FINANCE - MODULE 7 FINANCIAL INSTITUTIONS PART 2 NAME

TYPES OF FINANCIAL INSTITUTIONS

LO2 Compare the types of financial institutions.

Many types of businesses, such as insurance companies, investment brokers, and credit card companies, have become involved in financial services previously limited to banks. Companies such as Canadian Tire and The Bay now issue or sponsor credit cards. Banks have also expanded their competitive efforts by opening offices that specialize in financial services, such as investments, insurance, or real estate. Increased competition has brought about the opening of many limited-service offices, sometimes called *non-banks*. These limited-service offices specialize in a particular banking activity, such as savings or personal loans.

Despite changes in the banking environment, many familiar financial institutions still serve your needs. Most of these institutions have expanded their services. As **Exhibit 4–4** shows, financial institutions fall into two major categories: deposit-type institutions and non-deposit institutions.

Exhibit 4–4 Types of Financial Institutions

Deposit-Type Institutions	Non-Deposit Institutions
• Chartered banks • Trust companies • Credit unions/caisses populaires	• Life insurance companies • Investment companies • Mortgage and loan companies • Pawnshops • Cheque-cashing outlets

Financial Planning for Life's Situations

Beware of High-Cost Financial Services

Would you pay $8 to cash a $100 cheque? Or pay $20 to borrow $100 for two weeks? Many people without ready access to financial services (especially low-income consumers) commonly use the services of cheque-cashing outlets, pawnshops, payday loan stores, and rent-to-own centres. Offers of "quick cash" and "low payments" attract consumers without a bank account or credit cards.

PAWNSHOPS

Despite a thriving economy in recent years, thousands of consumers are increasingly in need of small loans—usually $50 to $75, to be repaid in 30 to 45 days. Pawnshops have become the neighbourhood bankers and the local shopping malls, since they provide both lending and retail shopping services, selling items that owners do not redeem.

PAYDAY LOANS

Payday loans are also referred to as *cash advances*, *cheque advance loans*, *post-dated cheque loans*, and *delayed deposit loans*. Desperate borrowers pay annual interest rates of as much as 780 percent and more to obtain needed cash from payday loan companies. The most common users of payday loans are workers who have become trapped by debts run up by free spending or who have been driven into debt by misfortune.

In a typical payday loan, a consumer writes a personal cheque for $115 to borrow $100 for 14 days. The payday lender agrees to hold the cheque until the next payday. This $15 finance charge for the 14 days translates into an annual percentage rate of 391 percent. Some consumers "roll over" their loans, paying another $15 for the $100 loan for the next 14 days. After a few rollovers, the finance charge can exceed the amount borrowed. Extra charges also can be incurred if you miss the payments, which can be very high.

RENT-TO-OWN CENTRES

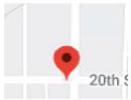
Years ago, people who rented furniture and appliances found few deluxe items available. Today, rental businesses offer big-screen televisions, seven-piece cherrywood bedroom sets, and personal computers. The rental–purchase industry—defined as stores that lease products to consumers who can then own the item if they complete a certain number of monthly or weekly payments—is in rapid growth.

- Payday loans: Convert a $20 fee for a $100 loan over 2 weeks into an annual fee (52 weeks) $_____ What is this fee as an annual interst rate? _____ %

- Pawnshops make loans based on the value of some tangible possession, such as jewelry or other valuable items. Many low- and moderate-income families use these organizations to quickly obtain cash loans. Pawnshops charge higher fees than other financial institutions.
  Here are 3 popular PAWN SHOPS in Saskatoon.
  What do they do? Why do people go here? _____
  _____

Cash Canada
4.4 ★★★★½ (216) · Pawn shop
102 Avenue P S · (306) 500-7538
Open · Closes 8 p.m.

Prairie Pawn Brokers
4.0 ★★★★☆ (20) · Pawn shop
801 20th St W · (306) 244-0099
Open · Closes 5 p.m.



Money Express Pawn & 2nd Hand Centre
4.1 ★★★★☆ (136) · Pawn shop
236 20th St W · (306) 665-3232
Open · Closes 6 p.m.

DEPOSIT-TYPE INSTITUTIONS

For many years, government policies prohibited cross-ownership and foreign control of the four major types of businesses in financial services. This division, referred to as the "four pillars," separated banks, trust companies, insurance companies, and investment dealers, where rules were established to protect their core business (deposit taking and lending, fiduciary services, insurance protection and underwriting, and securities trading, respectively).

However, spurred by the deregulation efforts in the United States, since 1980 services provided by Canadian companies have broadened and overlapped, blurring the separation of the four pillars. Keeping up with international developments, the federal government passed legislation on June 1, 1992, permitting banks, trust and loan companies, and insurance companies to compete more directly with one another. In addition, the Bank of Canada, which is the country's central bank, has four main areas of responsibility. These include (1) monetary policy; (2) currency; (3) the financial system; and (4) funds management. These areas can be explored by visiting its Web site, **http://www.bankofcanada.ca** .

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CHARTERED BANKS Operating under the provisions of the *Bank Act*, the principal activity of the banks is to lend funds to businesses and consumers at interest rates that are higher than those the banks pay on deposits and other borrowings. **Chartered banks** own a range of other types of corporations, including brokerage firms, information service firms, and special financing corporations. This diversity enables banks to offer investment counselling and portfolio management services under one roof.

SCHEDULE I BANKS These are full-service domestic banks (not foreign subsidiaries), including the *Big Six* banks (RBC Financial, CIBC, Bank of Montreal, Scotiabank, TD Canada Trust, and the National Bank of Canada), smaller Canadian-owned banks, and other non-bank financial institutions. There are currently about 30 Schedule I banks in Canada. To see a list of the current banks and how they are scheduled
visit **https://www.en.wikipedia.org/wiki/List_of_banks_and_credit_unions_in_Canada#External_links** .

SCHEDULE II BANKS These are subsidiaries of foreign banks in Canada which have restrictions on asset growth as well as on lending activities that are a function of their local capital base rather than of the parent bank. Schedule II banks tend to focus on commercial corporate loans rather than retail banking services to individuals. Some examples include HSBC Bank Canada, State Bank of India (Canada), and Bank of China (Canada).

SCHEDULE III BANKS These are branches of foreign institutions that have been authorized under the *Bank Act* to do banking business in Canada, subject to certain restrictions. They specialize in niche financing and include Citibank, N.A., and Deutsche Bank, A.G.

TRUST COMPANIES Trust companies offer a broad range of financial services similar to those provided by banks. In addition, they are the only corporations allowed to act as a trustee in charge of corporate or individual property, stocks, and bonds. Most trust companies are owned by banks (CIBC Mellon Trust), except the large independents, such as Sun Life Financial Trust and Manulife Trust Co. Visit **http://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/wwr-er.aspx?sc=1&gc=2** to view a current list of Canadian trust companies.

CREDIT UNIONS AND CAISSES POPULAIRES A **credit union** (or **caisse populaire** in Quebec) is a user-owned, non-profit, co-operative financial institution. Traditionally, credit union members had to have a common bond, such as work, church, or community affiliation. As the common bond restriction was loosened, the membership of credit unions increased.

Each year, surveys conducted by consumer organizations and others report lower fees for chequing accounts, lower loan rates, and higher levels of user satisfaction for credit unions compared with other financial institutions. Most credit unions offer credit cards, mortgages, home equity loans, direct deposit, cash machines, safety deposit boxes, and investment services.

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Name all of the different financial institutions we have in Swift Current:

Schedule 1: _____

Schedule 2: _____

Schedule 3: _____

Trust Companies: _____

Credit Unions: _____

NON-DEPOSIT INSTITUTIONS

Financial services are also available from institutions such as life insurance companies, investment companies, mortgage and loan companies, finance and leasing companies, pawnshops, and cheque-cashing outlets.

Did you know?

In comparing the various service fees payable at different financial institutions, you will generally find that credit unions or caisses populaires offer a better deal than chartered banks and trust companies.

LIFE INSURANCE COMPANIES While the main purpose of life insurance is to provide financial security for dependants, many life insurance policies contain savings and investment features. **Chapter 9** discusses these policies. Life insurance companies have expanded their financial services to include investment and retirement planning.

INVESTMENT COMPANIES Investment companies, also referred to as *mutual funds,* offer banking-type services. A common service of these organizations is the **money market fund**, a combination savings-investment plan in which the investment company uses your money to purchase a variety of short-term financial instruments. Your earnings are based on the interest the investment company receives less any fees attached to the fund. Unlike accounts at most banks, trust companies, and credit unions, investment company accounts are not covered by federal deposit insurance and should not be considered guaranteed investments.

MORTGAGE AND LOAN COMPANIES These companies provide real estate mortgage loans as well as financing opportunities for individuals and small businesses. In general, the loans provided have short and intermediate terms with higher rates than most other lenders charge. Some of these companies have expanded their activities to also offer other financial planning services.

FINANCE AND LEASING COMPANIES Finance and leasing companies extend loans and leases to both individuals and businesses, and are categorized by the type of loan or lease they offer, or the sector they serve. Consumer loan companies (e.g., Citi Financial Services Canada Ltd.) offer cash lending services directly to individuals, while finance companies that serve the corporate sector focus on loans or leases to small businesses or new, high-growth companies. Consumer loan companies tend to charge higher administrative fees and rates of interest than do banks, due to their smaller size, high cost of funding, and willingness to accept credit risks that other creditors might refuse.

TRUE OR FALSE?
All financial institutions are able to process customer deposit and withdrawal transactions.

TYPES OF SAVINGS PLANS

LO3 Compare the costs and benefits of various savings plans.

As **Chapter 2** emphasized, you need a savings program to attain financial goals. Evaluating various savings plans is the starting point of this process.

Changes in financial services have created a wide choice of savings alternatives (see **Exhibit 4–6**). While the number of savings plans may seem overwhelming, they can be grouped into these main categories: regular savings accounts, term deposits and GICs, interest-earning chequing accounts, and Canada Savings Bonds. Investment vehicles, such as Canadian treasury bills, are discussed in later chapters.

Type of Alternative	Benefits	Drawbacks
Regular savings accounts/passbook accounts	Low minimum balance Ease of withdrawal Insured to $100,000 per financial institution	Low rate of return
Guaranteed Investment Certificates (GICs)	Guaranteed rate of return for time of GIC Insured	Possible penalty for early withdrawal Minimum deposit
Interest-earning chequing accounts	Chequing privileges Interest earned Insured to $100,000	Possible service charge for going below minimum balance VERY low if any rate of return Cost for printing cheques; other fees may apply
Money market accounts	Favourable rate of return (based on current interest rates) Allows some cheque writing	Higher minimum balance than regular savings accounts No interest or service charge, if below a certain balance
Money market funds	Favourable rate of return (based on current interest rates)	Minimum balance Not guaranteed and fees Not insured
Canada Savings Bonds (CSBs)	Rate of return varies with current interest rates Low minimum deposit Regular or compound interest Government guaranteed	No interest paid if redeemed before three months

No longer for sale after Nov 2017 from federal government

REGULAR SAVINGS ACCOUNTS

Regular savings accounts, traditionally called *passbook accounts*, usually involve a low or no minimum balance. Today, instead of a passbook showing deposits and withdrawals, savers may elect to receive a monthly or quarterly statement with a summary of transactions. Most banks today offer higher interest e-savings accounts that are set up on online or via a banking app.

A regular savings account usually allows you to withdraw money as needed, but service fees may apply. However, *time deposits* may require a waiting period to obtain your funds.

TERM DEPOSITS AND GUARANTEED INVESTMENT CERTIFICATES (GICS)

Higher earnings are commonly available to savers when they leave money on deposit for a set time period.

TERM DEPOSITS Contrary to a savings account, which does not have a guaranteed interest rate of return, **term deposits** guarantee a rate of interest for a specified term. The trade-off is that your money becomes less accessible for a time.

Some term deposits require a minimum deposit, and if you are willing to sacrifice some of the interest you might have earned you will usually be permitted to withdraw your funds before maturity. The amount of interest you will earn is inversely related to the term of the investment, which is typically between 30 and 364 days.

GUARANTEED INVESTMENT CERTIFICATES **Guaranteed Investment Certificates (GICs)** are essentially term deposits with a longer term, ranging from one to five years. As is the case with term deposits, a minimum deposit is often required. Interest can be fixed-rate, variable, or *indexed-linked*—that is, based on a formula linked to stock market returns. Some GICs are redeemable prior to maturity, but will pay a lower rate of interest if redeemed than GICs of a similar term that are non-redeemable.

RATE OF RETURN

Earnings on savings can be measured by the **rate of return**, or *yield*: the percentage of increase in the value of your savings from earned interest. For example, a $200 savings account that earned $2 after a year has a rate of return, or yield, of 1 percent. This rate of return was determined by dividing the interest earned ($2) by the amount in the savings account ($200).

COMPOUNDING The yield on your savings usually will be greater than the stated interest rate. The more frequent the compounding, the higher your rate of return will be. For example, $200 in a savings account that earns 2 percent compounded annually will increase $4 after a year. But the same $200 in a 2 percent account compounded daily will earn $4.04 for the year. Although this difference may seem slight, large amounts held in savings for long periods of time will result in far higher differences (see **Exhibit 4–7**).

Exhibit 4–7 Compounding Frequency Increases the Savings Yield

Shorter compounding periods result in higher yields. This chart shows the growth of $10,000, five-year GICs paying the same nominal rate of 4 percent, but with different compounding methods.

	Compounding Method			
End of Year	Daily	Monthly	Quarterly	Annually
1	$10,408.08	$10,407.42	$10,406.04	$10,400.00
2	10,832.82	10,831.43	10,828.57	10,816.00
3	11,274.89	11,272.72	11,268.25	11,248.64
4	11,735.01	11,731.99	11,725.79	11,698.59
5	12,213.89	12,209.97	12,201.90	12,166.53
Effective rate	4.08%	4.07%	4.06%	4.00%

TRUE OR FALSE?
The more frequent the compounding, the less a person will earn on a savings account. _____

LOOK THESE RATES UP ⬇

Financial Planning for Life's Situations

Understanding Interest Rates

When people discuss higher or lower interest rates, they could be talking about one of many types of interest rates. Some interest rates refer to the cost of borrowing by a business; others refer to the cost of buying a home. Your awareness of various types of interest rates can help you plan your spending, saving, borrowing, and investing. The accompanying table describes the most commonly reported interest rates and gives their *annual average* for selected years.

Using the business section of a newspaper or other business information sources, obtain current numbers for some or all of these interest rates. How might the current trend in interest rates affect your financial decisions?

	1980	1985	1990	1995	2000	2005	2010	2015	Current
Prime rate—the rate banks charge their most creditworthy corporate and retail clients	14.25	10.58	14.02	8.65	6.81	4.42	3.00	2.85	____%
Bank rate—the rate a central bank charges for loans to national banks (e.g., the rate the Bank of Canada charges the Bank of Montreal)	12.89	9.65	13.05	7.31	5.31	2.90	0.75	1.0	____%
91-day T-bill rate—the yield on 91-day government treasury bills	12.79	9.43	12.81	6.89	5.21	5.45	0.97	0.59	____%
30-yr T-bond rate—the yield on 30-year government treasury bonds	12.48	11.05	10.85	8.28	6.08	4.32	3.62	1.924	____%
5-yr mortgage rate—the amount individuals pay to borrow for the purchase of a home	14.32	12.18	13.41	9.22	8.31	5.83	5.19	2.68	____%
5-yr term deposit rate—the amount that individuals receive for 5-year term deposits	11.25	9.63	10.33	6.70	5.48	2.46	1.85	1.85	____%
Savings deposit rate—the amount that individuals receive for regular savings deposits	11.15	6.08	8.77	0.50	0.10	0.05	0.05	0.05	____%

INFLATION

The rate of return you earn on your savings should be compared with the inflation rate. When the inflation rate was more than 10 percent, people with money in savings accounts earning 5 or 6 percent were experiencing a real loss in the buying power of that money. The increase (or loss) in purchasing power of an investment is reflected in its *real* rate of return. We can approximate the real rate of return by subtracting the inflation rate from an investment's effective rate of return for the same period. For example, if a deposit pays 6 percent, compounded semi-annually, we have demonstrated that its effective annual interest rate is 6.09 percent, calculated as $(1 + 0.06 \div 2)^2 - 1$. If inflation over the same year were 3 percent, the investment's real rate of return would be approximately 3.09 percent (6.09 percent – 3 percent). In general, as the inflation rate increases, the interest rates offered to savers must also increase to maintain the real rate of return.

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TAX CONSIDERATIONS

Like inflation, taxes reduce interest earned on savings. For example, a 10 percent return for a saver in a 26 percent tax bracket means an after-tax return of 7.4 percent (the **Financial Planning Calculations** feature shows how to compute the after-tax savings rate of return). As discussed in **Chapter 10** and discussed further in **Part 4**, several tax-exempt and tax-deferred savings plans and investments can increase your real rate of return.

LIQUIDITY

Liquidity refers to the ease with which you can access cash or convert investments to cash with a minimal loss of principal. Some savings plans impose penalties for early withdrawal or have other restrictions. With certain types of savings certificates and accounts, early withdrawal may be penalized by a loss of interest or a lower earnings rate.

You should consider the degree of liquidity you desire in relation to your savings goals. To achieve long-term financial goals, many people trade off liquidity for a higher return.

TRUE OR FALSE?

Lower returns on savings will usually result in less liquidity. _____

Savers should always attempt to obtain an interest rate that is less than the inflation rate. _____

SAFETY

Most savings plans at banks, trust companies, and credit unions or caisses populaires are insured by agencies affiliated with the federal government. This protection prevents loss of money due to the failure of the insured institution.

The CDIC protects eligible deposits up to a maximum of $100,000 per person per eligible account, including principal and interest, for each different member institution involved. Eligible deposits include savings and chequing accounts, term deposits, GICs, debentures, and other obligations issued by institutions that are members of the CDIC.

In the event that a member institution becomes insolvent, your insured funds are secure up to $100,000 per eligible account (e.g., $100,000 for a savings account and $100,000 for a term deposit less than five years to maturity). In the case of a joint deposit, the funds insured will be $100,000 divided among all the names in the account.

Be aware that deposits in different branches of the same institution are counted as a single account and are insured only to $100,000. If you have more than this amount to deposit, it is wise to spread your money among different members of the CDIC, although chartered banks offer a variety of products that may be insured separately. To find out more about eligible deposits and an updated list of member institutions, visit the CDIC Web site at **http://www.cdic.ca**.

Since not all financial institutions have federal deposit insurance, investigate this matter when you are selecting a savings plan.

LET'S PRACTICE

DEFINE SOME TERMS:

1. **LIQUIDITY** _____
2. **YIELD**_____
3. **INFLATION**_____
4. **COMPOUNDING**_____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

5) Direct deposit and automatic monthly payments are features of
A) savings accounts.
B) investments.
C) electronic banking.
D) reserve funds.
E) chequing accounts.

6) To avoid high fees for loans, a person should *not* borrow from a
A) mutual savings bank.
B) savings and loan association.
C) commercial bank.
D) credit union.
E) pawnshop.

8) The rate of return on a savings account is also referred to as
A) insolvency.
B) yield.
C) liquidity.
D) compounding.
E) asset management.

9) An advantage of Canada Savings Bonds is
A) interest earned is exempt from federal income taxes.
B) they are sold twice a year.
C) they can be converted to other types of investments.
D) a guaranteed rate of return.
E) interest earned is deferred for federal tax purposes.

10) Savings compounded _____ would have the highest effective yield
A) weekly
B) semi-annually
C) daily
D) annually
E) monthly

11) A personal cheque with guaranteed payment is called a
A) certified cheque.
B) traveler's cheque.
C) cashier's cheque.
D) bank draft.
E) money order.

12) The "prime" rate is _____.
A) The yield on 1-year government bonds
B) The yield on 91-day treasury bills
C) The yield on corporate bonds
D) The lending rate banks charge their most creditworthy clients
E) The yield on 30-year government bonds

13) The yield on a savings account is also referred to as
A) compounding.
B) rate of return.
C) insolvency.
D) liquidity.
E) asset management.

14) Savings compounded _____ would have the lowest effective yield.
A) annually
B) semi-annually
C) weekly
D) monthly
E) daily

15) What is a drawback of a money market account?
A) Low rate of return
B) High minimum balance required
C) Not guaranteed
D) Minimum deposit
E) Service charges

16) What is a drawback of a money market fund?
A) Service charges
B) High minimum balance required
C) Low rate of return
D) Not guaranteed
E) Minimum deposit

17) From an investor's point of view what annual compounding frequency is best?
A) Quarterly
B) Monthly
C) Annually
D) Daily
E) Semi-annually

SELECTING PAYMENT METHODS

LO5 Compare the costs and benefits of different types of chequing accounts.

Although the use of physical cheques is declining as electronic payment methods gain in popularity, a chequing account is still a necessity for most people. The biggest mistake people make is writing a cheque and forgetting about it when looking at their bank balances. Always write the information down and remember to deduct the amount from your balance until you see it posted on your bank account.

TYPES OF CHEQUING ACCOUNTS

Chequing accounts fall into three major categories: regular chequing accounts, activity accounts, and interest-earning chequing accounts.

REGULAR CHEQUING ACCOUNTS These accounts usually have a monthly service charge that you may avoid by keeping a minimum balance in the account. Some financial institutions will waive the monthly fee if you keep a certain amount in savings. Avoiding the monthly service charge is beneficial. For example, a monthly fee of $7.50 results in $90 a year. However, you lose interest on the minimum-balance amount in a non–interest-earning account. In a low-interest environment this might make sense but when you can earn higher returns it might be worthwhile to not worry about the minimum balances.

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ACTIVITY ACCOUNTS These accounts charge a fee for each cheque written or electronic payment processed and sometimes a fee for each deposit, in addition to a monthly service charge. However, you do not have to maintain a minimum balance. An activity account is most appropriate for people who write only a few cheques or electronic payments each month and are unable to maintain the required minimum balance.

EVALUATING CHEQUING ACCOUNTS

Would you rather have a chequing account that pays interest and requires a $1,000 minimum balance or an account that doesn't pay interest and requires a $300 minimum balance? This decision requires evaluating factors such as restrictions, fees and charges, interest, and special services (see **Exhibit 4–8**).

Exhibit 4–8 Chequing Account Selection Factors

CHEQUING ACCOUNT SELECTION FACTORS

Restrictions	Fees and Charges
• Minimum balance	• Monthly fee
• Deposit insurance	• Fees for each cheque or deposit
• Hours and location of branch offices	• Printing of cheques
• Holding period for deposited cheques	• Fee to obtain cancelled cheque copy
	• Overdraft, stop-payment order, certified cheque fee
	• Fees for preauthorized bill payment, fund transfer, or home banking activity

Special Services	Interest
• Direct deposit of payroll and government cheques	• Interest rate
• Automated teller machines	• Minimum deposit to earn interest
• Overdraft protection	• Method of compounding
• Banking-at-home	• Portion of balance used to compute interest
• Discounts or free chequing for certain groups (students, senior citizens, employees of certain companies)	• Fee charged for falling below necessary balance to earn interest
• Free or discounted services, such as traveller's cheques	

Overdraft protection is an automatic loan made to chequing account customers for cheques written in excess of the available balance. This service is convenient but costly. Most overdraft plans make loans based on $50 or $100 increments. An overdraft of just $1 might trigger a $50 loan and corresponding finance charges of perhaps 18 percent or some minimum fee such as $5 per overdraft. But overdraft protection can be less costly than the fee charged for a cheque you write when you do not have enough money on deposit to cover it. That fee may be $45 or more. Many financial institutions allow you to cover chequing account overdrafts with an automatic transfer from a savings account for a nominal fee.

Beware of chequing accounts that offer several services (safety deposit box, traveller's cheques, low-rate loans, and travel insurance) for a single monthly fee. This may sound like a good value; however, financial experts observe that such accounts benefit only a small group of people who make constant use of the services offered.

Did you know?

Non-sufficient funds (NSF) cheques mean big money for the banking industry. Every year, banks make billion-dollar profits from bounced-cheque fees. Studies show that some institutions charge up to 32 times what it actually costs them to process a cheque that is issued with insufficient funds.

RESTRICTIONS The most common limitation on chequing accounts is the amount you must keep on deposit to earn interest or avoid a service charge.

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FEES AND CHARGES Nearly all financial institutions require a minimum balance or impose service charges for chequing accounts. When using an interest-bearing chequing account, compare your earnings with any service charge or fee. Also, consider the cost of lost or reduced interest due to the need to maintain the minimum balance.

Chequing account fees have increased in recent years. Items such as cheque printing, overdraft fees, and stop-payment orders have doubled or tripled in price at some financial institutions. Some institutions will try to entice you with fancy cheques at a low price and then charge a much higher price when you reorder.

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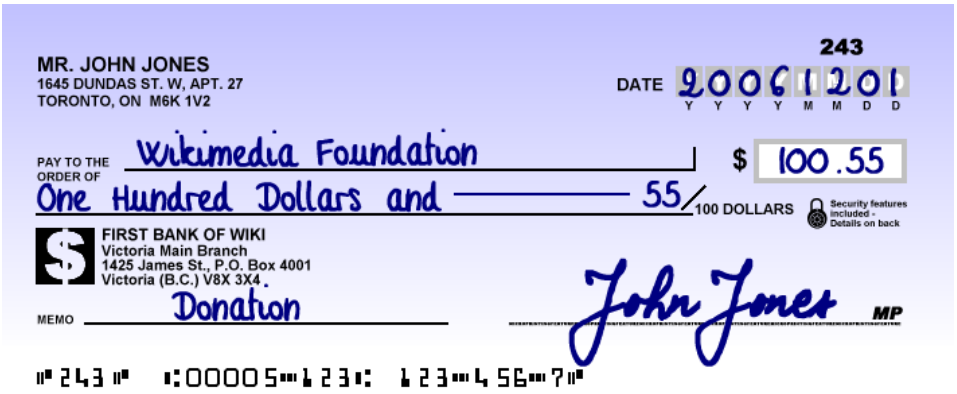
INTEREST As discussed earlier, the interest rate, frequency of compounding, and interest computation method affect the earnings on your chequing account.

SPECIAL SERVICES Financial institutions commonly offer customers services such as 24-hour ATM and internet banking services. Financial institutions are also attempting to reduce the paper and postage costs associated with chequing accounts. One solution is to not return cancelled cheques to customers. The financial institution instead stores images of cheques electronically and provides customers with detailed statements summarizing the cheques written when requested or for viewing online. Another means of reducing costs was to have statements delivered electronically vs receiving them in the mail.



SAMPLE CHEQUE

OTHER PAYMENT METHODS

In addition to personal cheques, other forms of payment are also available. A *certified cheque* is a personal cheque with guaranteed payment. The amount of the cheque is deducted from your balance when the financial institution certifies the cheque. You may purchase a *money order* in a similar manner from financial institutions, post offices, and stores. Certified cheques, cashier's cheques, and money orders allow you to make a payment that the recipient knows is valid.

Traveller's cheques allow you to make payments when you are away from home. This payment form requires you to sign each cheque twice. First, you sign the traveller's cheques when you purchase them. Then, to identify yourself as the authorized person, you sign them again as you cash them. Since the acceptance of credit cards and debit card/chip transactions, traveller's cheque usage has dropped dramatically. In fact, some stores may not accept them due to the potential risk of fraud.

Prepaid travel cards are becoming more common. The card allows travellers visiting other nations to get local currency from an ATM.

A **bank draft** is a check that is drawn on a **bank's** funds and guaranteed by the **bank** that issues it. Similar to a cashier's check, a **bank draft** is safer than a personal check when accepting large payments. ... The **bank** will freeze the amount needed or move those funds into the **bank's** accounts until the payment is completed.

SAFETY FEATURES OF A BANK DRAFT- IT IS DRAWN FROM THE BANK, 2 SIGNATURES, NUMBERS ARE COMPUTER TYPED

LET'S PRACTICE

1) Short term financial services for short term needs include which one of the following?
A) Cash loans for autos
B) Budget counselling
C) Cheque cashing
D) RRSP's
E) Insurance

2) A financial institution organized for the main purpose of providing loans to purchase homes is a
A) credit union
B) consumer finance company.
C) commercial bank.
D) mortgage and loan company.
E) mutual savings bank.

INVESTIGATE:

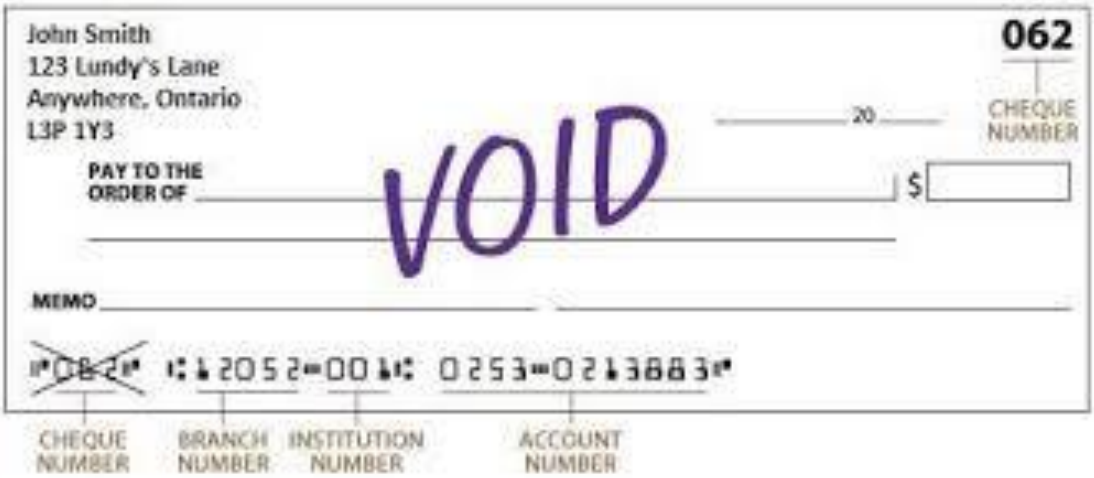
1. Explain how an e-transfer works for both the sender and the recipient.

2. What Is a STOP PAYMENT? Can a stop payment be put on an e-transfer?

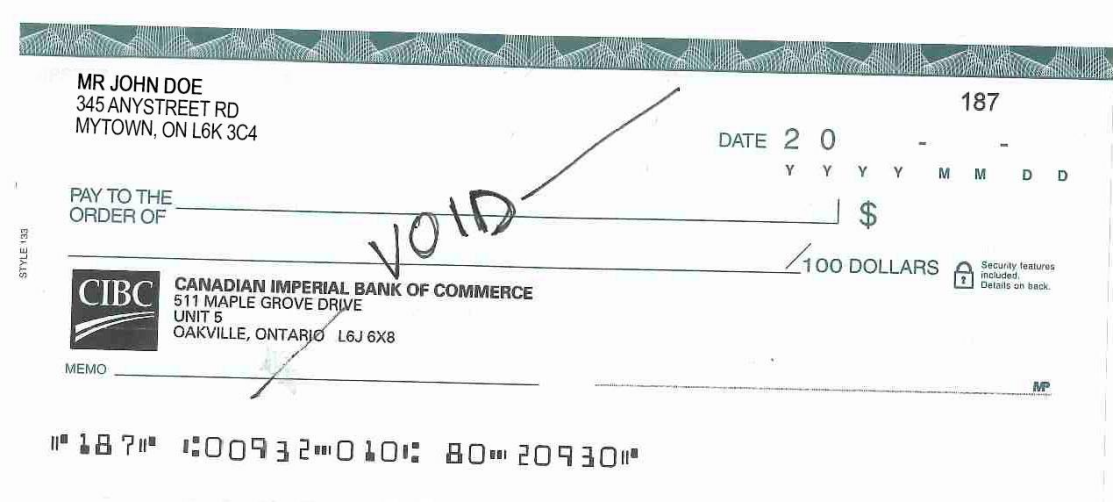
3. Discuss the importance of monitoring one's financial transactions and financial statements for accuracy.

4. What is a cheque is and why cheques are used?

5. Identify information found on a cheque including the
    a. account number _____
    b. transit numbers_____
    c. financial institution number. _____



6. Identify information found on a cheque including the
    a. account number _____
    b. transit numbers_____
    c. financial institution number. _____



7. Identify ***WHEN*** to use these different types of cheques
    a. Void cheque

    b. Personal cheque

    c. Certified cheque or bank draft

d. Travellers cheque

US TRVELLERS CHEQUE

EURO TRAVELLERS CHEQUE

8. Explain common issues
   a. non-sufficient funds

   b. post-dated cheque

   c. Staledated cheques

9. Prepare a cheque payable to SCCHS for $125.31 dated today. Fill out in pen and sign your signature. In the blank on the left write that it's for fundraising.