



Banking Today

Banks and their uses

Money Supply

- Money Supply – all the money available in the United States (not just dollars and coins)



Watermark
Engraved Printing

Background Pattern
Quality Paper

Security Inks
Holographic Bands

- Easy money (liquidity).
 - Dollars
 - Coins
 - Checking Accounts (Demand Deposits)
 - Travelers Checks – can be replaced if lost or stolen

What do banks do?



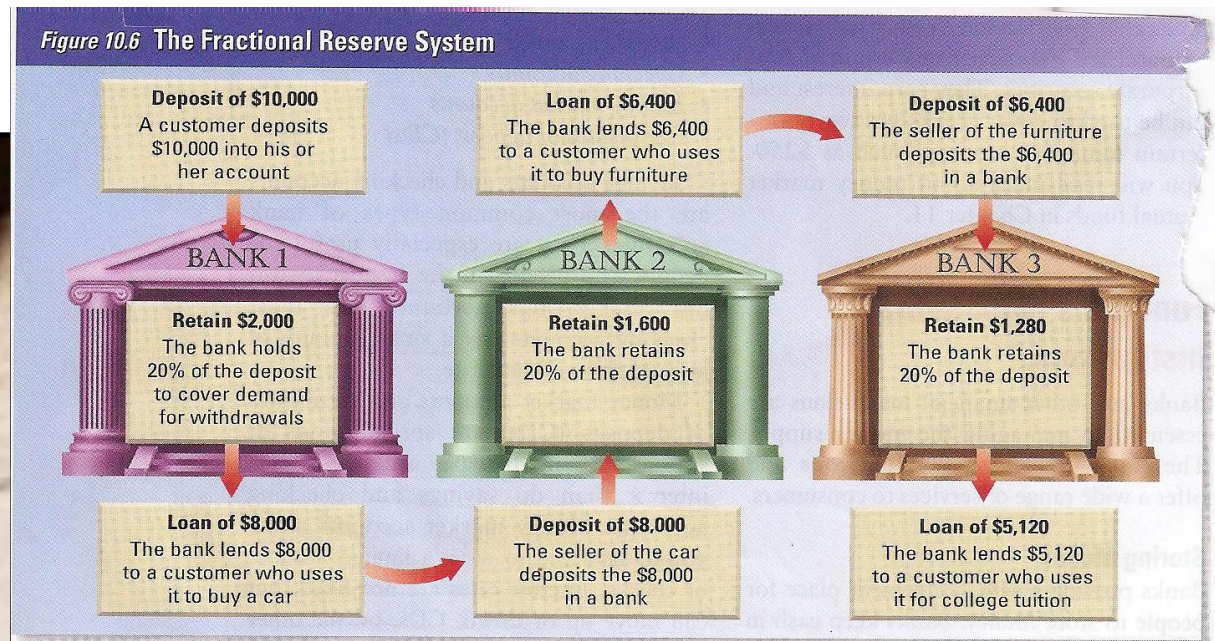
1. Store Money (Hold Money)
2. Provide Bank Accounts (ways to save money)
 - Savings Accounts – **put money in bank to save for later**, interest than checking account
 - Checking Account – **put money in bank and later write check**. Money is taken out when a person cashes check. Safer than carrying around cash. Pays a very small interest rate.
 - Money Market Account – **save for a certain period of time at a higher interest rate**, downfall – interest rates can go higher or lower. Can write checks from this account if needed
 - Certificate of Deposit (CD) – **A savings account that pays a higher interest rate but you have to keep your money in the account for a certain period of time.**

What do Banks do?

- Give Loans -
 - Provide money to people to buy things. People pay the bank back the same amount of money plus interest
 - Loans for houses, college, etc.
 - Loans allow the economy to grow – new businesses created
 - Banks make most of their money from loans
 - Principle = the amount of money borrowed
 - Interest = the price paid for borrowing the money
- Banks worry about default
 - When a person does not pay back their loan

Fractional Reserve System

- Banks know that everyone is not going to ask for all their money at once so they only keep a certain amount of money in the bank
 - We have seen this can be a problem – Run on the Banks



Loans Continued

- Mortgage – A loan that is used to buy real estate (land, building, house, etc.)
 - Usually have a down payment
 - The longer amount of time you agree to pay back the loan, the more interest you will pay
 - Fixed Rate
 - Adjustable Rate

Credit Cards

- Credit Card – Like a loan
 - Bank gives you card and can spend their money
 - You have to pay back the money by a certain date plus interest



Interest

- Simple Interest – The interest rate is always applied to the Principle
 - Principle = 100 Interest is 5 % Each year you get \$5
- Compound Interest – The Interest Rate is applied to the current balance in your account
 - Principal = 100 Interest is 5 % First year you get \$5, next year you get more

How Banks Make a Profit

- The largest source of income for banks is the interest they receive from customers who have taken loans.
- **Interest** is the price paid for the use of borrowed money.

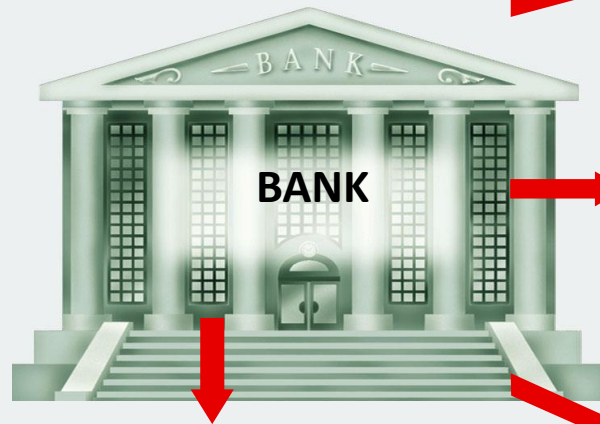
How Banks Make a Profit

Money enters bank

Deposits from customers

Interest from borrowers

Fees for services



Bank retains required reserves

Money leaves bank

Interest and withdrawals to customers

Money loaned to borrowers:

- business loans
- home mortgages
- personal loans

Bank's cost of doing business:

- salaries
- taxes
- other costs

Types of Financial Institutions

- Commercial Banks

- Biggest Banks
- Usually provide services to businesses
- Have the most services of all banks



- Savings and Loan Associations

- Originally to give people money to build houses
- Now have many services
- Also called thrifts



Types of Financial Institutions

- Savings Banks

- A bank whose main goal is to accept savings deposits (deposit = put in).



- Credit Unions

- Lending (loaning) business for a certain group of people
 - Ex: Teacher's Credit Union
- Usually small and give car loans and mortgages
- Members of the bank usually get better interest rates

The logo for Teachers Credit Union. It features the word "TEACHERS" in a large, bold, serif font. Below it, "CREDIT UNION" is written in a smaller, sans-serif font. A stylized green leaf icon is positioned between the "A" and "C" in "TEACHERS". Below the main text, the tagline "Shared Interest." is written in a smaller, italicized font.

Types of Institutions

- Finance Companies
 - Give Installment Loans
 - They give you a certain amount of money and you pay back a certain amount of money each month
 - People who get installment loans often can't get a loan from a bank
 - People have to pay higher interest

GET FINANCED TODAY

**BAD CREDIT
NO CREDIT
NO PROBLEM**



Free Application
All Credit Situations
are OK!
No Obligation
Fast Approval

Electronic Banking

- ATM- Automated Teller Machine
 - Convenient – can use when bank is closed
 - Deposit Money
 - Withdraw (take-out) money
 - Get account information (balance, etc.)



The background of the slide features a close-up of a green coin on the left side, with the number '200' visible at the bottom. To the right, there is a line graph on a grid with two lines: one green and one red. The green line shows a fluctuating upward trend, while the red line shows a fluctuating downward trend.

Debit Cards

- When used money is taken from a person's checking account
- Can be used at an ATM
- Can be used at a store with Electronic Billing

Stored Value Cards

- Like a debit card
- Has a magnetic strip that can be swiped
 - People put money on the card and it can be used to buy things
 - Benefit: People don't have to carry cash
 - Examples: a gift card

