

Unit 3:

# **Banks and Other Financial Institutions**

**Personal Financial Literacy**

# Objectives

- List ways to establish a relationship with the financial system.
- Compare the different types of financial institutions.
- List types of saving institutions.
- Discuss how savings accounts work and what restrictions may be imposed.
- Compare the different kinds of checking accounts.

# Financial Institution

- Collects money from the public and then either invests it or uses it to make loans
- Allows individuals and businesses to:
  - Cash checks
  - Write checks
  - Save money
  - Borrow money



# Choosing a Financial Institution:

- Convenient access
- Availability of ATMs
- Reputation and/or size
- Financial services offered
- Minimum balance requirements
- Low balance alerts
- Overdraft fees
- Limited or lower fees
- Deposit insurance
- Customer service
- App and web availability

# Types of Institutions

- Commercial Banks - for profit institutions owned by shareholders who receive the profits and usually offers a wide range of services.
- Internet Banks - have no physical location for consumers because everything is done online.
- Credit Unions - a cooperative not-for-profit financial institution owned by its members.
- Savings and Loan Associations – owned by either shareholders or depositors and fewer are in operation compared to the 1980s and 1990s.
- Mutual Savings Banks – operate under state charters for the benefit of depositors and are primarily in the NE US.

# Products and Services

- Checking and savings accounts
- Money transfers from one account to another
- Automatic deposit and payment
- ATMs
- Preauthorized bill payment to automatically pay bills or make loan payments
- Credit, checks, or debit cards

# Products and Services - Continued

- Online banking to pay bills or access account
- Overdraft protection
- Safe deposit boxes to store valuable items
- Investment advice
- Federal insurance on deposits
- Cashier's checks



# Products and Services - Continued

- Certified checks
- Certificates of Deposit (CDs)
- Money orders
- Traveler's checks





# How Savings Accounts Work

- Deposits are the principal
- Institution pays interest on principal
  - Simple interest
  - Compound Interest
    - Pays interest on principal and accumulated interest
    - The sooner you start compounding interest, the more money you earn.

# Truth in Savings Act

- Institutions must disclose information about rates, fees, and terms of accounts



# Savings Institutions Benefits

- Commercial bank: Easy to transfer funds
- Credit union: Usually higher interest rates
- Savings and loan: May pay higher interest
- Mutual savings banks: Profits in dividends

# APY

- The earnings on savings - measured by rate of return
- Annual Percentage Yield



# Rule of 72

- Divide 72 by your interest rate:  
The result is how many years it will take to **DOUBLE** your money.



**The Rule of 72** is another way to make estimates about compound interest quickly. This rule of thumb tells you what it takes to double your money, looking at the rate you earn and the length of time you'll earn that rate. Multiply the number of years by the interest rate. If you get 72, you've got a combination of factors that will exactly double your money.

**Example #1:** You have \$1,000 in savings earning 5 percent APY. How long will it take until you have \$2,000 in your account?

To find the answer, figure out how to get to 72. 72 divided by 5 is 14.4, so it will take 14.4 years to double your money.

**Example #2:** You have \$1,000 now, and you'll need \$2,000 in 20 years. What rate must you earn to double your money?

Again, figure out what it takes to get to 72 using the information you have (the number of years). 72 divided by 20 equals 3.6, so you'll need to earn 3.6 percent APY to reach your goal.

# Savings Account Restrictions

- Service fees?
- Minimum balance to maintain? Penalty?
- Monthly service charges?
- Limit on withdrawals?
- Limit on checks written or amount?

# Online Banking

- Pay bills
- Transfer funds electronically
- Can be safer than checks



# Debit Card



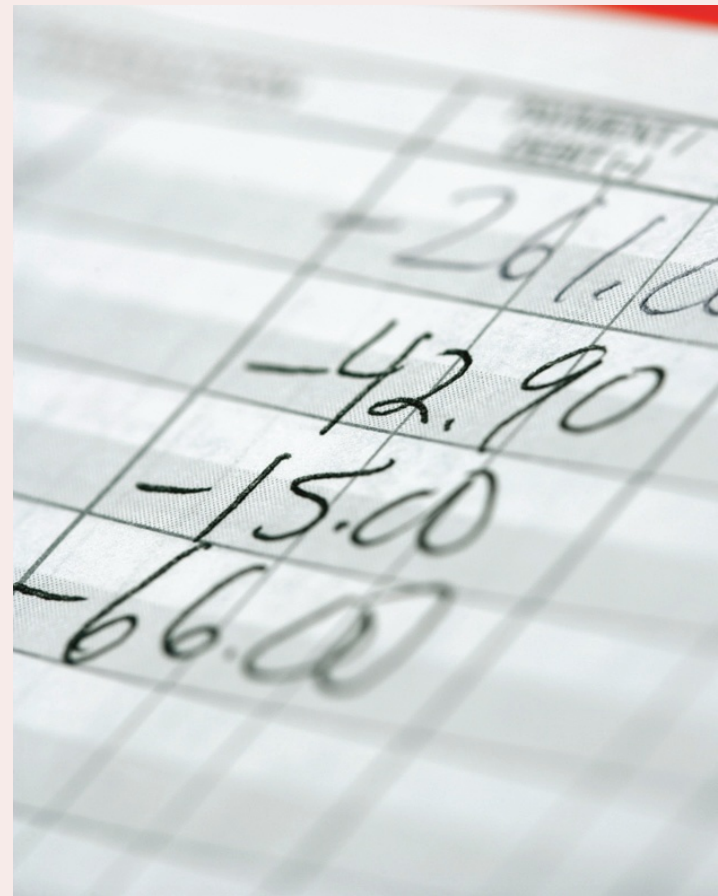
- Subtracts money from your checking account when you make a purchase or use it in an ATM

# Overdraft Protection

- Bank covers a check if you don't have the funds
- Average of \$30 per check

# Keeping Track

- Use a check register
- Balance your checking account



# Unit Review

1. Explain the relationship between consumers, financial institutions, and the economy.
2. Define a financial institution.
3. List some of the factors that might go into choosing a financial institution.
4. Distinguish between the types of financial institutions.
5. Explain what a depository institution does, and give examples of depository institutions. Explain what a non-depository institution is.

# Unit Review - Continued

6. How much does the FDIC insure deposits up to? - \$250,000 per depositor per ownership category. What about the NCUA? – Same as FDIC.
7. What is a share account? An account at a credit union.
8. Discuss the financial services and products often offered by financial institutions.
9. Describe how liquidity works. - A measure of the ability and ease which assets can be converted to cash.
10. What are the advantages and disadvantages to high liquidity?
11. Explain how interest on a savings account works.

# Unit Review - Continued

13. What are some of the restrictions that can affect savings accounts?
14. What law requires financial institutions to disclose information about the terms of its accounts to consumers? – The Gramm-Leach Bliley Act
15. What is a simple way to figure out how to double your money in a savings account or an investment?
16. Compare and contrast the types of checking accounts.

# Unit Review - Continued

17. How does a checking account differ from a savings account?

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