

Lesson  
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## Checking Accounts, Debit Cards, and Credit Cards

- § 6.14(A) Compare the features and costs of a checking account and a debit card offered by different local financial institutions.
- § 6.14(B) Distinguish between debit cards and credit cards.

 Understand the TEKS

Financial service institutions such as banks, credit unions, and investment firms offer several options for managing money. One of the most popular services people utilize is a **checking account**. A checking account allows people to keep their money in a financial institution and have easy access to their funds by writing checks or using a **debit card**.

A debit card is a plastic payment card that allows the cardholder to electronically access the funds in a bank account to pay for goods or withdraw money. To make a purchase or withdraw money from an ATM, the debit card user needs to type a secret code called a **PIN**, or personal identification number, in order to prove that he or she is the owner of the debit card. Debit cards are similar to **credit cards**.

A credit card is also a plastic payment card but allows the cardholder to delay payment for items by purchasing goods on credit. To make a purchase using a credit card, the cardholder usually needs to sign a receipt, provide his or her zip code, or both. Credit card companies pay for their customers' purchases and the customers pay the credit card companies at a later date. Financial institutions and credit card companies earn money by charging customers fees for different circumstances.

Below are some examples of the situations when banks charge customers fees for checking accounts:

- open an account
- paper statements instead of electronic statements
- monthly/annual maintenance
- minimum number of debit card purchases
- dropping below a minimum balance
- dormant/no activity on the account
- surpassing a deposit limit
- additional checks/debit cards
- using an ATM
- canceling a check/check copies

**Words to Know**

checking account  
debit card  
PIN  
credit card

<b>John Doe</b> 123 Main St. Anytown, TX 75001	DATE _____	0001
PAY TO THE ORDER OF _____	\$ <input type="text"/>	
_____		DOLLARS
<b>GLOBAL BANK</b> 101 Global Way Anytown, TX 75001	MEMO _____	MP _____
⑆012345678	⑆01234567890123	0001

Almost all checking accounts charge a penalty for withdrawing or spending more money than your current balance. These overdraft fees are often very expensive and account for much of the money banks earn from checking accounts.

Banks and credit card companies also receive money from retailers. Stores must pay banks and credit card companies when customers use a debit or credit card.

Credit card companies make most of their money by charging customers interest on their outstanding balance. If a person does not pay the full balance on a credit card purchase, the credit card company can charge interest on the person's balance. These interest rates vary for each card, but some can go as high as 30%.

Many credit card companies and financial institutions have “rewards programs” with their credit cards and checking accounts. These programs often include creative marketing terms such as “points,” “privileges,” or “advantages.” In return for using a company’s credit or debit card, the company will “reward” the customer with cash back, airline miles, points to spend on prizes, or discounts on goods. These programs encourage people to sign up for new products and sometimes include additional fees to enroll.

A good financial strategy is to have a debit and a credit card and to use them together. Debit cards are useful when paying for smaller purchases such as meals, snacks, and convenience items. Credit cards are better used for larger purchases such as furniture, electronics, or online shopping.

One reason people might prefer to use a credit card for online shopping and larger purchases are for the consumer protections that credit card companies offer. Credit card companies offer better protection against fraud. If your credit card information is stolen and a purchase is made on your account that you did not approve, the credit card company can void the purchase and you, the cardholder, will not be charged. The reason credit card companies can offer this protection is because they are using their own money to make the purchases. A reasonable person is not going to pay off a credit card balance with fraudulent charges.

If someone steals a debit card, the thief is using the cardholder’s money, not the credit-card company’s or a bank’s. This may make it more difficult for the cardholder to dispute the charges and get his or her money refunded. Both credit cards and debit cards are easily replaced when lost or stolen. A new account number with a new expiration date and security number can be issued.

Credit cards are also better to use for automatic payments. Because the only limiting factor on a credit card purchase is the person’s credit limit, recurring bills such as cell phones, Internet, insurance, etc. can be linked to a credit card and the payments automatically deducted each month. This is convenient for the bill payer who may only have to write one check to the credit card company each month instead of separate checks for each monthly bill.

Also, it is important to note that it is difficult to have a credit card without a checking account to pay off the credit card. One alternative to using a checking account is to send money orders, which have a minimal cost but do add up over time. Another is to use online bill-paying systems. These require that both the person paying and the recipient have accounts with electronic access. Both the payment-system provider and companies receiving electronic payments may charge fees for electronic payments. These fees can be several dollars—much more than the cost of a paper check, an envelope, and a postage stamp. It is easy to maintain a free checking account by meeting the bank’s conditions for avoiding fees.





## Guided Instruction

### Problem 1

Brett has \$350 saved to open a checking account. Brett lives alone and earns \$2,000 per month from his job. He pays \$1,200 per month for bills. He would like to have checks to pay bills and perhaps to have a debit card. Compare the different types of checking accounts and choose the best option for Brett.

Checking Account Type	Features and Costs
Basic	<ul style="list-style-type: none"> <li>• \$15 monthly maintenance fee for a balance below \$500</li> <li>• free checks and debit card</li> <li>• 1% cash back for each debit card purchase (paid after \$10,000)</li> </ul>
Free	<ul style="list-style-type: none"> <li>• \$15 per month if 10 debit card purchases are not made</li> <li>• \$250 minimum deposit to open</li> <li>• free debit card</li> <li>• \$5 per book of checks</li> </ul>
Interest-Bearing	<ul style="list-style-type: none"> <li>• \$20 annual fee (waived if two deposits are made monthly)</li> <li>• \$1,500 monthly minimum balance</li> <li>• \$10 service fee for balances below \$1,500</li> <li>• 1.75% Annual percentage yield (APY)</li> </ul>
Electronic	<ul style="list-style-type: none"> <li>• \$25 maintenance fee unless enrolled in automatic deposit.</li> <li>• e-statements only, check-free account</li> <li>• \$3 teller fees</li> <li>• free debit card</li> </ul>

**Step 1** Look at the Basic checking account. Are there any conditions that Brett cannot meet?

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**Step 2** Look at the Free checking account. What does the first condition require Brett to do?

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**Step 3** Look at the Interest-Bearing checking account. Are there any conditions that Brett cannot meet?

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**Step 4** Look at the Electronic checking account. Is this a good account for Brett? Why or why not?

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In your opinion, which checking account would you prefer to use? Explain why.

\_\_\_\_\_

\_\_\_\_\_

Which account is most appropriate for Brett's needs? Explain why you chose that account.

**Solution**

\_\_\_\_\_

\_\_\_\_\_

**Problem 2**

Melanie earns 4% cash back on purchases made with her credit card. She used her card for \$880 in purchases for January, and \$650 in purchases for February. How much cash back will she earn?

**Step 1** Add \$880 and \$650 to find the total amount of purchases:  $\$880 + \$650 =$  \_\_\_\_\_.

**Step 2** Find \_\_\_\_\_% of \_\_\_\_\_.

**Step 3** Write 4% as a decimal: \_\_\_\_\_.

**Step 4** Multiply the total purchase amounts by 0.04. The product is \_\_\_\_\_.

**Solution**

How much cash back will she earn? \_\_\_\_\_



**Critical Thinking**

Solve each problem.



1. Compare and contrast debit cards and credit cards. Give an example of when you would use a credit card instead of a debit card.

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2. Why do you think some checking accounts have a minimum balance? What do you think banks do with people's money?

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3. Compare and contrast checks and debit cards. What are the advantages and disadvantages of writing a check? What are the advantages and disadvantages of using a debit card?

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4. Work with a partner to create a Venn diagram for checks, credit cards, and debit cards. Think of similarities and differences for checks, credit cards, and a debit cards. Be sure to include appearance as well as function. Also, compare the security features of checks, debit cards, and credit cards. Which one would be the worst to have lost or stolen?



5. Conduct an Internet search using the words "checking account." Look for the advertisements that appear from the search engine. What sort of offers do the financial institutions make to try to get you to visit their websites? Visit several different financial institution websites. Compare the checking account types from at least three different banks. What are the fees? What are the types of accounts? Present your findings to the class.



## ★ Practice

**DIRECTIONS** Read each question. Then circle the letter for the correct answer.

- 1** Leo's car broke down in the middle of the highway. Leo only has a little bit of money in his bank account. How should Leo pay for a tow truck?

**A** Debit card  
**B** Check  
**C** Credit card  
**D** Cash

- 2** The features and costs of several checking accounts are shown in the table.

Account	Features and costs
Student Checking	<ul style="list-style-type: none"> <li>No annual fee</li> <li>\$50 minimum balance</li> </ul>
Premium Checking	<ul style="list-style-type: none"> <li>\$10 monthly fee</li> <li>2% cash back on debit card purchases</li> </ul>
Executive Checking	<ul style="list-style-type: none"> <li>\$15 monthly fee</li> <li>2.5% cash back on debit card purchases</li> </ul>
High-Interest Checking	<ul style="list-style-type: none"> <li>\$60 annual fee</li> <li>\$2,000 minimum balance</li> <li>1.05% annual interest</li> </ul>

From which account will you earn \$11 a month for making \$6,600 in debit card purchases each year?

**F** Student checking  
**G** Premium checking  
**H** Executive checking  
**J** High-interest checking

- 3** Which is an advantage of using a debit card?

**A** Maintaining a minimum balance  
**B** Delaying payment on items  
**C** Paying monthly maintenance fees  
**D** Faster than writing a check

- 4** The features and costs for a debit and credit card are listed on a merchant's register.

Credit Cards	Debit Cards
<ul style="list-style-type: none"> <li>Minimum purchase of \$10 required</li> </ul>	<ul style="list-style-type: none"> <li>Minimum purchase of \$5 required</li> </ul>

Why would the merchant have a lower minimum purchase for debit cards?

**F** Debit cards have higher transaction fees.  
**G** Debit cards have lower transaction fees.  
**H** The merchant is paid more quickly from debit cards.  
**J** The merchant knows people can spend more when buying on credit.

- 5** Why is a PIN required when using a debit card at an ATM?

**A** All ATMs require a different PIN to work.  
**B** To verify the person using the debit card is the cardholder  
**C** To verify the person has an account with the bank  
**D** To indicate the amount of money being withdrawn



## ★ Assessment

**DIRECTIONS** Read each question. Then circle the letter for the correct answer.

**1** Which of the following is a feature of both writing a check and using a credit card?

- A** Immediate electronic transfer of funds
- B** Delay payment by writing a later date
- C** Secured with a signature
- D** Make payments online

**2** Which physical feature is likely to be found on a debit card, but is not necessarily found on a credit card?

- F** A 16-digit account number
- G** A signature on the back
- H** An expiration date
- J** A bank name and logo

**3** What is the difference between overdrafting with a check versus overdrafting on a credit card?

- A** A credit card will be declined at the point of sale.
- B** The check will be declined at the point of sale.
- C** A credit card company will charge an overdraft fee.
- D** A check will be processed as a credit card.

**4** The table below shows the fees for a debit card and a checking account.

Checking Account Fees	
ATM fee: \$2.50	Overdraft fee: \$35
Cash back fee: \$3	Canceled check: \$5

Rob writes a check for \$75 but only has \$45 in his checking account. Which fee will Rob be charged if the check clears and Rob does not add money to his balance to cover the check?

- F** ATM fee
- G** Cash back fee
- H** Overdraft fee
- J** Canceled check

**5** When Ted went grocery shopping he paid with his card. He swiped his card and the card reader asked him for his PIN. He entered his PIN and was given a receipt. Larry also paid for his groceries with his card. He swiped his card and entered his zip code. Then he was asked to sign a receipt.

How did Ted and Larry pay for their groceries?

- A** Ted paid with a credit card and Larry paid with a debit card.
- B** Ted paid with a debit card and Larry paid with a credit card.
- C** Both Larry and Ted paid with a debit card.
- D** Both Larry and Ted paid with a credit card.