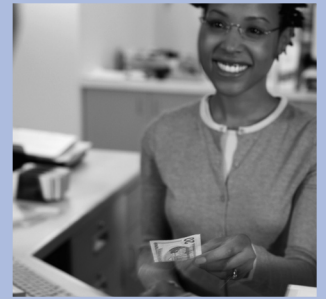


INTRODUCTION TO FINANCIAL SERVICES

ACTIVITY 2



Evaluating Financial Services

RECOMMENDED TIME

Allow 50-60 minutes. Required time may vary depending on the audience.

OBJECTIVES

Participants will:

- Learn how the U.S. banking system functions
- Identify formal and informal financial services
- Compare costs of alternative financial services and average bank account costs
- Discuss the advantages of establishing a banking relationship

MATERIALS NEEDED

- Overhead projector and screen*
- Overhead (or other appropriate) markers
- Overhead transparencies and handouts for the activity
- Flipchart or white board

ADVANCE PREPARATION NOTES

Review the activity plan. Think about the audience, and decide whether to present the total activity or to use parts of this activity in combination with other activities.

The wording in the delivery notes does not always mirror the wording on a transparency. Try to vary the dialogue, rather than reading transparencies verbatim.

This activity uses handouts. Have sufficient copies for all participants; a few extras provide good insurance.

Facilitators cannot be expected to know everything about financial services. Be honest with all questions. If you don't know the answer to a question, be up front and explain, "I'm sorry, I do not know the answer to your question. However, I will find the answer and get back with you." Be sure to write down the question, and follow through when you commit to finding the answer to a question.

* If an overhead projector isn't available, consider distributing photocopied handouts instead.

INTRODUCTION TO FINANCIAL SERVICES

ACTIVITY 2 - DELIVERY NOTES



Evaluating Financial Services

Presentation Opening

- Welcome the participants.
- Introduce yourself briefly.
- If this is the first meeting with the class or group, do a brief round of introductions by everyone.
- When introducing yourself, print your name where the participants can see and refer to it during the session. For whatever reason, some people may be a little nervous and may not remember your name. Just as you want to use their names, encourage them to call you by your name.

Activity Overview

Review the topics for discussion in this activity:

- The U.S. financial system
- Formal and informal financial services
- The various costs of financial services
- Advantages of using banks

Distribute **“Handout 1: The U.S. Financial System.”** Walk participants through the handout, which explains why the Federal Reserve was created and how it eliminated the panics that caused people to withdraw their money from banks. Explain that the FDIC insures money in member banks so it is safe and secure.

Write the terms “formal financial services” and “informal financial services” on the flipchart. Ask participants to describe the difference between formal and informal financial services. After a few examples have been discussed, display **“Overhead 1: Formal and Informal Financial Services.”**

Explain to participants that alternative financial service providers, such as payday lenders and check cashers, operate outside the system of federally insured financial institutions. These institutions can be much more expensive and are generally less regulated than traditional financial institutions.

Along those same lines, cultural savings clubs do not have the same regulations to protect consumers as banks and credit unions, but are very common in certain communities and have been beneficial to people. Be careful not to pass judgment on these types of services. Rather, explore them as another service that does not provide the same kind of protection as a financial institution.

Ask participants how much more they would expect to pay for a \$500 television set if they purchased it at a rent-to-own store instead of paying for it with cash?

Visual Aids

Handout 1

The U.S. Financial System

Overhead 1

Formal and Informal Financial Services

INTRODUCTION TO FINANCIAL SERVICES

ACTIVITY 2 - DELIVERY NOTES



Distribute copies of **“Handout 2: “How Much Is your Financial Service Costing You?”** Walk participants through the examples to compare the costs between bank services and alternative financial services.

Go over the example “How a Bank Can Save You Money.” Ask participants to take a few minutes to think about the financial services they currently use. Give them time to list ways they could save money on the cost of financial services.

Now that participants realize how banks can save them money, ask them whether there are other advantages to establishing a bank account. Write their responses on a flipchart.

Closing

Use **“Overhead 2: Advantages of Establishing a Banking Relationship”** as a closure and summarize some key reasons why using a bank can be beneficial.

Thank everyone for their participation, and encourage them to return for additional sessions. If such sessions are planned, you might provide a “sneak preview” of any activity to come.

Visual Aids

Handout 2

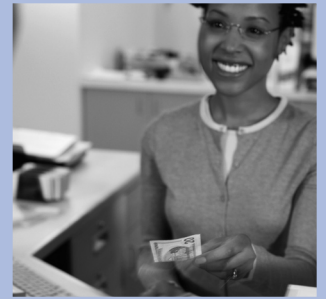
How Much Is your
Financial Service
Costing You?

Overhead 2

Advantages of
Establishing a Banking
Relationship

INTRODUCTION TO FINANCIAL SERVICES

ACTIVITY 2 - HANDOUT 1



THE U.S. FINANCIAL SYSTEM

History of the Federal Reserve*

- At the turn of the 20th Century, the nation was plagued with financial crises. At times, these crises led to “panics” in which people raced to their banks to withdraw their deposits. A particularly severe panic in 1907 resulted in bank withdrawals that threatened to collapse the U.S. banking system. This led Congress to write the Federal Reserve Act in 1913.
- The Act was initially created to address the banking panics. Today the Federal Reserve is charged with broad responsibilities, including fostering a sound banking system and a healthy economy by keeping inflation low. When inflation is low—and is expected to remain low—interest rates are usually low as well. This kind of environment fosters low unemployment and allows the economy to achieve its growth potential.

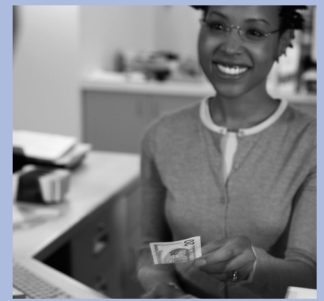
Understanding the U.S. banking system

- As a key component of the financial system, banks provide funds from savers to borrowers in an efficient manner. They provide financial services and help to make the overall economy more efficient.
- Banks operate by borrowing funds. When individuals, businesses, financial institutions, and governments with surplus funds make deposits in a bank, the bank uses those funds to make loans to others.
- Banks and other financial institutions are required to carry insurance on your deposits up to \$100,000 per depositor. The insurer is usually the Federal Deposit Insurance Corporation (FDIC). That means that the money you put in the bank is insured from loss or theft, up to certain limits.

* Adapted from “The Federal Reserve: In Plain English”

INTRODUCTION TO FINANCIAL SERVICES

ACTIVITY 2 - OVERHEAD 1



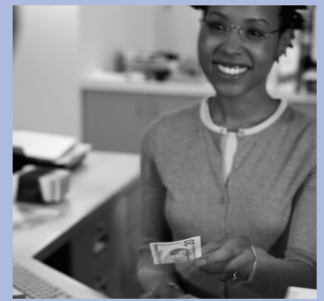
FORMAL AND INFORMAL FINANCIAL SERVICES

Formal Financial Services	Informal Financial Services
Accounts (example: checking, savings, etc.)	Payday lenders
Credit cards	Check cashing services
Loans (example: auto, mortgage, home equity, etc.)	Rent-to-own stores
Investment vehicles (example: CDs)	Pawn shops
Online banking	Title lenders
Direct deposit	Loans from family/friends/others
Wire transfers/remittances	Cultural savings clubs [examples: a Dominican Sans, a Korean Khee, a Caribbean Susu, Puerto Rican Sociedades, and Hispanic Cundinas]*
	Remittances offered through non-financial institutions, such as travel agents or other businesses

* There are many different types of cultural savings clubs. Which types are in your community?

INTRODUCTION TO FINANCIAL SERVICES

ACTIVITY 2 - HANDOUT 2, PG. 1



HOW MUCH IS YOUR FINANCIAL SERVICE COSTING YOU?

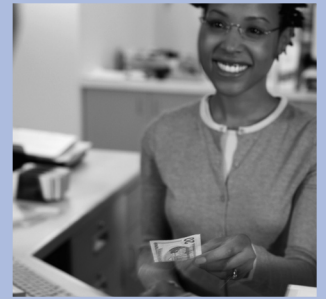
The Cost of Alternative Financial Services

If you wanted to purchase a television set that cost \$500 with sales tax, it could end up costing you much more depending on the financial service you use to pay for it. Consider the following options.

Cash	Rent-to-Own Store	Payday Lenders
If you purchase the television with cash, it will cost you \$500.	If you purchase the television from a rent-to-own store, and pay \$13.99 per week for 18 months, it would cost you a total of \$1,091.22.	If you get a \$500 loan at a payday lender with a biweekly interest rate of 20%, you would pay \$100.07 every two weeks for 21 months, costing you a total of \$4,425.01.
\$500	\$1,091.22	\$4,425.01

INTRODUCTION TO FINANCIAL SERVICES

ACTIVITY 2 - HANDOUT 2, PG. 2



HOW MUCH IS YOUR FINANCIAL SERVICE COSTING YOU?

How a Bank Can Save You Money

Can a bank really save you money? Consider the following hypothetical example of the amount of money you could save by using a bank.

Your Monthly Fees Without a Bank	Your Monthly Fees With a Bank*
\$80 to cash paychecks	\$0 to directly deposit paycheck
	\$0 to get cash from bank's ATMs or make debit card purchases
\$3.81 on money orders and stamps to pay bills	\$0 to pay monthly bills using electronic bill payment
\$15 to send money to family in your home country with a wire transfer company	\$5 to send money to family
Monthly cost: \$98.81	Monthly cost: \$5
Annual cost: \$1,185.72	Annual cost: \$60

Annual Savings by Using a Bank	\$1,125.72
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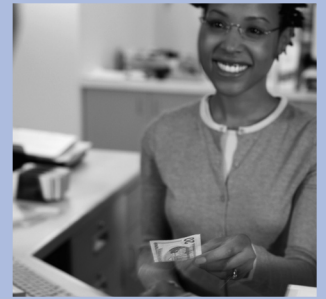
**Example assumes the bank account is not incurring any account fees, including monthly maintenance, per-check, non-sufficient fund (NSF), or debit card transaction fees.*

List some ways you could save money on financial services.

1. _____
2. _____
3. _____

INTRODUCTION TO FINANCIAL SERVICES

ACTIVITY 2 - OVERHEAD 2



ADVANTAGES OF ESTABLISHING A BANKING RELATIONSHIP

Nearly everyone needs a bank account to help manage his or her day-to-day money. It is possible to manage your money using just cash, but putting your money in a bank account can have several advantages:

Bank accounts are safe and convenient.

They can help you to:

- Pay bills
- Manage your money
- Access your financial information instantly via online banking
- Receive money
- Send money to a friend or family member
- Increase your credit score by using direct deposit
- Keep your money secure
- Start building wealth
- Earn interest