Handout 9-1

Your Guide to Banking Services

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| --- | --- | --- | --- | --- |
| Name |  | Class/Block |  | Date |

**What are financial institution?**

In Canada you can use banks, credit unions and trust companies for banking services. Each of them offers a range of services, and the fees they charge vary from one to another. They compete for customers, so if you don’t like the service that one institution offers, look for another one you like better.

Financial institutions run as businesses to make profits for their owners. They make money by taking deposits, and lending or investing the deposits in other profit-making activities. They pay interest to depositors for the right to hold and use the depositors’ money.

The services and fees that institutions offer vary because each has its own approach to business. Credit unions are owned by their members and provide services their members need. Some institutions can pay higher interest rates, or charge lower fees, because they offer fewer services or have more efficient operations. Some offer lower in order to attract customers. Some can pay more interest because they restrict withdrawals from accounts.

**What’s deposit insurance?**

Most financial institutions in Canada are members of the Canada Deposit Insurance Corporation, or CDIC. The CDIC currently insures deposits up to $60,000 per depositor (but not other investments that the institution may hold). That means the CDIC will pay you back your money (up to $60,000) if your financial institution is a member and it goes bankrupt. The CDIC hasn’t had to make a payment since 1996. In BC, the Credit Union Deposit Insurance Corporation (CUDIC) provides similar insurance for accounts in credit unions, currently to a maximum of $100,000 per depositor.

Want to know more?

For more information about financial services in Canada and the cost of banking, visit the Financial Consumer Agency of Canada’s website ([www.fcac-acfc.gc.ca](http://www.fcac-acfc.gc.ca)). Regulatory agencies also keep reliable and independent information about financial institutions on their websites:

* Financial Institutions Commision of BC ([www.fic.gov.bc.ca](http://www.fic.gov.bc.ca))
* Office of the Superintendant of Financial Institutions ([www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca))
* Financial Sercvices Ombuds Network ([www.cfson-crcsf.ca](http://www.cfson-crcsf.ca))

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| **Services** | **Features** |
| Chequing account, savings account or chequing/savings account | * A savings account usually pays more interest than a chequing account, but has fewer features and different fees * A savings account may not allow cheques and may limit withdrawals * A chequin/savings account offers features of both |
| Automated teller machines (ATMs) | * Convenient access for deposits, withdrawals and other transactions * There may be extra fees, especially to use machines from other institutions * Prone to fraud (skimming, identify theft). |
| ATM Debit card | * Allows you to pay for purchases with money in your account * There may be charges for each transaction, plus annual or monthly fees |
| Credit card | * Allows you to pay for purchases with borrowed money * Charges interest on amounts unpaid after a short grace period * There are usually annual fees * Prone to fraud (skimming, identity theft). |
| Telephone and online banking | * Allows you to transfer money, pay bills and do other business without visiting a branch * There may be extra fees, especially for telephone/online service |
| Automatic deposits and payments | * No need to visit the branch or remember to make payments * You must be sure your balance will cover automatic payments * Some banks offer rewards (e.g. Airmiles) for setting up your account as such. |
| Account transfers | * May be by ATM, phone, online or in person * You may be able to transfer money to accounts in the same institution or at a different one |
| Overdraft protection | * Will cover cheques you write or withdrawals you make even if there’s not enough money in your account * Interest charges and monthly fees will apply * Not everybody can qualify for this service |
|  |  |
| Line of credit | * You can borrow money as you need it, up to a pre-approved limit * Usually charges a lower interest rate than credit cars |
| Loans | * You can borrow money through student loans, car loans, mortgages, etc. |
| Other services | * May include traveller’s cheques, money orders, safer deposit boxes, US-dollar accounts, foreign exchange, etc. |

Investing 101

**Why Invest?**

Q: If you put $1000 in a box and then hide it under you bed for 10 years, how much money would you have in 10 years?

Answer: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Q: Would the $1000 have the same value in 10 years as is does today?

Q: Would you be able to buy as much in 10 years as you can today?

Answer: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

This is because of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (the value after 10 years would be ~$600-700)

Q: How can we make money grow?

Answer: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Investing as a student is a wonderful time of life in which to get started in building your financial portfolio. Investing even just a little bit of money in your late teens and early twenties can grow to thousands of dollars in your middle age. When you begin investing as a student, you have time on your side.

**Simple Interest**

Simple interest is calculated  on  the **original principal** **only**.  Accumulated interest from prior periods is not used in calculations for the following periods. Simple interest is normally used for a single period of less than a year, such as 30 or 60 days.

**Simple Interest = p \* i \* n**

**where**:    p = principal (original amount deposited, borrowed or loaned)  
    i = interest rate for one period  
    n = number of periods

**Example**: You deposit $1000 at 5% simple annual interest, how much will you accumulate after 3 years?

**interest = p \* i \* n = 1000 \* .05 \* 3 = 150**

After 3 years your $1000 will have become $1150.

**Compound Interest**

Compound interest is calculated each period on the **original principal  and all  interest** **accumulated during past periods**.  Although the interest may be stated as a yearly rate, the compounding periods can be yearly, semiannually, quarterly, or even continuously.

Think of compound interest as a series of back-to-back simple interest contracts. The interest earned in each period  is added to the principal of the previous period to become the principal for the next period.  For example, deposit $1000 at 5% annual interest compounded annually, after 3 years you will have:

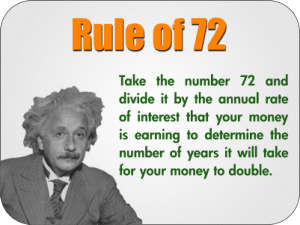
Interest year 1 = p \* i \* n = 1000 \* .05 \* 1 = 50 (total: $1050)  
interest year 2 =  (p2 = p1 + i1) \* i \* n = (1000 + 50) \* .05 \* 1 = 52.50 (total: $1102.50)  
interest year 3 = (p3 = p2 + i2) \* i \* n = (1050 + 52.50) \*.05 \* 1 = 55.13 (total: $1215.51)

**Twin Investing**

A set of twins, Karen and Bob each received $250 on their 10th birthday from their grandparents. Karen decided to invest her money at age 10. Bob said “no way I’m too young.” Karen from age 10 onwards invests $250 a year until the age of 20 and then stopped. Bob finally started investing at age 20. He also saved $250 a year but continued to do so until the age of 55. Both Karen and Bob earned an interest rate of 10%. Who has more money at the age of 55?

1. Who invested for a shorter period of time?
2. Who invested more money?
3. Who has more money at age 55?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Twin | Ages invested | Amount invested per year | Total years of investment | Total $ invested | Total $ at age 55 |
| Karen | 10-20 | $250/year |  |  |  |
| Bob | 20-55 | $250/year |  |  |  |



**Joe Saver vs Jim Spender**



