# Financial Institutions

## SOL 12c

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- The student will demonstrate knowledge of the structure and operation of the United States economy by explaining how financial institutions channel funds from savers to borrowers.

# Guiding Question

- How do financial institutions make the deposits of savers available to borrowers?

# Vocab Terms

- **Depositor**: A person who puts their money into a bank or other financial institution.

- **Deposit**: The act of putting money into a financial institution or a bank. For example: "Carl made a deposit into his savings account" means Carl put money into his savings account.

- **Loan**: The act of borrowing money

# Banks

- When an individual or business has money they do not need to spend right away, they save this money by depositing it in a bank, to store this money for safekeeping.

- The bank takes this money and saves some of it and loans out some of it too.

# Banks and Interest

- A bank is not going to just loan out your money and not give you anything in return.  They are going to charge interest.

- Interest: a payment made for the privilege of using someone else's money.

# Banks and Interest

- Banks pay interest to depositors in exchange for the ability to loan their money
- The people that borrow the money pay interest to the bank for the use of the loaned money.
- Interest is usually represented by a percentage of the amount loaned or deposited.

# Before We Continue…

- Banks are private businesses.  That means they are in business to a PROFIT.

- They pay interest on deposits to encourage savings and investing.  So in order to get people to use their services, banks will offer interest on the money people deposit (if you deposit with bank A, bank A will pay you an interest rate of 3% which means over time, you can make money by saving money)

# Banks and Profit

- To make a profit, banks will charge more interest on loans than they pay out for deposit.

- Here is a similar example to the one from your packet notes.

Bank receives interest from borrowers: (6%)

(minus) Bank pays interest to depositors: (2%)

Bank pays operating expenses: (3%)

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Profit of (1%)

# 4 Types of Financial Institutions

- Commercial Banks
- Mutual Savings Banks
- Savings and Loans
- Credit Unions

# Commercial Banks

- The most common type of bank
- Owned by stockholders
- Offer a wide range of services
  - Savings and checking accounts
  - Loans
  - Investment services

SunTrust

Live Solid. Bank Solid.

citi

CITIBANK

WELLS FARGO

Bank of America

# Mutual Savings Banks

- Owned by their depositors
  - Remember! This refers to the people who physically put their money in the bank and share in the profits from the bank (they earn interest)

- Offer a few services
  - Savings and checking accounts
  - Make Loans

Mutual SAVINGS BANK
A friendly place to bank

Community Mutual
Savings Bank
You're worth more here.

BankMutual
The bank you can really use.

# Savings and Loans

- Companies Set up to accept savings deposits and make loans for buying land and homes.

- Services Offered:
  - Checking accounts (like banks)
  - Make Loans
  - Accept savings deposits

Fidelity
HOMESTEAD SAVINGS BANK

ADEHYEMAN
Savings & Loans Limited

Cincinnati
Federal
SAVINGS AND LOAN

# Credit Unions

- Nonprofit financial intuitions.
- Offer a wide variety of services but <u>ONLY</u> for their members.
  - These members often work for one large business or unit of government
  - Accept savings, deposits, and lend money.
  - Also offer checking accounts

NAVY FEDERAL®
Credit Union

United Financial
CREDIT UNION

AMERICA'S
CREDIT UNIONS™

# Remember Credit Unions are only for Members….

# Frame

- Now you are going to complete a Frame for this information comparing and contrasting the 4 different types of financial institutions
- Use your notes from today and your book/packet notes to fill it out. This is a good study tool for the quiz tomorrow

# Info for the Frame

- **<u>Key Topic:</u>** SOL 12c
- **<u>Is about….</u>**
  - How financial institutions use and make money in our mixed economy
- Make sure you do the "So What" part at the bottom!