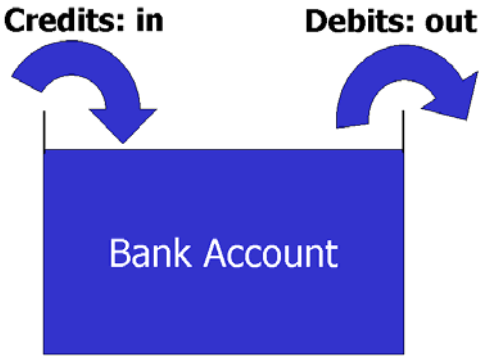
Topic 1(e) Debit

Meaning of the word 'debit'

Banks call money taken out of a bank account a debit.

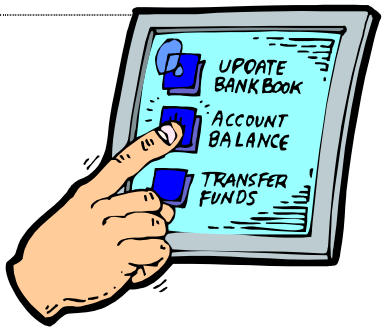


There are several ways that you can take money out of a bank account.

What ways can you think of?

Methods of taking money out of a bank account

Accountholders can use:

Cash card	A **cash card** is a plastic card that the accountholder uses in a bank/building society branch or **ATM**. ATMs are automated teller machines also known as cash points or 'holes in the wall'. Cash cards only let accountholders **withdraw** cash. These cards cannot be used in shops to make purchases. 
Passbook	A book that lists credits and debits into a savings account. Accountholders can use the passbook in the bank or building society branch to get cash or ask the bank/building society to write a cheque.
Cheque	Written instructions to the bank to pay a specific amount of money into a named bank account. People use cheques to pay money to shops, credit card companies, other people, charities, etc. 

Debit card		A plastic card that gives an instruction to pay money from one bank account to another bank account, like an electronic cheque. People use debit cards in shops, restaurants, cinemas, etc, to buy goods and services. They can also use debit cards in ATMs to get cash.
Standing order	A standing order is an instruction to pay a specific amount of money from one bank account to another on a regular basis. For example, Sunil gets a monthly allowance of £60 from his parents. He has a standing order that transfers £20 of that into his savings account every month. His bank's computer makes this debit automatically.	
Direct debit	A direct debit is another instruction to pay money from one bank account to another on a regular basis. Direct debits are different from standing orders in that the amount debited can vary slightly. Also, the shop or organisation receiving the money asks for it, rather than being sent it automatically. For example, Rose has set up a direct debit to pay her car insurance premiums monthly.	

All these methods only work if there is enough money in the bank account to make the debit. If there isn't enough money, the debit will be refused for 'insufficient funds'.

Cheques and debit cards are payment mechanisms as well as ways of getting cash out of an account. Accountholders usually have to be aged 16 or over to get a **chequebook** or a cash card; and 18 or over for a debit card.

Leaving money in an account

Why might an accountholder decide to leave money in an account?

Here are two good reasons:

Money stored in a bank account is safer than money stored in cash in your purse or wallet.

If the money is kept in a savings account, the accountholder will receive extra money because the bank or building society adds interest to the accountholder's savings.

Annual Equivalent Rate (AER)

Banks and building societies use the money people put into accounts to make loans to customers. They charge these customers interest for borrowing money. The banks pay some of this interest back to accountholders to encourage them to keep money in their accounts.

Savings accounts pay the best interest rates on money held in the account. This is because people tend to leave money in savings accounts for a longer period of time than the money in current accounts. The bank can therefore use the money to make loans for longer periods of time. Some, but not all, current accounts pay interest.

All interest rates must be quoted as an **annual equivalent rate** (AER). This is the interest rate that would be paid if interest were paid once a year. Because all account providers must provide the information in the same way, people can compare the interest rate paid by one bank or building society with the interest rates paid by others and choose an account that suits them.

Did you know?

The **shareholders** own a **bank**. These people expect to be paid part of the bank's profits every year.

The customers own a **building society**. Because there are no shareholders to pay, building societies tend to be able to give higher interest rates on savings accounts and charge lower interest rates on loans.

Review questions

1. What is the difference between a debit and a credit?
2. Can cash cards be used to pay for goods in shops?
3. How old must you be to get a chequebook?
4. What information is written in a passbook?
5. What does AER stand for?
6. Why must account providers give an interest rate as an AER?

Case study

Mark is 15 years old. He has £100 that was given to him on his birthday. He wants to put the money into a bank or building society account to keep it safe and to earn interest. He doesn't know when he will decide to spend the money.

Mark goes to the following banks and building societies to find out what they offer:

ABC Bank Limited	Offers a savings account with an AER of 4.55%. Mark can take his money out of the account whenever he likes. He can open the savings account with £1. The bank will give Mark a free mouse mat when he opens the account.
Big Bank Limited	Offers a savings account with an AER of 4.75%. Mark must give three months' notice if he wants to take his money out of the account. He can open the account with £10. The bank will give Mark a free CD of pop music when he opens the account.
Local Building Society	Offers a savings account with an AER of 5.01%. Mark can take his money out of the account whenever he likes. He can open the account with £1. The building society does not offer free gifts.
Country Building Society	Offers a savings account with an AER of 4.75%. Mark can take his money out of the account whenever he likes. He can open the account with £1. The building society will give Mark a free 'Savers' ring binder when he opens the account. He can put his statements into this ring binder when he receives them.

Decide which account should Mark open if he:

	ABC Bank Limited	Big Bank Limited	Local Building Society	Country Building Society
Wants to earn the most interest				
Wants to take his money out with no notice				
Wants the best free gift				

Learning activities

Internet

1. Go to www.nsandi.com and find out what kind of savings accounts are available for people aged 17 or under. How do accountholders take money out of each of these accounts?

2. Find out what premium bonds are and how they work. Are premium bonds gambling?

3. Go to www.moneyfacts.co.uk and compare savings accounts for young people. Which accounts do you think offer the best deals, and why did you choose these accounts?

Group/Internet

1. Get information on accounts from the websites or branches of different banks, building societies and National Savings and Investments. Compare the different methods of taking money out of the accounts and the AERs on any savings.

2. Find the best AER for someone aged 15 wanting to save £250 for one year.

3. Show other people in your group what your cash card looks like.

4. Research the amount of tax paid on savings. Find out how a young person who does not pay tax can make sure that their savings interest is paid in full.

Key points for Debit

- Banks call money taken out of a bank account a debit.
- There are many ways of taking money out of an account including cash cards, passbooks, cheques, debit cards, standing orders and direct debits.
- People might decide to leave their money in an account because it is a safe place to store the money and, depending on the account, they might earn interest on the money in there.
- Interest rates paid on savings are quoted as an annual equivalent rate (AER).
- People can compare AERs on different accounts to work out which account offers the best interest.
- Some savings accounts let you take the cash out any time you want, others require you to give notice. **Notice accounts** often pay a higher rate of interest.
- As well as accounts offered by banks and building societies, accounts are available from National Savings and Investments.
- There are many savings accounts to choose from – it is best to look at many options before making your choice.