

Cash Management

Checking Accounts
Savings Accounts
Debit cards and overdraft protection

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Cash management

- Getting a handle on your cash and other liquid assets
- “Cash” is the money in your wallet plus what’s in your checking account
- Liquid assets are assets that can be converted to cash quickly and *with little or no loss of value*
 - Savings deposits, CD’s, t-bills, money market mutual funds, other short-term investments

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Two key aspects of cash mgt

- Keep tight control on your checking account
 - Avoid using your debit card unless
 - You always get receipt
 - You always record transaction immediately
 - Avoid taking tons of cash from ATM unless
 - You always get receipt
 - You always record the withdrawal immediately
 - You discipline yourself to make it last for specified time period, say \$150 for a week
- Establish a regular savings program
 - Automatic transfers from checking to savings or IRA

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Pick a financial institution

- Commercial bank
- Savings and loan (S&L)
- Credit union

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Commercial banks

- ❑ **Commercial banks** offer
 - Checking accounts
 - Savings accounts
 - Credit cards and debit cards
 - Loans
 - Safe-deposit boxes
- ❑ Only institutions allowed to offer non-interest paying checking accounts
 - Not important in today's deregulated fin world

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Savings and loans

- ❑ Same as commercial banks
 - Except can't offer non-interest paying checking
 - Offer check writing with savings accts
- ❑ Usually pay slightly higher interest rates (.25 to .5%) than commercial banks
- ❑ Lend depositors' money for mortgages
 - In the movie, *It's a Wonderful Life*, the Bailey Brothers Building and Loan was an S&L

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Credit unions

- ❑ Non-profit, member-owned financial cooperatives
 - Used by 76 million Americans
- ❑ Offer full range of financial products to specific groups
 - Common occupation
 - Same religion or fraternal order
- ❑ Become a member simply by making a deposit
 - Higher interest on savings and lower rates on loans
- ❑ Could be less convenient?
 - On-line banking? ATM's? Branches and hours?

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How safe is your money?

- ❑ Nearly all banks, S&L's and credit unions are federally insured by U. S. Government
 - Checking and savings accts (up to \$100,000) are insured by FDIC (Federal Deposit Insurance Corp.)
 - CD's are covered, mutual funds from bank are not
 - **\$100,000 is per depositor, not per account**
 - ❑ At Wachovia: \$20,000 checking, \$40,000 savings and \$55,000 CD. Full \$115,000 is not covered
 - Move savings account to Bank of America to be fully insured
 - The Bailey Brothers Building and Loan was not insured – hence depositors' lack of confidence

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Hopefully you'll have this problem

(I don't have it)

- To get around the \$100,000 cap
 - Can open joint account in both names
 - Lucy and Ricky Ricardo \$100,000
 - One each in husband's and wife's names
 - Lucy Ricardo \$100,000
 - Ricky Ricardo \$100,000
 - Two separate IRA's
 - Lucy Ricardo IRA \$100,000
 - Ricky Ricardo IRA \$100,000
- All \$500,000 is covered
- Each depositor name is separate legal entity

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On demand or in due time

- Funds kept in checking accounts are called **demand deposits**
- Funds kept in savings accounts are called **time deposits**

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Demand deposits

- You can withdraw funds from your checking account whenever you want (on demand)
 - Bank must comply
- "Regular" checking pays no interest
- Account fees waived if minimum balance is kept
- Only comm. banks can offer "regular" checking
 - S&L's and credit unions offer NOW (Negotiable Order of Withdrawal) accounts
 - Pay a very low interest rate – same as checking

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Time deposits

- Funds must remain on deposit longer than with demand deposits (savings accounts)
- Offered by commercial banks, S&L's, credit unions
- Pay interest on deposited funds
 - Often interest rate rises with size of balance
- Institution will usually give you your money when you want but with an interest penalty

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Interest paying checking

- ❑ NOW accounts
 - Usually require minimum of \$500 to \$1,000 balance
- ❑ MMDA (money market deposit account)
 - Offered by banks and other institutions
 - Highest interest rate of check writing accts
 - Federally insured
 - Only free 6 checks a month
 - ATM and additional check fees offset higher interest
- ❑ Really savings – not active checking account

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Other short-term investments

- ❑ CD's (Certificates of Deposit)
 - Maturities of few days up to 7 years
 - Yield rises with deposit size and maturity
 - Convenient, easy to buy, federally insured
 - Interest penalty for early withdrawal
- ❑ T-Bills (issued by U. S. Treasury)
 - \$1,000 min denominations
 - Good, competitive short-term interest rates
 - Free of state and local taxes
 - Very safe, very liquid

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Yields and risk of T-Bills

- ❑ T-Bills are sold on a discount basis (price less than face value of \$1,000)
 - You pay \$980, matures in 3 months at \$1,000
 - $-980 \Rightarrow PV$ $1 \Rightarrow n$ $1,000 \Rightarrow FV$ $i = 2.04\%/per$
 - Annual $i = 2.04 \times 4 = 8.16\%$ per year
- ❑ If interest rates rise before maturity
 - Effect on price will be minimal if you sell
 - Easy to hold to maturity and full \$1,000 face

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Electronic banking services

- ❑ Electronic banking services make managing money easier and convenient
 - Your employer can automatically deposit your paycheck to your bank account
 - ❑ Eliminates you having to deposit your paycheck
 - Provide **debit cards** and ATM's
 - ❑ Debit cards are NOT charge cards even though most have the Visa or MasterCard logo
 - ❑ Debit cards are linked to your checking account

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Debit cards – **RED ALERT**

- ❑ Secured by a PIN for security
- ❑ Transfer funds from your checking account to the seller's account
- ❑ Convenient, accepted by most retailers
 - **Potentially very dangerous**
 - **Very easy to overspend**
 - **Very easy to overdraw your checking acct**
 - **Record all debit card transactions immediately – easy to lose track of balance**

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Get overdraft protection

- ❑ If you try to spend more than what's in checking
- ❑ Bank automatically transfers funds from your savings account or gives emergency loan (probably at a very high rate but still better than bouncing a check)
- ❑ Say you use debit card to buy \$100 pair of jeans
 - You forgot to record two transactions last week
 - Jeans will cost you \$150 (bank and merchant charge \$25 fees for insufficient funds)
 - Get the overdraft protection

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Other banking services

- ❑ Automatic transfers and bill paying
 - Monthly transfers to your IRA or savings account
 - Monthly bill paying – rent, health club dues, cable
- ❑ On-line banking
 - Transfer funds, pay some bills, check account balances, check on checks' status – cashed yet?
- ❑ Safe-deposit boxes
 - \$40 to \$60 a year depending upon size
 - Jewelry, stock certificates, car titles, birth certificates
 - Can't be opened even by the bank without your key
 - ❑ Mellon Bank in Pittsburgh – now Wachovia

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Your checking account

- ❑ Find a bank that has free checking
 - Usually need to maintain min \$500 balance
 - **Never** let balance go below minimum, else
 - ❑ \$7.50 per month, 25¢ per check, 10¢ per ATM
 - ❑ Avoid these very costly, unnecessary, stupid fees
- ❑ Individual or joint checking account
 - Record all checks, deposits, debit card purchases & refunds, ATM visits (**vary amts**)
 - **Balance the account!!**

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Maintain your balance

- Balancing checkbook is common sense
- Easy to do if CB is kept up to date
- Record transactions as they occur and balance each time
- Once a month receive bank statement
 - Check off checks that have cleared and note ones still outstanding
 - Make sure your total = bank's total

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Beginning balance	Amount	\$3,000	Cleared	Exxon-Mobil	-50	3,200	
Walmart (gift)	-145	2,855		ATM Broad St.	-160	3,040	
Wegman's	-155	2,700		Exxon-Mobil	-30	3,010	
Uncle Joe (gift)	+100	2,800		Lehigh (Clothes)	-180	2,830	
Paycheck	+1,600	4,400		Abercrombie refund	+75	2,905	
Rent	-900	3,500					
Phone	-150	3,350					
Cable	-100	3,250					

Bank statement arrives same day as Abercrombie's refund
Your balance reads \$2,905

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Beginning balance	Amount	\$3,000	Cleared	Exxon-Mobil	-50	3,200	✓
Walmart (gift)	-145	2,855	✓	ATM Broad St.	-160	3,040	✓
Wegman's	-155	2,700	✓	Exxon-Mobil	-30	3,010	
Uncle Joe (gift)	+100	2,800	✓	Lehigh (Clothes)	-180	2,830	✓
Paycheck	+1,600	4,400	✓	Abercrombie refund	+75	2,905	
Rent	-900	3,500	✓	FUDGE FACTOR	-25	2,880	✓
Phone	-150	3,350	✓				
Cable	-100	3,250					

Your balance (**2,905**) + cable(100) + Exxon(30) – Abercrombie(75) = 2,960
Your bank statement should have a balance of 2,960
If your balance doesn't agree with bank's, check your math
Just need to add a fudge at the end to make your total equal the bank's and move on

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Open two accounts

- Checking account**
 - No fees – maintain minimum balance
 - Overdraft protection
 - Debit card – be careful
 - Keep checkbook up to date and balanced
 - Arrange for automatic transfers to your
- Savings account**
 - Once you have some money saved, move it to a CD or T-Bill mutual fund but no rush now

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