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 <u>always</u> get receipt
 - □You <u>always</u> record transaction immediately
- Avoid taking tons of cash from ATM unless
 You <u>always</u> get receipt
 You <u>always</u> 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

Commercial banks

Commercial banks offer

- Checking accounts
- Savings accounts
- Credit cards and debit cards
- Loans
- Safe-deposit boxes
- Only institutions allowed to offer noninterest 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

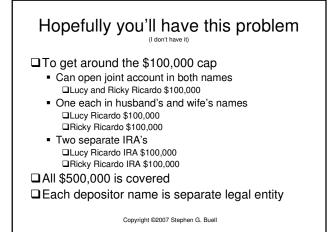
- Offer full range of financial products to specific groups
 - Common occupation
 - Same religion or fraternal order
- Become a member simply by making a deposit
 Higher interest on savings and lower rates on loans
- Could be less convenient?
 - On-line banking? ATM's? Branches and hours?

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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



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
- Gamma "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

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=>PV 1=>n 1,000=>FV i = 2.04%/per
- Annual i = 2.04 x 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

Debit cards – <u>**RED ALERT**</u>

□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)

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Get the overdraft protection

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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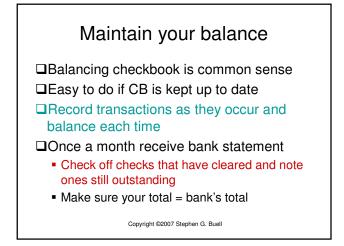
Your checking account

□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!!



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