
Professional Certificate in Financial Literacy for Teens

Banking Fundamentals

Banking Fundamentals are essential for anyone who wants to understand how financial institutions operate, how money is managed, and how to make the best use of banking services. In this course, we will cover key terms and vocabulary related to banking to help you build a strong foundation in financial literacy.

Bank: A financial institution that accepts deposits from the public and creates credit. Banks play a crucial role in the economy by providing a safe place to store money, facilitating transactions, and offering various financial services.

Deposit: Money placed into a bank account. Deposits can be made in various forms, such as cash, checks, or electronic transfers. Banks use deposits to lend money to borrowers and earn interest.

Withdrawal: The act of taking money out of a bank account. Withdrawals can be made through ATM withdrawals, checks, electronic transfers, or in-person visits to a bank branch.

Interest: The cost of borrowing money or the reward for saving money. Banks pay interest on deposits and charge interest on loans. The interest rate is the percentage of the principal amount that a bank charges for lending money or pays on deposits.

Checking Account: A type of bank account that allows depositors to write checks, use debit cards, and make electronic transfers to access their funds. Checking accounts are typically used for everyday transactions and have lower interest rates compared to savings accounts.

Savings Account: A bank account that allows depositors to save money and earn interest on their deposits. Savings accounts are designed for long-term saving goals and usually have higher interest rates than checking accounts.

Certificate of Deposit (CD): A time deposit offered by banks with a fixed term and fixed interest rate. CDs typically have higher interest rates than regular savings accounts but require depositors to keep their money in the account for a specified period, known as the term.

ATM (Automated Teller Machine): An electronic banking outlet that allows customers to perform basic transactions without the need for a teller. ATMs can be used to withdraw cash, deposit checks, transfer money between accounts, and check account balances.

Debit Card: A payment card that deducts money directly from a checking account to pay for purchases. Debit cards can be used at ATMs and point-of-sale terminals to make transactions.

Credit Card: A payment card that allows cardholders to borrow funds from a financial institution to make purchases. Cardholders are required to pay back the borrowed amount, usually with interest, by the due date.

****Loan:**** Money borrowed from a bank or financial institution that must be repaid with interest over a specified period. Loans can be used for various purposes, such as buying a home, financing education, or starting a business.

****Mortgage:**** A type of loan used to purchase real estate, typically with a long repayment term. Mortgages are secured by the property being purchased, which means the lender can seize the property if the borrower fails to repay the loan.

****Interest Rate:**** The cost of borrowing money or the return on savings expressed as a percentage. Interest rates can be fixed, meaning they stay the same throughout the loan term, or variable, meaning they can change based on market conditions.

****Compound Interest:**** Interest that is calculated on the initial principal and any accumulated interest from previous periods. Compound interest allows savings to grow faster over time, as the interest is added to the principal, resulting in a higher amount of interest earned.

****Credit Score:**** A numerical representation of a person's creditworthiness based on their credit history. Credit scores range from 300 to 850, with higher scores indicating a lower credit risk. Lenders use credit scores to evaluate whether to approve loan applications and determine interest rates.

****Overdraft:**** A negative balance in a bank account caused by withdrawing more money than is available. Banks may charge overdraft fees for allowing transactions to go through when there are insufficient funds in the account.

****Direct Deposit:**** The electronic transfer of funds directly into a bank account. Direct deposit is commonly used for payroll, government benefits, and tax refunds, providing a convenient and secure way to receive payments.

****Online Banking:**** The use of the internet to access banking services and manage financial transactions. Online banking allows customers to check account balances, transfer funds, pay bills, and perform other banking activities from a computer or mobile device.

****Mobile Banking:**** Banking services accessed through a mobile device, such as a smartphone or tablet. Mobile banking apps allow customers to perform various transactions on the go, including depositing checks, transferring money, and monitoring account activity.

****Fraud:**** Deceptive practices used to gain unauthorized access to someone's financial information or assets. Common types of fraud in banking include identity theft, phishing scams, and credit card fraud. It is important to protect personal information and report any suspicious activity to the bank.

****Financial Literacy:**** The knowledge and skills needed to make informed financial decisions. Financial literacy includes understanding basic banking concepts, budgeting, saving, investing, and managing debt effectively.

****Compound Interest Example:****

Suppose you deposit \$1,000 into a savings account that earns 5% interest compounded annually. At the

end of the first year, you would earn \$50 in interest, bringing the total balance to \$1,050. In the second year, you would earn 5% interest on \$1,050, resulting in \$52.50 in interest. Over time, compound interest helps your savings grow exponentially.

****Credit Score Example:****

If you have a credit score of 750, lenders are more likely to view you as a low credit risk and offer you favorable loan terms, such as lower interest rates. On the other hand, if you have a credit score of 500, lenders may see you as a high credit risk and charge higher interest rates or deny your loan application altogether.

****Challenges in Banking:****

One of the challenges in banking is understanding the complex terms and conditions associated with different financial products. It is essential to read the fine print, ask questions, and compare options before making financial decisions. Another challenge is managing debt responsibly and avoiding overspending to maintain a healthy financial situation.

In conclusion, mastering Banking Fundamentals is crucial for developing strong financial literacy skills and making informed decisions about money management. By understanding key terms and concepts related to banking, you can navigate the financial system with confidence and achieve your financial goals. Remember to stay informed, seek guidance when needed, and practice good financial habits to build a secure financial future.