

Money Smart Students

Celebrating National Financial Literacy Month and Money Smart Week

Alternative Financing

Want to maximize your income? Know the costs of opening a bank account, fees associated with your account and borrowing money. You have choices when it comes to using financial services. Just as you want to know the price of an item in a store before you head to the checkout, you need to know the price of borrowing money or cashing a check before entering into a transaction.

▶ Watch this video: stlouisfed.org/alt-fin.

As you contemplate where to cash a check or borrow money, consider your options. Traditional financial service institutions, like banks, credit unions and savings and loans, require you to have an account before they will provide you with lending or check cashing services. Usually, check cashing is free for account holders. Banks and others also provide debit cards, free online banking and free ATM use 24/7. Sometimes banks will make short-term loans, especially if you have good credit.

Alternative financing services, like check cashing stores, are likely close by and open at night or on weekends, but that convenience comes at a steep price. They often charge a fee of 3.5 percent of your check just to cash it. That would be \$11 out of a check for \$318. The key is knowing how much the annual percentage rate of interest each will charge you before you sign on the dotted line. If the lender is reluctant to tell you, beware.

▶ Watch this video: stlouisfed.org/adds-up.

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WORD BANK

Annual percentage rate (APR) - The percentage cost of credit on an annual basis.

Traditional Financial Service Institutions - Commercial banks, savings and loans and credit unions where deposits are protected by depositor's insurance and customers can store, access and borrow money.

Alternative Financial Services - Services offered by institutions that operate outside federally insured banks, thrifts and credit unions.

Cost-Benefit Analysis - An analytical tool used for assessing the pros and cons of a decision before taking action.

Knowing the pros and cons of each possibility today gives you the power to choose the option that maximizes your money. Don't wait until you need cash fast, because crisis time is when alternative financial services thrive on your money. Know and compare the annual percentage rate (APR) charged for a loan by various institutions before signing anything or giving up the title to your car. Ask the fee amount upfront before getting a check cashed. Time can be on your side if you choose to act before an emergency occurs. Check out all your banking options, so what you spend your money on is your choice.

Money Smart Students Preparation: You learned about traditional financial services institutions and alternative financial services. Look through either the St. Louis Post-Dispatch or the ePost to find current articles about financial services.

Money Smart Students Extension: Search the ePost for stories about alternative financial institutions. Work in groups to do a cost-benefit analysis of the pros and

cons of that particular alternative financial service. Share your findings.

Money Smart Students Tip: Ralph Waldo Emerson said, "Money often costs too much."

Money Smart Students Trivia: Twenty-five percent of all cars purchased at "buy here, pay here" businesses are repossessed.

NEXT WEEK: Buying a Car

