

Financial Institutions

Financial institutions provide consumers with a variety of services. They help them save money through providing them savings accounts, checking accounts, money market accounts and Certificates of Deposit (CDs). They also lend consumers money for things like cars or homes. Financial institutions also issue consumers **credit cards** which are cards entitling their holders to buy goods and services based on the card holder's promise to pay for these goods and services. There are several types of financial institutions in the United States. They include commercial banks, savings and loan associations, mutual savings banks, and credit unions.

Commercial banks are banks that provide financial services to businesses. They accept **deposits**, which are monies put into the bank for safe storing. They also offer checking services and issue loans to customers.

Savings and Loan Associations (S&Ls) also known as "thrifts" were originally created to help the working class save up and borrow enough to buy their own homes. More recently, S&L's provide services similar to commercial banks.

Mutual savings banks (MSB's) handle smaller deposits and financial transactions than commercial banks and S&Ls.

Credit unions are cooperative lending institutions for specific groups of people. They usually cater to employees of a specific business or government agency. They are smaller financial institutions and provide home **mortgages** (specific type of loan for real estate purchases) and car loans. They provide low interest rates to members. They also provide members with checking services.

Finance companies provide consumers with loans that they pay back in **installments** (small payments spread throughout a time period). Consumers take out installment loans to pay for big ticket items such as appliances. Finance companies usually charge higher interest than banks.

Electronic banking has become very popular. Electronic banking services include **Automated Teller Machines (ATMs)**, **debit cards**, **store value cards**, **home banking** and **automated clearing houses**. ATMs are computers that customers can use to deposit and **withdraw** (take out) money. They can also check savings and checking account balances. ATMs function twenty-four hours a day – 7 days a week. They are accessible when the bank is closed, making banking convenient for customers. ATMs are secured by passwords. Each bank customer with ATM privileges chooses a **personal identification number** (pin number) which is a password four to six digits long. When choosing a pin number, choose a random number. Do not choose something significant that someone might guess like your birthday.

Debit cards are linked to a checking account. They can be used to withdraw money from an ATM or used for purchases in retail stores. Stores have a special machine they use to swipe your debit card. The machine transfers the money from your checking account to the store's account. For security purposes, debit cards require customers to enter their pin number when making financial transactions with their card.

Home banking is revolutionizing the way we do banking. It allows people to pay their bills online, check their account balances, transfer money from account to account, and automatically deposit their checks using their computer.

Automated Clearing Houses (ACHs) are located at Federal Reserve Banks (federal banks). They allow customers to write checks electronically right from their account to the creditor's account. These can be used to pay bills like mortgages, rent, etc....

Stored Value Cards are cards that electronically have a cash balance. They can include lunch cards, phone cards, and gift cards. They keep track of the card balance after purchases.

Financial institutions are safe places to keep your money. During the Great Depression however, many banks went out of business and customers lost their savings. Since then the government put in place a safety net called the **Federal Deposit Insurance Corporation (FDIC)** or the **Federal Savings and Loan Insurance Corporation (FSLIC)** for credit unions. These government safety nets insure customer's deposits up to \$100,000 per account. These safety nets restored confidence in the American banking system and have led to the advancement of banking.

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