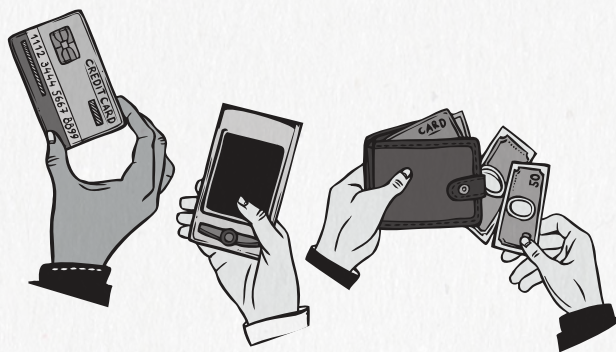


# CHAPTER 3: Many Ways to Pay

## Did You Know?

*Forty-three percent of internet users, or about 63 million American adults, bank online. Mobile retail payments are projected to grow from \$180 billion in 2016 to \$410.5 billion by 2020.<sup>5</sup>*



## Checking Account Basics

Learning to maintain a **checking account** is a necessary skill to master, even if you never actually write a **check**. Like savings accounts, checking accounts offer a secure place to keep your money. Unlike a savings account, the money in a checking account is meant to be used. These accounts provide a place to keep money for a short time before it is spent. For this reason, banks typically pay very little or no interest on checking accounts.

## Choosing a Checking Account

Modern checking accounts are very different from those your parents were introduced to when they were your age. Once upon a time, consumers would go into a bank branch to make deposits and withdrawals, and write paper checks to pay bills. Monthly statements were sent in the mail. Today's checking accounts allow you to purchase things instantly with a debit card, pay bills online from anywhere, and complete many transactions with a smartphone from the palm of your hand. The proper use of a checking account makes paying bills and tracking personal spending habits simple and convenient.

When setting up a checking account, it is important to read the fine print and pay attention to any fees and requirements associated with the account. Some banks require you to keep a **minimum balance**, which can be as much as \$1,000. If you fall below this amount at any time during the month, you may be charged a service fee and, if you have an interest-bearing checking account, you will not earn the interest you were expecting. It is also important to find out what kinds of perks you can get, such as free checks, a bonus for receiving your paycheck via direct deposit, and **overdraft protection**.

Banks also offer a variety of services along with a checking account, such as online bill pay and mobile banking. Look for options that fit your lifestyle. For example, some banks offer no-fee use of other banks' **ATM machines**. You might also want to consider using a bank that operates only online, without any physical locations. Many of these banks offer similar services to traditional banks, sometimes offering higher interest rates and lower fees in place of the ability to go into a branch office.

## Checkbooks

Paper checks are not as popular as they once were, but occasionally you may need to write a check to pay a bill or may receive a check as a gift or payment. Look at the sample check to learn the basics. Take particular note of items E and F; whether you use a checkbook or not, you may need the account number and routing number to identify your account for other purposes. For example, your employer can use this information to deposit your paycheck directly into your account.



<sup>5</sup> Board of Governors of the Federal Reserve System, March 2016 Report



## What's Included on a Check?

A → LUCY SORSANO  
345 MAIN ST  
HAMBURG, PA 10487

B → PAY TO THE ORDER OF ACME communications

C → WATER MELLON BANK  
COMMONWEALTH REGION  
HAMBURG, PA

D → MEMO March cell phone bill

E → ⑆ 0 1 2 3 4 3 5 6 7 ⑆

F → ⑆ 0 1 2 3 4 3 5 6 7 ⑆

G → 1234

H → DATE April 3 2020

I → \$ 61.63

J → Sixty-one and  $\frac{63}{100}$  DOLLARS

K → Lucy Sorsano

- A. Name and address of the account holder
- B. Name of the business or person receiving the payment
- C. Name of the bank where the account holder has the checking account
- D. Allows the account holder to record what the payment is for
- E. Routing number indicating the bank the check is drawn on

- F. Checking account number
- G. Check number
- H. Date that the check is being written
- I. Dollar amount being paid written as a number
- J. Dollar amount being paid written out in words
- K. Signature line where the account holder signs the check



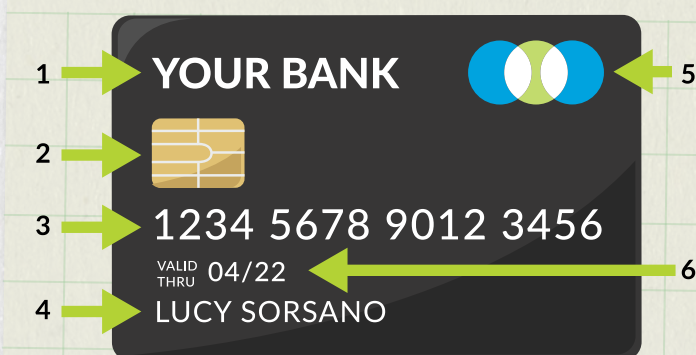
## Debit Cards

In addition to a checkbook, your bank will provide you with a **debit card** that you can use to pay bills, complete bank transactions, and make purchases. Many people prefer to use debit cards for day-to-day purchases because they provide much more convenience than carrying cash or writing a check. They also make it easier to track your spending.

Debit cards (see illustration below) resemble credit cards and can be used to make purchases anywhere credit cards are accepted as payment. They are typically swiped into or

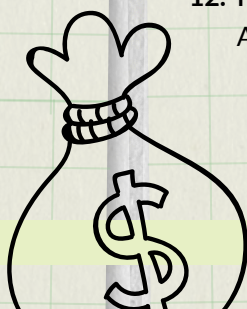
waved over an electronic reader. Many cards now have a special computer chip for increased security protection, and are inserted into the reader instead of swiped. Debit cards usually have a 3-digit code printed on the back in the space for your signature. This code is used as an added security measure for making purchases online or over the phone.

It is important to remember that when you use a debit card, money is automatically deducted from your bank account and transferred immediately to the merchant.



1. **Bank branding:** identifies your card issuer, which is typically either a bank name or retailer.
2. **Smart chips:** security feature on certain cards; a tiny metal processor that adds a single-use code to every transaction, making it harder for thieves to steal information.
3. **Card number:** 16-digit number (or 15 digits for American Express) used to identify your bank/credit account.
4. **Cardholder's name:** identifies the person to whom the card belongs, either the primary account holder or an authorized user who has permission to spend from the account.
5. **Payment network logo:** like MasterCard, Visa, etc. Some stores and websites will only accept certain types of cards.

6. **Expiration date:** cards will need to be replaced periodically; this tells you when. It is required for purchases you make online or over the phone.
7. **Magnetic stripe:** allows card readers to identify you and charge your account.
8. **Hologram:** may be printed on your card for added security as they are hard to counterfeit.
9. **Bank contact information**
10. **Signature panel:** your card must be signed before you can use it.
11. **Security code:** a three-digit code that you have to enter for online purchases, as an added level of security. American Express cards have a four-digit code on the front.
12. **Network logos:** can help you figure out which ATMs you can use for free.





## ATMs (Automated Teller Machines)

Debit cards can also be used at ATMs to get cash immediately and directly from your checking or savings account, 24 hours a day, seven days a week. Worldwide, there are more than 3 million ATMs available.

- When using a debit card at an ATM machine, you will usually be asked to enter your **PIN** (Personal Identification Number), to verify your identity.
- If you use an ATM owned by your bank, you will be able to complete a variety of transactions, such as depositing checks, transferring money from one account to another, and taking out cash.
- If you use an ATM owned by another bank, you may have more limited access to your account and be able only to withdraw money and check your balances. In addition, you will likely be charged a service fee of around \$1-\$3 by the bank who owns the machine. Your bank may also charge a fee of \$2 or more. These fees are deducted from your account immediately, so remember to record the fees along with your withdrawal amount!



## Prepaid Debit Cards

Prepaid debit cards are a useful option for people who don't have a checking account. Instead of depositing money with a bank, you "load" money onto the debit card (similar to loading money onto a gift card), then spend the money that you loaded. Most prepaid debit cards can be used the same way as a traditional debit card, such as to make purchases and get cash out of an ATM.

Key differences between prepaid debit cards and bank account-based debit cards include:

### Pros:

- You don't need to start with a specified minimum balance.
- You can't spend more money than you have.
- They minimize risk of identify theft and offer more privacy.
- There are no credit checks.
- Some have unique features to help with budgeting.

### Cons:

- Your money may not be insured by the FDIC.
- There is no overdraft protection.
- Most don't pay interest or allow you to link to an interest-bearing savings account.
- You can't set up recurring online bill payments.
- You don't build a credit history.



## Online Bill Pay

Many people use **online and mobile banking** to pay their bills, including monthly credit cards and even one-time doctor's bills. To set up an online bill payment:

- Log into your bank's website or mobile banking app and enter the person or company you wish to pay as a "Payee."
- Provide information about the payee, including their address and the reference or account number they assigned you.
- Enter a payment amount.
- Decide whether it will be a one-time payment or recurring. For **recurring payments**, you will also choose when the payment will be sent each month.

It is important to remember that sometimes when you set up an online bill payment, your bank will print and send a check through the mail, which means it could take up to a

week for the company or person to receive your payment. Consider this when scheduling online payments to make sure you don't miss the due date for a bill.

In most cases, however, your payment will go through as an **Electronic Funds Transfer (EFT)**. The bank "wires" the money directly into the account of whomever you are paying. EFTs can also be used for:

- Automatic transfer of your paycheck from your employer's account to your checking account, also known as direct deposit. To set this up, you will provide your employer with the checking account and routing numbers that appear on your paper checks.
- Automatic payment of an ongoing bill such as a music service membership fee or phone bill. Such payments can be set up through the website of the company you are paying, by providing them with your debit card number, or through your bank.

The screenshot shows a bank's online bill payment interface. A sidebar on the left contains navigation links: Home, Messages, Transactions, Funds Transfer, Bill Payment (highlighted), Activity Center, Statements, Mobile Deposit, Branches, Services, Help, Settings, and Log Off. The main area has two tabs: 'Pay Bills' and 'Payment Activity'. Below the tabs is a search bar labeled 'Search payees' and a '+ Add payee' button. A table lists payees with columns for 'Payee', 'Pay from', 'Amount', and 'Date'. Five green arrows point to specific elements: 1 points to the 'Search payees' bar, 2 points to the 'Payment Activity' tab, 3 points to the 'Pay from' column, 4 points to the 'Amount' column, and 5 points to the 'Date' column. The table contains six rows of payees: MASTERCARD, COMCAST BEAVERTON S..., MYGREATLAKES - Large, MyGreatLakes - Small, Neil Worford, and Waterford Creek HOA. Each row shows a 'Checking: XXXXXX8888' account, a '\$0.00' amount, and a 'Select Date' button. At the bottom, it says 'Total for 0 payments: \$0.00' and has a 'Review Payments' button.

| Payee                  | Pay from             | Amount | Date        |
|------------------------|----------------------|--------|-------------|
| MASTERCARD             | Checking: XXXXXX8888 | \$0.00 | Select Date |
| COMCAST BEAVERTON S... | Checking: XXXXXX8888 | \$0.00 | Select Date |
| MYGREATLAKES - Large   | Checking: XXXXXX8888 | \$0.00 | Select Date |
| MyGreatLakes - Small   | Checking: XXXXXX8888 | \$0.00 | Select Date |
| Neil Worford           | Checking: XXXXXX8888 | \$0.00 | Select Date |
| Waterford Creek HOA    | Checking: XXXXXX8888 | \$0.00 | Select Date |

Total for 0 payments: \$0.00 [Review Payments](#)

1. **Payees:** list of all accounts and people you pay through your online banking account.

2. **Payment Activity:** use this tab to check on upcoming payments and confirm that scheduled payments were sent.

3. **Pay From:** your bank accounts that hold the money you will use to pay your bills.

4. **Payment Amount:** the amount of money you want to send in a single payment.

5. **Transaction Date:** you can have a bill paid immediately or set it up for future payment.



## Person to Person (P2P) Bill Pay

Most banks also allow you to send money to individuals without knowing the recipient's bank account information. Instead, you enter a phone number or email address, and the bank transfers the money to the account linked to that identifier. **P2P payments** go by a variety of names. Be sure to research any fees, and find out if your recipient needs to have an account with the payment service used by your bank. In many cases, the recipient can just provide their bank account information to claim a payment.

## Digital Payment Services

In addition to the P2P services provided by banks, there are a number of **digital payment services** that allow you to send money to individuals or make purchases through online shops and websites. The P2P service is essentially a middleman: you link your bank account or a credit card, and it gives you a simple way of making transactions. In most cases, both the sender and receiver need to have a linked bank account or debit card, and an account with the service provider. Popular digital payment apps include PayPal, Venmo, Square Cash, Google Wallet, and Facebook Messenger.

For some of these services, you can choose to link either a debit or a credit card. Keep in mind that many P2P services charge fees for paying with a credit card, but not for paying with a checking or savings account. On top of that, some credit card issuers consider P2P transfers cash advances, which carry higher interest rates on top of transfer fees.

## NFC (Near-Field Communication) Payment

Many merchants now offer cardless **NFC (Near-Field Communication)** payment systems that work with the digital “wallet” on a smartphone. The major smartphone manufacturers, such as Apple and Samsung, each have their own NFC system that transmits stored credit and debit card information when you bring the phone close to the retailer's payment terminal, allowing you to complete a transaction without ever having to take out your real wallet. Many large retailers and P2P payment services offer their own digital wallet apps as well.



# Activity 1

## MANY WAYS TO PAY



**PART 1:** Consumers today have many different options when choosing a bank account and method of paying. Answer these T/F questions to test your knowledge of how each choice might fit different situations.

- Digital payment services require a bank account or debit card to make transactions.  
☐ True ☐ False
- Interest-bearing checking accounts are a good option for people who keep very little money in their checking account.  
☐ True ☐ False
- Prepaid debit cards offer more privacy than traditional bank-issued debit cards.  
☐ True ☐ False
- EFTs are a convenient way of paying a recurring monthly bill, such as your Spotify membership.  
☐ True ☐ False
- If you have overdraft protection, it's like having extra money in your bank account to use without penalty.  
☐ True ☐ False

**PART 2:** Choose the best option for each scenario:



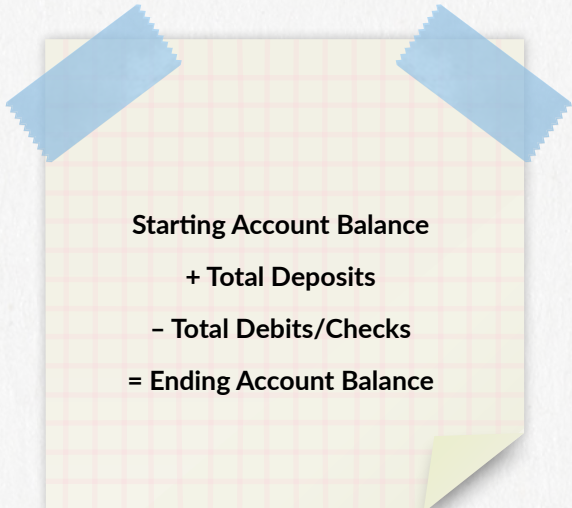
- When you go jogging, you like to stop for coffee on your way home, but carrying a wallet is inconvenient.  
☐ A. Smartphone Wallet App ☐ B. Checkbook ☐ C. Online Banking App
- You are going on vacation with a friend's family, and your parents would like to give you spending money. They want something fast, low-risk, and with no long-term commitment.  
☐ A. Cash ☐ B. Smartphone Wallet ☐ C. Prepaid Debit Card
- You want to open a checking account and have \$1,000 to start with. Each month, you will have your paychecks, totaling \$600 or more, directly deposited into your account. You also plan on setting up automatic payments for your phone bill and cloud storage totaling \$75 per month. Choose the best checking account from the chart below.  
☐ A. Basic Checking ☐ B. Interest Checking ☐ C. Prepaid Debit
- You are opening your first checking account and have \$25 to start with. Each month, you will have your paychecks, totaling \$250, directly deposited into your account. You don't have any online bills, and pay cash for most things. There are very few banks nearby, so you expect to go frequently to ATM machines that are not owned by your bank. Choose the best checking account from the chart below.  
☐ A. Basic Checking ☐ B. Interest Checking ☐ C. Prepaid Debit
- You are opening your first checking account and have \$50 to start with. Each month, you will deposit the cash you earn from babysitting, either at the ATM or the bank. You will set up online bill payment for your phone bill and gym membership. Choose the best checking account from the chart below.  
☐ A. Basic Checking ☐ B. Interest Checking ☐ C. Prepaid Debit

| Bank (Type)       | Interest | Monthly Fees | Minimum Balance | Fee for using other bank ATMs | Other Features  |
|-------------------|----------|--------------|-----------------|-------------------------------|---|
| Basic Checking    | 0        | \$5          | None            | \$2.50                        | <ul style="list-style-type: none"> <li>monthly fee waived for setting up automatic bill payments</li> </ul>   |
| Interest Checking | 1%       | \$10         | \$500           | \$2.50                        | <ul style="list-style-type: none"> <li>monthly fee waived if you have direct deposits of \$500 or more</li> <li>offers overdraft protection up to \$75</li> </ul> |
| Prepaid Debit     | 0        | 0            | None            | \$0                           | <ul style="list-style-type: none"> <li>one-time set-up charge of \$15</li> </ul>  |



## Maintaining a Bank Balance

When you open a checking account, it is critical that you keep track of how much money you have spent, and how much money is left in the account. You can track the balance with a **check register**, which is basically a spreadsheet similar to the one used for your savings account. Instead of recording interest, you will be keeping track of each type of transaction (check, ATM, etc.) and the debit or credit amount. At the end of each week or month, you can balance or **reconcile** your register using the following formula:


$$\begin{array}{l} \text{Starting Account Balance} \\ + \text{Total Deposits} \\ - \text{Total Debits/Checks} \\ = \text{Ending Account Balance} \end{array}$$

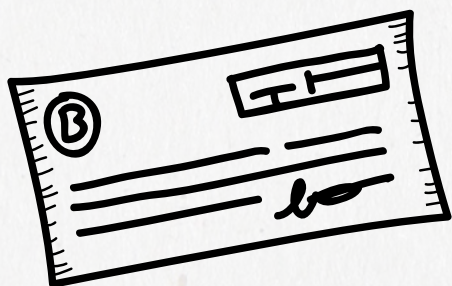
Some bank checking accounts do not require a high minimum balance, but you must always have enough money in your account to cover your payments and purchases. Spending more than you have available can result in a transaction being denied or your account becoming **overdrawn**. This can be embarrassing if you are at a restaurant and find you're unable to pay for the food you've just eaten. It can also result in paying late fees to the merchant and an **overdraft penalty** to the bank. While every bank is different, banks commonly charge

\$25 or more per check for overdraft charges. In addition, merchants often charge \$15 or more for each check that is returned unpaid.

Many banks offer **overdraft protection**. Types of overdraft protection vary but can include:

- Automatic transfer of money from another account at the same bank (assuming you have one) to cover the amount you are deficient in your checking account to prevent you from overdrawing.
- Allowing you to overdraft your account up to a specified limit before assessing any penalties or bouncing your checks.
- Lending you the amount of money by which you have overdrawn your account and charging you a high rate of interest on this loan. (You must pay interest until you repay the loan by depositing enough money into the checking account to correct the deficiency).

In all of these cases, the bank may charge you a fee for these services.





## Activity 2

### PART 1: KEEPING TRACK



Fill in the missing information on this spreadsheet based on the scenario described below.

| TRANS. TYPE/<br>CHECK NUMBER | DATE   | DESCRIPTION            | CHECK/DEBIT<br>AMOUNT | DEPOSIT/<br>CREDIT<br>AMOUNT | BALANCE |
|------------------------------|--------|------------------------|-----------------------|------------------------------|---------|
| BEGINNING BALANCE            |        |                        |                       |                              | \$      |
| EFT—direct deposit           | 1-Sep  | Paycheck               |                       | \$105.24                     | \$      |
| Debit                        | 3-Sep  | Gas                    | \$25.00               |                              | \$      |
| ATM                          | 4-Sep  | Cash Withdrawal        | \$40.00               |                              | \$      |
| Debit                        | 5-Sep  | Coffee                 | \$4.89                |                              | \$      |
| ATM                          | 10-Sep | Cash Withdrawal        | \$40.00               |                              | \$      |
| Mobile Pay                   | 12-Sep | Clothing Store         | \$35.00               |                              | \$      |
| EFT—direct deposit           | 15-Sep | Paycheck               |                       | \$108.78                     | \$      |
| Debit                        | 16-Sep | Concert tickets        | \$41.56               |                              | \$      |
| Auto Pay—EFT                 | 16-Sep | Music Club Monthly Fee | \$9.99                |                              | \$      |
| Debit                        | 25-Sep | Dinner Out             | \$68.00               |                              | \$      |
| ATM                          | 25-Sep | Cash Withdrawal        | \$25.00               |                              | \$      |

- Imagine you have a part-time job and receive a paycheck twice per month. You must use that money to pay for school lunches, your monthly cell phone bill, and day-to-day entertainment. At the start of September, your checking account balance was \$143.68. During the month, your paychecks total \$105.24 and \$108.78. You also have 9 transactions totaling \$289.44. Fill in the spreadsheet with the missing information.
- Every month, the bank will send you a **statement** that shows the beginning and ending balance for the account, and a list of all the credits and debits for the account during that time period. You should compare the statement to your **check register** and **reconcile** the two records to verify that all the information is correct and that your account has sufficient funds to cover upcoming expenses. Reconcile the following statement with what you've recorded above. Record any differences in the column on the right.

| TRANS. TYPE/<br>CHECK NUMBER | DATE   | DESCRIPTION            | CHECK/DEBIT<br>AMOUNT | DEPOSIT/CREDIT<br>AMOUNT | BALANCE  |  |
|------------------------------|--------|------------------------|-----------------------|--------------------------|----------|--|
| BEGINNING BALANCE            |        |                        |                       |                          | \$143.68 |  |
| EFT—direct deposit           | 1-Sep  | Paycheck               |                       | \$105.24                 | \$248.92 |  |
| Debit                        | 3-Sep  | Gas                    | \$25.00               |                          | \$223.92 |  |
| ATM                          | 4-Sep  | Cash Withdrawal        | \$40.00               |                          | \$183.92 |  |
| Debit                        | 5-Sep  | Coffee                 | \$4.89                |                          | \$179.03 |  |
| ATM                          | 10-Sep | Cash Withdrawal        | \$40.00               |                          | \$139.03 |  |
| Mobile Pay                   | 12-Sep | Clothing Store         | \$35.00               |                          | \$104.03 |  |
| Mobile Pay                   | 12-Sep | Clothing Store         | \$35.00               |                          | \$69.03  |  |
| EFT—direct deposit           | 15-Sep | Paycheck               |                       | \$108.78                 | \$177.81 |  |
| Debit                        | 16-Sep | Concert tickets        | \$41.56               |                          | \$136.25 |  |
| Auto Pay -EFT                | 16-Sep | Music Club Monthly Fee | \$9.99                |                          | \$126.26 |  |
| Debit                        | 25-Sep | Dinner Out             | \$68.00               |                          | \$58.26  |  |
| ATM                          | 25-Sep | Cash Withdrawal        | \$25.00               |                          | \$33.26  |  |





## Activity 2

### PART 2: OVERDRAWN!



**NOTE:** You can check your current account balance and recent transactions on your bank's website and/or mobile app. It may be tempting to rely on this information to tell you how much money is in your account. Keep in mind that some transactions may not show up for several days!

1. You used your phone's mobile wallet on a weekend trip to the mall and forgot to record it. You didn't realize this until you decided to check your account balance online one evening. According to the bank records, you went to the movies and spent \$22.94 on admission and snacks. Now you have \$48.12 in your account. But in two days, you have an EFT payment scheduled to send \$62 to the cell phone company to pay your monthly bill.

- What do you think will happen when the bank processes your EFT payment?

\_\_\_\_\_

- What are some possible consequences of your failure to record the debit? Try to list three possibilities.

\_\_\_\_\_

\_\_\_\_\_

2. Same situation. Your bank will allow you to overdraft up to \$75, but it charges \$30 for every overdraft transaction, and these overdraft fees count toward the \$75 limit. Once your account is overdrawn by \$75, the bank will return checks unpaid (and charge \$15 instead of \$30) or reject debit transactions.

- You need to put gas in your car to get to school, so you charge \$23 to your debit card. What is your balance now? \$ \_\_\_\_\_
- The next day, the bank sends your scheduled payment to the cell phone company. What is your balance after that payment goes through? \$ \_\_\_\_\_
- Finally, your school's PTA attempts to deposit a \$10 check that you wrote at last month's bake sale and forgot to put in your register. What will happen?

\_\_\_\_\_

- What is your account balance now? \$ \_\_\_\_\_

- How much have you paid in overdraft fees? \$ \_\_\_\_\_



Visit [ymiclassroom.com/byf/byf\\_book1\\_register\\_template.xlsx](https://ymiclassroom.com/byf/byf_book1_register_template.xlsx) to download a register template that you can use to track your own spending. If you don't have access to a spreadsheet app, like Excel or Google, simply copy the headers into a notebook and record your transactions by hand.





## Protecting Yourself From Identity Theft

According to the Federal Trade Commission, as many as nine million Americans have their identities stolen each year.<sup>6</sup> If someone finds a way to steal your private information, such as your Social Security number or credit card information, they may be able to make purchases, get a phone, rent an apartment, or order and use new credit cards — and it may be months before you find out. While some **identity theft** victims have been able to quickly resolve problems, for others it may take months to repair the damage done to their good name and to their credit rating.

Thieves can get your information in a number of ways, such as going through your trash to find old statements, posting online scams, using computer viruses, or simply stealing your wallet or purse. Some thieves use special software that records your debit and credit card information when you complete transactions at the checkout. You should guard your personal and financial information carefully, taking common-sense steps such as:

- Monitor your financial accounts closely, checking monthly statements and balances, and regularly checking your credit report.
- When paying online, make sure the company you're buying from has a secure payment system.
- Shred old documents rather than throwing them away.
- Maintain computer security with firewalls and virus protection software.
- Don't provide your personal information to people you don't know, or to companies (particularly online) if they don't seem legitimate.
- Choose PIN numbers that you can easily remember, but which are private to you. PINs like 1234 are too easy for thieves to guess.
- Likewise, make your passwords for bank websites and mobile apps unique and private. Be sure to change them frequently and keep them confidential.
- If using mobile banking, be sure to keep a secure password that locks your phone.
- When using public computers to log into your bank account, make sure you manually end your banking session before leaving the computer.

<sup>6</sup> <http://guides.wsj.com/personal-finance/credit/how-to-protect-yourself-from-identity-theft/>



If you think that someone has stolen your personal information, take action immediately. If you see unauthorized charges on one of your credit cards or bank statements, contact your credit card provider or bank immediately to dispute such charges and alert them to the problem. Also contact one of the three credit reporting agencies listed below to place a fraud alert on your credit report. This will prevent an identity thief from opening any new accounts in your name. (Note: if you notify one agency, they're required to inform the other two.) You may also want to file an Identity Theft Report with the police, which will give you certain legal rights, such as helping to prevent credit reporting agencies from listing fraudulent accounts on your report, and ensuring that collection agencies do not pursue you for charges you did not make.

### Equifax

[www.equifax.com](http://www.equifax.com)

Place Fraud Alert: 888-836-6351

Dispute Credit Report Items: 866-349-5186

### Experian

[www.experian.com](http://www.experian.com)

Place Fraud Alert: 888-397-3742

Dispute Credit Report Items:  
[www.experian.com/disputes/main.html](http://www.experian.com/disputes/main.html)

### TransUnion

[www.transunion.com](http://www.transunion.com)

Place Fraud Alert: 800-680-7289

Dispute Credit Report Items: 800-916-8800