# Financial Institutions

03

SOL 12c

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03

Rathe 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

CB

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

#### Vocab Terms

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

## Banks

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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

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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



- Ranks 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.
- of the amount loaned or deposited.

#### Before We Continue...



- 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

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

Bank receives interest from borrowers: (6%)

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

Bank pays operating expenses: (3%)

# 4 Types of Financial Institutions

Commercial Banks
Mutual Savings Banks
Savings and Loans
CCredit Unions

#### Commercial Banks

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The most common type of bank

**©**Owned by stockholders

Control
 Control

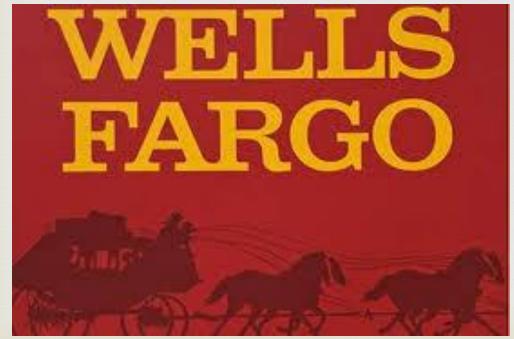
Savings and checking accounts

**S**Loans

Investment services







**Bank of America** 



# Mutual Savings Banks

#### 03

#### **™**Owned by their <u>depositors</u>

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** 







### Savings and Loans

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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



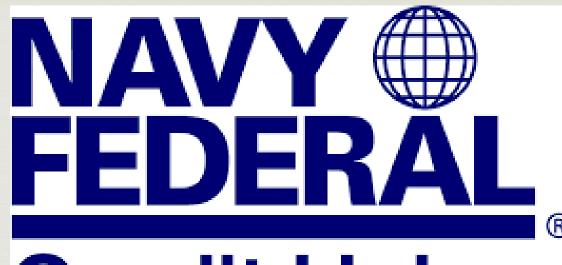




#### Credit Unions



- 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

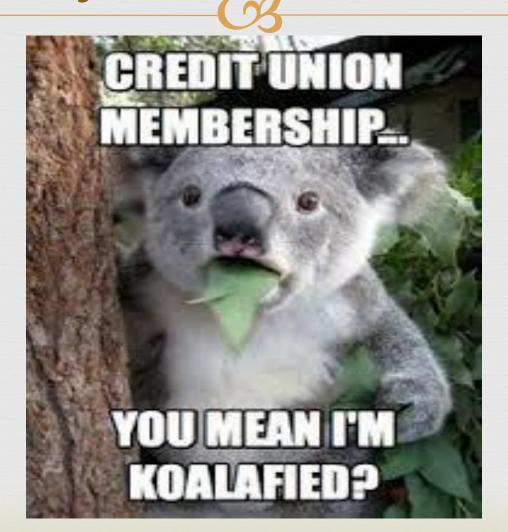


# **Credit Union**





# 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

CB

**Key Topic:** SOL 12c

#### ™Is about....

How financial institutions use and make money in our mixed economy

Make sure you do the "So What" part at the bottom!