks keep some money in reserve?
  - A. They need to keep interest-earning accounts for savers.
  - B. They want to have money set aside for large commercial loans.
  - C. They need to have money set aside to cover future withdrawals.
  - D. They want to earn interest on the money in customers' checking accounts.

**Directions:** Use the graphic below to answer questions 14-16.

A blank check form with the following fields and labels:

- Top right corner: 1936
- Top center: DATE
- Left side: PAY TO THE ORDER OF
- Center: \$
- Right side: DOLLARS
- Bottom left: FOR
- Bottom center: 000000001864 0000000529 1000

14. On December 12, 2014, Clara Partridge needs to write a check to the Leadville Water Co. in the amount of \$153.23. What information should appear in the white box on the check?
- A. 1936
  - B. 152.23
  - C. Clara Partridge
  - D. December 12, 2014
15. The previous check written from this account was number \_\_\_\_\_
- A. 1934
  - B. 1935
  - C. 1937
  - D. 1938
16. What information must be added to the back of this check for it to be cashed?
- A. the account holder's address
  - B. the recipient's signature
  - C. the recipient's account number
  - D. the account holder's signature

**Directions:** On a separate sheet of paper, write a response to the following question.

17. During a financial crisis in 2008, borrowers were not able to repay loans, and many lending companies were going out of business. Lending, which stimulates the economy, slowed greatly. The national government and the Fed loaned money to financial institutions and banks on the verge of collapse. Some people felt this was necessary in order to avoid a collapse of the entire financial system. Others believe a collapse was not imminent and the government should not have bailed out the financial institutions. Do you agree or disagree with the actions of the government and the Fed? Explain your opinion.



### Test-Taking Tip

How much should you write on a writing test? The answer is—as much as you feel is necessary to clearly answer the question and to provide supporting evidence. If you do not have much to say about the topic, do not try to stretch your material. Adding extraneous or irrelevant information just to add more length can harm your overall score.

This lesson will help you identify several basic types of consumer credit, compare the different types of consumer credit, and describe situations in which each type of credit is useful. Use it with core lesson 8. 2 Types of Consumer Credit to reinforce and apply your knowledge.

### Key Concept

Different types of credit have different purposes and different advantages and disadvantages.

### Core Skills & Practices

- Sequence Events
- Judge the Relevance of Information

## Credit

Credit allows **you** to own something you want or need and to pay for it later. It is a convenient way to purchase and a threat to lower your ability to purchase what you might need in the future.

**Directions:** Read the questions below. Then select the best answers.

- How do credit card companies such as banks earn most of their money?
  - by charging consumers interest and fees on their debts
  - by adding a few percentage points to the cost of items sold
  - by charging participating retail outlets 5 percent on each sale
  - by selling their credit cards to consumers
- Complete the chart below by filling in the missing information that describes credit cards, installment loans, and secured loans.

home equity loan

small purchases

paid over a specific  
period of time

highest interest rate

<b>Credit card</b>		
<b>Installment loan</b>	new car	
<b>Secured loan</b>		lowest interest rate



**Directions:** Answer the following question.

3. Secured-loan interest rates are usually low because

- A. the lenders have more money.
- B. the lenders assume very little risk.
- C. the borrowers have higher credit ratings.
- D. the loan is for a short period of time.

**Directions:** Use one of the terms below to complete the statement in question 4.

credit report

credit score

bank statement

4. A \_\_\_\_\_ is a report by a credit agency of how consistently you pay your bills.

**Directions:** Use the chart below to answer questions 5 and 6.

Year	Credit Score
2009	560
2010	620
2011	500
2012	540

5. The chart above details the changes in Mr. Fernandez's credit score from 2009 to 2012. Between 2010 and 2011, Mr. Fernandez most likely

- A. earned more money.
- B. obtained a low-interest credit card.
- C. purchased a new home.
- D. missed credit card payments.

6. The credit agency that issued these scores most likely obtained its information from

- A. employers and retail stores.
- B. the Internal Revenue Service and employers.
- C. banks and credit card companies.
- D. financial institutions and Social Security records.

**Directions:** Read the question below. Then select the best answer.

7. A home-equity loan is a secured loan that might help reduce your taxes if
- A. your credit score is high.
  - B. the interest is tax-deductible.
  - C. it is used to purchase a car.
  - D. you pay a lot in interest,

## Comparing Types of Credit

Different types of credit have different advantages and disadvantages.

**Directions:** Use the chart below to answer question 8.

8. Place the following events in chronological order:
- Harriet's credit score drops.
  - A lender refuses to finance Harriet's used car purchase.
  - Harriet misses two credit card payments.
  - Harriet gets her first credit card.
  - Harriet gradually builds up her credit card balance.

1
2
3
4
5



### Test-Taking Tip

When a test requires you to put steps or items in a cause-and-effect sequence, it is sometimes helpful to work backwards. Find the last item or the final result. Then work backwards from there. Find the item that caused the final result. Continue until you have all the items placed in order. Then look at the items from the first item to the last to make sure that each item would cause the next item to happen.

**Directions:** Read the questions below. Then choose the correct answers.

9. An installment loan to buy a home is a good idea if a person has a down payment and
- A. interest rates are high.
  - B. the property value is declining.
  - C. the home is a large one.
  - D. the buyer has a reliable source of income.
10. Legally, you have a right to look at your credit report once each
- A. year.
  - B. month.
  - C. week.
  - D. day.

**Directions:** Read the passage below. Then answer questions 11 and 12.

A recent study done by two professors at The Ohio State University indicates that younger people are more at risk from credit card debt. For example, a person born between 1980 and 1984 has debt higher than the previous two generations—\$5, 689 higher than their parents and \$8, 156 higher than their grandparents.

“Our projections are that the typical credit card holder among younger Americans who keeps a balance will die still in debt to credit card companies.”

11. Total credit card debt in the United States is a detriment to our economic future. This is a serious concern because research shows that
- A. the problem seems to be getting worse with each generation.
  - B. few people are paying down their credit card debt before they die.
  - C. credit card interest continues to rise.
  - D. credit card companies will be less likely to lend to younger people.

**Directions:** Use one of the terms below to complete the statement in question 12.

mortgages

loans

credit reports

balances

12. One way future credit cardholders can break this pattern is by paying off their \_\_\_\_\_ each month.



This lesson will help you understand the importance of consumer credit laws such as the Equal Credit Opportunity Act, the Consumer Credit Protection Act, and the Truth in Lending Act. Use it with core lesson 8.3 Consumer Credit Laws to reinforce and apply your knowledge.

## Key Concept

The federal government enforces laws that provide many safeguards for the consumer using credit.

## Core Skills & Practices

- Analyze Point of View
- Identify Author's Bias

## Consumer Credit Protections

Since the 1960s, the federal government has passed a variety of consumer credit protection laws to prevent discrimination, to ensure that consumers have clear information about the terms of credit, and to limit fees and interest rates that lenders can charge.

**Directions:** Read the passage below. Then answer the questions that follow.

If... the consumer requests a copy of a consumer report from the person who procured the report, then, within 3 business days of receiving the consumer's request, together with proper identification, the person must send or provide to the consumer a copy of a report and a copy of the consumer's rights as prescribed by the Bureau...

A consumer may elect to have the consumer's name and address excluded from any list provided by a consumer reporting agency under subsection (c)(1)(B) in connection with a credit or insurance transaction that is not initiated by the consumer, by notifying the agency in accordance with paragraph (2).

—The Fair Credit Reporting Act

1. The Fair Credit Reporting Act and its amendments include several provisions such as
  - A. allowing consumers access to their credit reports.
  - B. protections against exceeding a credit limit.
  - C. protection from discrimination on the basis of race, sex, or religion.
  - D. the right to a free credit report each month.
2. The "Opt Out" provision of the Fair Credit Reporting Act says that a consumer may choose to have
  - A. his or her name removed from lender marketing lists.
  - B. his or her name removed from lists shared by a consumer reporting agency.
  - C. personal information removed from the credit reporting agency files.
  - D. no credit card business transactions collected by credit reporting agencies.

**Directions:** Read the following questions. Then select the correct answers.

3. The Truth in Lending Act limits a consumer's \_\_\_\_\_, or legal responsibility, for purchases if a credit card is stolen and used by someone else.
- A. liability
  - B. credit report
  - C. Credit CARD Act
  - D. Equal Credit Opportunity Act
4. The \_\_\_\_\_ prohibits discrimination in credit transactions based on race, religion, sex, national origin, age, or marital or economic status.
- A. liability
  - B. credit report
  - C. Credit CARD Act
  - D. Equal Credit Opportunity Act

**Directions:** Read the passage below. Then answer the questions that follow.

Dear Editor:

The federal government has tried to protect credit cardholders for years. But problems persist. For example, retailers continue to approve “over the limit” purchases that often result in huge fees from the credit card companies. These companies impose a retroactive interest rate of 25 to 30 percent if a cardholder is one day late! They advertise “No Interest for 6 Months” and then charge huge interest if the balance isn’t then paid in full. How is a person supposed to get out of debt if penalty rates are 40 percent? We need new legislation to prevent these companies from misleading the public.

Sincerely,  
J. Q Public

5. The writer believes which of the following has been ineffective?
- A. The Fair Credit and Charge Card Disclosure Act
  - B. The Truth in Lending Act
  - C. The Credit CARD Act
  - D. Consumer Financial Protection Bureau
6. The writer believes that federal credit card protection has been
- A. inadequate to deal with the problems facing cardholders.
  - B. too tough on credit card companies.
  - C. able to deal with all but a few cardholder problems.
  - D. unenforced since the early 1960s.



### Test-Taking Tip

When completing multiple-choice questions, don’t keep changing your answer. If you are not sure, your first instinct is usually right, unless you misread the question.

## Recent Credit Protections

The federal government expanded credit protections in the 1980s and 2000s.

**Directions:** Read the checklist below. Then answer the questions that follow.

### Checklist for Credit Card Applicants

- ☐ What are the annual percentage rates (APRs)?
  - for purchases? • for cash advances? • for balance transfers? • if you pay late?
- ☐ What type of interest does the card have?
- ☐ How long is the grace period (the number of days you have to pay your bill in full without triggering a finance charge)?
  - if you carry over a balance? • if you pay the balance each month? • for cash advances?
- ☐ How is the finance charge calculated?
- ☐ What are the fees?
  - annual                      • late payment                      • setup                      • over-the-credit-limit
- ☐ What are the cash-advance features?
- ☐ How much is the credit limit?
- ☐ Does the card offer other features?
  - rebates                      • insurance                      • frequent-flyer miles

7. You would expect that for most credit cards the lowest APRs would be on
  - A. frequent-flyer miles.
  - B. loans.
  - C. interest.
  - D. purchases.
8. Credit card providers are prohibited from offering
  - A. rebates.
  - B. no-interest loans.
  - C. insurance.
  - D. frequent-flyer miles.
9. Which of these is the most basic question that a prospective credit card owner should know?
  - A. "What are the cash advance features? "
  - B. "What is the APR for purchases? "
  - C. "Are there frequent-flyer miles? "
  - D. "How much is the over-the-credit-limit fee? "
10. First-time credit card users should be interested in the credit\_\_\_\_\_ of the card.
  - A. limit
  - B. experience
  - C. report
  - D. advance

## The Consumer Financial Protection Bureau

The government created the Consumer Financial Protection Bureau to oversee federal consumer protection laws and to look out for the interests of consumers who are shopping for financial products.

**Directions:** Use the chart below to answer questions 11-12.

### Credit Card Information

New balance	\$3, 000. 00	
Minimum, payment due	\$90. 00	
Payment due date	4/20/12	
<b>Late Payment Warning:</b> If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 late fee and your APRs may be increased up to the Penalty APR of 28. 99%.		
<b>Minimum Payment Warning:</b> If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:		
If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...
only the minimum payment	11 years	\$4, 745
\$1000	3 years	\$3, 712 (Savings = \$1, 033)

11. Based on current federal protections, you can predict that this consumer's next payment due date will most likely be
- A. 5/1/12.
  - B. 5/20/12.
  - C. 5/31/12.
  - D. 4/20/13.
12. These protections were put into place by the
- A. Truth in Lending Act.
  - B. Consumer Credit Protection Act.
  - C. Equal Credit Opportunity Act.
  - D. Credit CARD Act.