

# Introduction to Depository Institutions

## “Take Charge of Your Finances” Advanced Level

The world of money management can sometimes feel overwhelming. Luckily, there are many services and tools available to help you manage your money. One of these services is **depository institutions**, which are businesses that provide financial services. Millions of people use the financial services offered by depository institutions on a daily basis to help them manage money.

### Types of Depository Institutions

Commercial banks and credit unions are the most commonly used depository institutions by average consumers. Although each type of depository institution is a little different, they are all often referred to as simply “banks” in our society. Each depository institution is unique. You may find that one type of depository institution or a combination of depository institutions work best to help you manage your money.

**Commercial banks** are for-profit depository institutions that offer numerous financial services. A for-profit business means that all business decisions are made with the ultimate goal of making money. Banks are usually the largest depository institutions and are open to anyone who wants to utilize a depository institution.

**Credit unions** are not-for-profit depository institutions owned by their customers, also known as their members or shareholders. Credit unions have membership qualifications. The members of the credit union must share a common bond, such as the same employer, area that they live, or membership in an organization. Credit unions offer many financial services to their members but usually not as many as a commercial bank offers. Because credit unions operate on a non-profit basis they are often able to pay higher interest rates and charge lower fees than other depository institutions.

Do you use a depository institution? If so, what kind of depository institution is it? If not, which type of depository institution do you feel would work best for you?

In addition to determining what type of depository institution best suits you, you may also want to consider the location of a depository institution. Are there multiple locations or just one? Does the depository institution have locations all across the United States or only in your state or city/town? Do you have transportation to get to that location if it isn't within walking distance? Some depository institutions don't have physical locations and are only available online. Is this workable for you? The location of a depository institution may influence your choice.

## Depository Institution Insurance

One of the most important services a depository institution offers is a safe and secure place to store your money. If you store your money in a piggy bank, wallet, or hidden some place in your home then you may want to consider how safe it is. What would happen if your house were to burn down or be robbed? What if you lost your wallet? If any of these scenarios occurred, your money would be gone. However, if your money is stored in a depository institution it is safe from these elements. In addition to safes and storing data on a secured network, depository institutions also offer you security through insurance. There are two main types:

### Federal Deposit Insurance Corporation

FDIC is a federal government agency which insures depository institutions who have elected for FDIC coverage against loss. The standard insurance amount is \$250,000 per depositor, per insured institution, for each account ownership category.

### National Credit Union Administration

NCUA provides insurance protection for credit unions. The coverage is the same as FDIC; each depositor is insured up to at least \$250,000.

As long as you stay within the coverage limits your money is safe. Before depositing your money into a depository institution account, ask if that depository institution is insured or look for a sign on the wall or website. The majority of depository institutions are insured.

## Services Offered by Depository Institutions

Depository institutions offer a wide variety of financial services to their customers. The services offered and the terms and conditions (such as features offered and fees charged) will vary for every service at every depository institution.

### Savings Tools

Think about how you make purchases. If you have a small amount of cash, then you may be able to easily keep that cash on hand to make the purchases you want. But what if you have a large amount of money? Managing a large amount of cash (and protecting it from risks) can be overwhelming and time consuming. Depository institutions offer services that allow you to use your money without having to handle cash. These are known as **savings tools**, which are secure accounts offered by depository institutions whose main function is to help people manage their money. Savings tools may or may not earn interest. **Interest** is the price paid for using someone else's money. You can either earn interest or be charged interest. If you deposit your money in an interest-earning savings tool account, the amount of money you deposited will automatically increase. The depository institution pays you interest, because by depositing your funds, that depository institution is essentially "borrowing" your money. If you borrow money from the depository institution, say to purchase a car or house, you will pay interest. The amount of interest earned or charged is determined by the **interest rate** which is a percentage rate used to calculate interest. For example, if you deposit \$100 in an account with a 2% interest rate, you will earn \$2 in interest.



When earning interest, you should look for high interest rates. When paying interest, you should look for low interest rates.

Are you currently earning or paying any interest? If so, on what?

The two most common types of savings tools are checking and savings accounts:

### Checking Account

Also known as a share draft account at a credit union, is an account that provides an easy method for transferring money. A checking account allows you to deposit money for safe keeping and you can then use that money at any time by writing checks, using a debit card, and/or withdrawing cash from the account. Checking accounts are very popular among consumers, because they reduce the need to carry large amounts of cash and are very easy to use and manage. Some checking accounts earn interest but most do not.

### Savings Account

Also known as a share account at a credit union, is an account designed to hold money not spent on current consumption (money that you are saving to use in the future). Savings accounts earn interest and are a great way to increase the amount of money you are saving for future use and to reach financial goals.

Do you have a checking or savings account? If so, how do you use it to manage your money? If not, how could you use a checking or savings account to help you manage your money?

Additional services offered by many depository institutions include:

#### Credit

Credit refers to borrowing. Depository institutions may provide types of credit such as loans (house, automobile, education) and credit cards to their customers. If you wish to obtain credit from a depository institution, you will have to complete an application indicating how much money you would like to borrow, what that money will be used for, and any other information requested. Then, the depository institution will determine if they are willing to grant you that credit. If so, you will pay the depository institution back the money borrowed plus interest. Remember to look for a low interest rate when applying for credit.

#### Financial Advice

Depository institutions may also offer information, advice, and assistance regarding a wide range of financial-related topics, including investments and estate planning.

#### Safe-Deposit Box

A safe-deposit box is a secured box at a depository institution that you can use to store valuable personal items. Many people use safe-deposit boxes to store important paperwork such as birth certificates, Social Security cards, and wills.

#### Special Needs Payment Instruments

If you are in need of a secure type of payment, ask your depository institution what type of special payment instruments they provide. Traveler's checks, certified checks, cashier's checks, and money orders are all special payment instruments that have a specific function.

To use any of the services offered by depository institutions, call, visit, email, or search the depository institution's website to determine what steps are needed to use the service you desire. You may have to have an account to use their services. If you are under the age of 18, in most cases, you will need a parent/guardian signature to open an account.

Which depository institution services would be the most important to you?

## Features of Depository Institution Services

The services offered by depository institutions may offer certain features such as online banking, mobile banking, debit cards, ATMs, and contactless payment.

### Online banking

A depository institution may offer online banking, also known as Internet banking, as a feature of their services. Online banking allows customers to complete certain transactions from a secured Internet site by using a username and password from any place in the world that has Internet access. Activities that may be completed with online banking include accessing account information and statements, transferring money, paying bills, and applying for credit. In addition to being able to pay bills online, consumers may also be able to set up a recurring bill payment, meaning bills are set to be paid on a specific date indicated by the consumer. The payment will occur automatically each month without the customer having to write a check or initiate the payment. However, if you use recurring payment it is your responsibility to make sure that your account has enough money in it to cover the amount of the automatic payment.



Many depository institutions have developed applications that allow online banking access from devices such as smartphones, tablets, and other mobile devices. This is a form of online banking known as **mobile banking** which usually offers the same services as online banking.

What is one advantage to online and/or mobile banking?

### Debit cards

A debit card is a plastic card that is electronically connected to the cardholder's depository institution account. Debit cards function in the same manner as a check but are electronic. Debit cards allow customers easy access to use the money in their savings and checking accounts. Debit cards are popular because they are faster and more portable than checks. In most cases, debit cards require using a personal identification number (PIN) or signature to perform transactions. The PIN or signature authorizes the user of the debit card to access the money in the corresponding account.

### Automated teller machines (ATMs)



An ATM is a machine that allows individuals to complete certain transactions from the machine without the need for human assistance. ATMs are accessed via an ATM card (which is usually also the customer's debit card) plus the PIN that accompanies that card. ATMs allow customers to withdraw and deposit money into their account(s), as well as make account transfers and check account balances. The number and location of ATM's varies by depository institution.

### Contactless payment

Contactless payment transactions can be completed with no physical connection between the payment device and the physical point of sale (POS) terminal or store clerk. If a depository institution offers contactless payment options then you will receive a debit card, credit card, or some other type of electronic card that allows you to simply "wave" the card in front of a sensor to make a purchase (sometimes you may have to also enter a PIN for the payment to authorize). This allows for fast payment transactions, but not all merchants have the technology to support contactless payment.

What features of depository institution services would matter to you?

## Fees

Depository institutions are a business who may charge fees for certain services. Fees charged are one of the most important factors to consider when choosing a depository institution. Examples of fees include:

**Overdraft fee** – A fee charged if you withdraw more money from your account than is available. Some depository institutions offer some type of overdraft protection that will help you avoid overdraft fees if you do happen to exceed the balance in your account.

**ATM fees** – Your depository institution may charge you for using an ATM that belongs to another depository institution.

**Minimum balance fees** - Some accounts may require a minimum account balance. If you go below that balance you will be charged a fee. Before opening an account ask if there is a minimum balance amount and determine if you are ok with the minimum balance amount.

There are many other types of fees that a depository institution may charge. Fees charged will vary greatly between depository institutions and within different services offered by the same depository institution. Researching fees charged by a depository institution is a very important part of choosing a depository institution. When opening an account ask for a list of fees. Most fees are charged for items and transactions that can be avoided. Therefore, if you manage your account(s) well, you may be able to avoid paying any fees.

## Choosing a Depository Institution

Now that you know about the many benefits and services a depository institution can offer, you may want to become a customer of a depository institution. With all of the different types, services, features, and fees how do you choose one depository institution over another? The most important factor when choosing a depository institution is to select one that helps you meet your goals. You may find that different depository institutions offer different benefits to you and it is important to understand that you can be a customer of multiple depository institutions. In addition, you may have more than one type of account at the same depository institution. Consider the following factors when choosing a depository institution(s) that helps you reach your financial goals:

- Fees charged
- Type of depository institution
- Location
- Insurance
- Services offered
- Interest rates offered
- Features offered

What are two factors that would be important for you to consider when choosing a depository institution?

Depository institutions are a valuable tool to help you manage your money in a positive manner. Determine what your goals are and choose a depository institution that will help you reach those goals.