

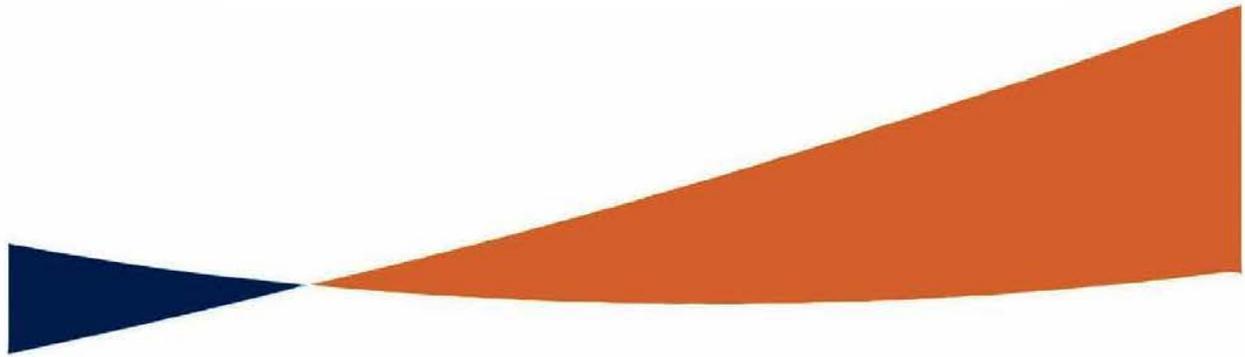


Prosper Canada

CENTRE FOR FINANCIAL LITERACY

Financial Literacy

Banking and financial services



Module 4 - Banking and Financial Services

HANDOUT 4-1

Banks and credit unions

Banks and credit unions are places where you can safely deposit your money, cash your cheques, pay your bills, ask for a loan or credit card and use a variety of saving and investment tools. This chart explains the differences between banks and credit unions.

Banks	Credit Unions
For-profit corporation	Co-operative financial institution. Primary commitment is to serve their members' financial needs.
Federally regulated by the Bank Act.	Provincially regulated, so there are differences between provinces.
Owned by its shareholders, shares sold on the stock market.	Membership allows you to vote. You can help govern the credit union through the Board of Directors or committees.
There is no membership requirement to open an account.	You must buy a share and become a member first to open an account.
There are both Canadian and foreign-owned banks operating in Canada.	Owned and governed by its members. The common bond of membership varies. It could be: religion, ethnicity, social interest, occupation, employment, or geographic area.
<p>Up to \$100,000 deposit insurance through the Canada Deposit Insurance Corporation (CDIC). This insurance means you will get your money back if the bank goes bankrupt. It only covers deposit accounts, not investment products that go up and down in value.</p> <p>Insurance is per person, per financial institution. Joint accounts and registered plans are treated as separately insurable.</p> <p>See the Resources section for a website that lists all of Canadian and foreign banks covered by the CDIC insurance.</p>	<p>Deposit insurance varies by province. It ranges from \$100,000 to unlimited. It ensures you will get your money back if the credit union goes bankrupt. It covers only deposit accounts, not investment products that go up and down in value</p> <p>Insurance is per person, per financial institution. Joint accounts and registered plans are often treated as separately insurable.</p> <p>See the Handout 4-2 for a list of provincial credit union deposit insurance limits.</p>

Module 4 - Banking and Financial Services**HANDOUT 4-2****Deposit insurance at credit unions in different provinces**

Province	Deposit insurance	Who is the insurer?
British Columbia	100% - unlimited	BC Credit Union Deposit Insurance Corporation.
Alberta	100% - unlimited	Alberta Credit Union Deposit Guarantee Corporation.
Saskatchewan	100% - unlimited	Saskatchewan Credit Union Deposit Guarantee Corporation.
Manitoba	100% - unlimited	Manitoba Credit Union Deposit Guarantee Corporation.
Ontario	Up to \$100,000 per person in unregistered deposits and 100% for registered plans.	Deposit Insurance Corporation of Ontario.
Quebec	Up to \$100,000 per person, per registered institution.	Autorité des marchés financiers.
Nova Scotia	Up to \$250,000 per person and an additional \$250,000 in registered plans.	Nova Scotia Credit Union Deposit Insurance Corporation.
New Brunswick	Up to \$250,000 per person and an additional \$250,000 in registered plans.	New Brunswick Credit Union Deposit Insurance Corporation.
Newfoundland and Labrador	Up to \$250,000 per person and an additional \$250,000 in registered plans.	Newfoundland and Labrador Credit Union Deposit Guarantee Corporation.
Prince Edward Island	Up to \$125,000 per person and an additional \$125,000 in registered plans.	PEI Credit Union Deposit Insurance Corporation.

Useful websites:

Canadian Deposit Insurance Corporation <http://www.cdic.ca/>

Financial Consumer Agency of Canada <http://www.fcac-acfc.gc.ca/>

Canadian Bankers Association <http://www.cba.ca/>

Ombudsman for Banking Services and Investments <http://www.obsi.ca/>

ADR Chambers Banking Ombuds Office www.bankingombuds.ca

Module 4 - Banking and Financial Services**ACTIVITY SHEET 4-3****Banks and banking services quiz**

In pairs, match the items in column A to column B:

Column A

1. An automatic way to pay bills or transfer funds for investments to another account on an on-going regular basis (usually monthly).
2. A card that allows you to access money electronically.
3. Account for low service and transaction fees.
4. An arrangement you make with your bank to move money regularly from your chequing to savings account.
5. Account for day-to-day transactions.
6. Name of fee charged if you write a cheque and there is not money in your account to cover it.
7. Send or receive money to another account using online or mobile banking and the Interac network.
8. Service that allows your employer to deposit your pay into your account.

Column B

- A. Direct deposit
- B. Chequing account
- C. Interac e-transfer
- D. Debit card
- E. Not Sufficient Funds (NSF) fee
- F. Automatic savings program
- G. Pre-authorized debit
- H. No-fee or low fee

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HANDOUT 4-4

Banks accounts and services

Savings account

This type of bank account can be used to set money aside for short to medium-term savings. You may have a debit card for the account as well. This will allow you to make deposits, withdraw cash, pay bills, pay for purchases using Interac, move money between accounts, and check your balance.

Interest:

- The bank pays you interest on your deposits. The amount you earn depends on the bank and the type of savings account you choose
- Sometimes, banks pay higher interest when there is a larger amount of money in the account
- Some banks will pay more interest if you keep a certain amount of money, called a minimum balance, in your account
- The interest is low compared to other types of investments. Savings accounts are good for short to medium-term savings needs

Fees:

- Savings accounts can come with a limited number of free transactions. After that, there are fees for using your debit card, making a withdrawal, and paying bills
- You may be charged fees for receiving a paper bank account statement
- There are fees for using a bank machine if it does not belong to your own bank. These fees can really add up
- Service fees vary a lot between banks and account types. Make sure to choose the best option for you so you don't pay for services you don't need

Chequing account

This type of bank account is used for everyday banking and bill paying. The bank will supply you with a debit card. The bank may "Charge" a fee to supply you with cheques.

Interest:

- You may not earn any interest with a chequing account
- If you do earn interest, the percentage will be very low, or the bank may require you to have a high minimum balance in the account.

HANDOUT 4-4, continued**Fees:**

- At some financial institutions, chequing accounts are free or low cost for certain groups, such as a youth, students, seniors, or people with disabilities. The account may have some restrictions, so be sure to ask about these details
- Fees are often charged under a package rate for a certain number of transactions per month. There are extra charges when you go over
- You may have the option of a flat rate fee for unlimited transactions
- Some chequing accounts are free or they may only be free if you keep a minimum balance in your account
- If you write a cheque and there is not enough money in your bank account to cover it, you will be charged a Not Sufficient Funds (NSF) fee of around \$40 - \$50
- Some accounts offer over draft protection to cover shortfalls in your account. You will need to be approved for this and will likely pay a fee, plus interest when you use it.

Account services

For either kind of account, your bank or credit union may offer:

- Telephone and internet banking
- A debit card for ATM/ABM access and retail purchases
- Direct deposit of government cheques or your paycheque
- Preauthorized or automatic bill payments
- Preauthorized or automatic transfers to savings.

Other services

Banks and credit unions can provide other convenient services such as:

- Mortgages
- Personal or student loans
- Credit cards
- Free cashing of federal government cheques
- Money orders
- Certified cheques
- Wiring money
- Overdraft
- Financial advice.

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HANDOUT 4-5

Choosing a bank and choosing an account

Where and when do you want to bank?

- What hours will you be able to do your banking?
- What are the bank's hours?
- Do you want a bank that is close to your work? Close to your home?

How do you want to bank?

- Would you prefer to bank in person, over the telephone, or online?
- Do you want to deal directly with a bank teller or would you prefer to use automated banking machines (ABMs)?

What kind of services will you need?

- Will you mostly deposit and withdraw money?
- Do you plan to save money at your bank?
- Do you want to write cheques?
- Do you need to take out loans or apply for credit?

What are the fees and interest rates?

Once you have decided on the services you need, start comparing the accounts, interest rates and fees among banks.

- What are the fees for the services you need?
- How much interest can you earn on your deposits?
- Is there a minimum balance you must keep in your account?

Shop around and compare the options at different banks. This is the best way to make sure you get the bank account that fits your needs.

The Banking Selector Tool

A good resource to help you get started is the Financial Consumer Agency of Canada. They have an online tool that can help you figure out which account is best for you. You can find it at:

<http://www.fcac-acfc.gc.ca/eng/consumers/ITools/CoB/default.asp>

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HANDOUT 4-6

Opening a bank account

1. **Decide which services you want.** The FCAC Bank Account Selector tool can help you decide.
2. **Choose a bank.** Pick a bank that has a location and hours that are good for you, with all the services you want.
3. **Make an appointment to go to the bank in person.** If you are under 18, you must take your parent or guardian.
4. **Review the account options.** Make sure to ask them about services, interest rates, and service fees.
5. **Complete the papers needed to open an account.** Make sure that you bring the right identification (ID).
6. **Consider opening an account online.** Check the bank's website for instructions on how to open an account online.

What kind of ID do I need?

You have three options:

1. You can show two pieces of ID from List A below
or
2. You can show one piece of ID from List A and one piece of I.D. from List B
or
3. You can show one piece of ID from List A and have someone the bank knows confirm your identity.

List A	List B
<ul style="list-style-type: none"> • Canadian driver's license • Current Canadian passport • Canadian birth certificate • Social Insurance Number (SIN) card • Old Age Security card • Certificate of Indian Status • Provincial or territorial health card (except in Manitoba, Ontario or PEI) • Certificate of Canadian Citizenship or Certification of Naturalization • Permanent Resident card or Citizenship and Immigration Canada form IMM 1000, IMM 1442, or IMM5292 	<ul style="list-style-type: none"> • Employee ID card • Debit card or bank card with your name and signature • Canadian credit card with your name and signature • Current foreign passport • Canadian National Institute for the Blind (CNIB) client card with your photo and signature

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HANDOUT 4-7

What are my rights?

You have the right to open a bank account, even if:

- You don't have a job
- You don't have money to put in the account right away
- You have been bankrupt.

When can the bank refuse to give me an account?

A bank can legally refuse to open an account for you if:

- You cannot show the right identification
- The bank thinks you will use the account to break the law
- You committed a crime against a bank in the past 7 years
- The bank thinks you gave false information when applying for the account
- The bank thinks that opening the account might bring harm to its customers or staff
- You do not agree to let the bank do a check on you about the things above
- The request was made at a branch or a point of service where the only accounts offered are those linked to another financial institution.

What if I think the bank was wrong to refuse me an account?

If the bank refuses to give you an account, the law says they must give you a letter stating this fact. The letter informs you of your right to contact the Financial Consumer Agency of Canada (FCAC). You can call the FCAC toll-free for help at 1-866-461-3222.

What if I have an account, and the bank makes a mistake on it?

If you have a complaint about how the bank has handled transactions on your account, take these steps to resolve your complaint:

1. Speak to a customer service representative at your branch.
2. Write a letter to the branch or area manager.
3. Write a letter to the bank's internal Ombudsmen.
4. Call the Ombudsman for Banking Services and Investments (OBSI), toll-free at 1-888-451-4519 or ADR Chambers Banking Ombuds Office, toll-free at 1-800-941-3655 (For RBC and TD Banks).

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HANDOUT 4-8

Alternative financial services

Alternative financial services are outside of the traditional, regulated banking system. They do not take deposits like a bank or credit union. They offer these services:

Cheque-cashing outlets

These are places you can go to cash cheques if you do not have a bank account. They usually charge a percentage of your cheque, plus a service fee.

Example: On a \$1,000 cheque, they could charge a 3% fee (\$30) plus a \$3 service fee, for a total charge of \$33. EXPENSIVE!

Payday loans

A payday loan is a short-term loan of two to four weeks against your next paycheque. Payday loans are offered by private lenders and cheque-cashing outlets.

You can usually borrow up to 50% of your next paycheque amount. To get the loan, you must:

- Show proof of income, such as a month or two of pay stubs
- Show proof of your identity
- Give the lender a post-dated cheque or permission to take the money from your bank account.

Payday loans are very expensive ways to borrow money. There are many high service fees and interest charges. These get even higher if you do not pay the loan back on time. And you may not be able to avoid paying the interest – there could even be fees for paying the loan back early!

The average fee for a two-week, \$300 loan is over \$60. If you work that out to a yearly interest rate, it is 520%.

Make sure you review the loan agreement and understand its terms before you sign it. Keep a copy for yourself.

Rapid-refund tax services

These are services you can use to file your income tax return. They claim to provide “instant refunds”, but these are not tax refunds. They are really expensive loans.

There are high fees for these services. There are preparation fees, electronic filing fees, cheque-cashing fees, and loan charges. These fees can add up to hundreds of dollars.

You get the refund amount right away, less the fees and charges. The government sends your refund to the tax service, and that pays off your loan.

If the government denies your tax refund, or if it is smaller than expected, you still have to pay back the loan to the tax service.

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HANDOUT 4-8, continued

Pawn shops

Pawn shops loan cash in exchange for valuable objects, such as jewellery and electronics. These objects are called “collateral” for a loan. If you repay the loan, you get the object back. If you don’t, the pawn shop keeps the item and sells it to someone else.

You will need to show identification. The pawn shop may run a check to see if the item has been reported stolen.

Pawn shops often charge high interest and fees. They are also holding your collateral, although the loans they provide are a fraction of the true value of the object.

Rent-to-own programs

These are programs that allow people to purchase household items (such as electronics, appliances, or furniture) by paying a weekly fee.

There may be a charge for setting up a rental plan, a damage deposit, an insurance fee, a buy-out fee, and a cancellation fee. The interest rates are high. They can work out to as much as 28 - 40% a year. That means that by the time you pay it off, the total cost of the item can be two to six times higher than the original cost.

If you miss a payment, you may have to return the item to the store, or it may be taken away. When this happens, you may lose any payments you made so far.

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ACTIVITY SHEET 4-10

Goal setting

Take a few minutes to reflect on how this workshop relates to your life.

Set one or two SMART goals for your use of banks and alternative financial services.

Example:

Goal: Review my bank account for ways to improve service and reduce fees.	When?
Tasks: <ul style="list-style-type: none"> • Review my bank statement for fees • Look on my bank website for information about my account • Use the Bank Account Selector tool to compare account options at other banks • Ask customer service at my bank to suggest ways to reduce my fees. 	By Friday On the weekend Monday

1. Goal:	
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Tasks:	When?

2. Goal:	
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Tasks:	When?

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HANDOUT 4-11

Resources

Financial Consumer Agency of Canada - <http://www.fcac-acfc.gc.ca/Eng/resources/toolsCalculators/Pages/BankingT-OutilsIn.aspx>
Online tool to help you compare chequing and saving accounts.

Canadian Bankers Association – www.cba.ca
The Canadian Bankers Association exists to promote an understanding of the banking industry in Canada. They provide information and research about the banking system and financial consumer issues.

Credit Union Central – www.cucenral.ca
The national voice of the credit union system it includes information on the credit union model and a locator for credit unions in your community.

Ombudsman for Banking Services and Investments – www.obsi.ca
Offers fair and impartial dispute resolution between participating banking service and investment firms and their customers.

Acorn Canada – www.acorncanada.org
Provides a series of reports on the payday lending industry in Canada.

Canadian Deposit Insurance Corporation (CDIC) – www.cdic.ca
Information on how our money in Canadian banks is insured against bank failures.

Bank of Canada – www.bankofcanada.ca
Information on Canada's national bank. Look for unclaimed bank balances here, find out the Bank of Canada interest rate and lots of information about our financial system.

Banking for All - www.bankingforall.ca
This website by Financial Futures Calgary provides some very basic information about opening up a bank account and contains many videos and answers for those who face barriers to banking.

Practice ATM and Point of Sale Machines – <http://oclf.org/newcomer-finances-toolkit/>
The Ottawa Community Loan Fund created a Newcomer Finances Toolkit including an online practice bank machine and direct payment (debit) machine that you can use with learners who are uncomfortable using those machines. The password is 1234.

ADR Chambers Banking Ombuds Office - http://www.bankingombuds.ca/index_eng.html
Offers fair and impartial dispute resolution for RBC, TD and DirectCash Bank customers. Can also be contacted via their toll-free number: 1-800-941-3655

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HANDOUT 4-12

Glossary

Account: What you set up at a bank or credit union for depositing, withdrawing, borrowing or investing money.

Account statement: A record you get each month of what happened in your account.

Annual percentage rate: The rate of interest charged on a loan each year. This rate may differ from what you see advertised. There is a standard way to calculate it. This is to help borrowers compare rates.

Automated teller machine (ATM): A machine you use to do banking with an electronic (debit) card. This is also called an automated banking machine (ABM).

Balance: The amount of money held or owing in an account.

Bank: A financial institution that takes deposits, lends money and provides other financial services.

Banking fees: Fees charged to customers for banking services.

Canada Deposit Insurance Corporation (CDIC): This was set up by the federal government to provide insurance to protect money deposited in Canadian banks and some other financial institutions.

Cheque: A written order to a bank, credit union, or trust company to pay a certain sum of money from the depositor's account to the person named on the cheque.

Chequing account: An account at a bank, credit union or trust company that allows the depositor to write cheques.

Credit union: A financial institution that is owned by its depositors and borrowers.

Debit card: A card that lets you transfer money electronically from your account to pay for something you buy. It is also used to deposit money into an account.

Deposit: Money held in an account at a bank, credit union, or trust company.

Deposit insurance: An insurance plan to protect the money you deposit in a bank, credit union or trust company (see Canada Deposit Insurance Corporation).

Financial institution: A bank, trust company, credit union or other institution that offers financial services such as savings and chequing accounts, loans, credit cards, and investments.

Overdraft: Occurs when money is withdrawn from a bank account and the available balance goes below zero.

Overdraft protection: A pre-arranged limit a customer can borrow from the bank when their balance goes below zero. May be fees and interest charged.

Personal identification number (PIN): A confidential number you use to confirm who you are at a bank machine, computer or phone system.

Savings account: An account with a bank, trust company, or credit union that pays interest on the money you deposit.

Withdraw: To take money out of an account.