Introduction to Depository Institutions

Advanced Level

Millions of people use financial services offered by **depository institutions** on a daily basis to help them manage their money. Commercial banks, credit unions, and savings banks are all examples of depository institutions. Many types of companies offer financial services to consumers. But, depository institutions are special in that they accept deposits from consumers and the safety of those deposits is often guaranteed by the government. The range of valuable services tied to deposit accounts (online banking, checking accounts and debit cards, bill payment services, automatic savings transfers) makes depository institutions an important component to a financial plan.

Types of Depository Institutions

Commercial banks and credit unions are the most commonly used depository institutions. Although both types of institutions offer a range of "banking" services, they are actually quite different in terms of their ownership structure and the types of consumers they serve.

Commercial banks are for-profit depository businesses that offer financial services to both consumers and other businesses. Banks are usually the largest depository institutions and offer the widest variety of services to customers.

Credit unions are depository institutions that offer many banking services. But, unlike banks, they are owned by their customers, who are usually called members. A credit union has membership qualifications that require its members share a common bond such as the same employer, the geographic area in which they live or membership in an organization. Credit unions are non-profit organizations exempt from federal income tax. This feature often allows them to pay higher interest rates on deposits, charge lower interest rates on loans and charge lower fees, compared to banks and other depository institutions.

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

The physical location of a depository institution may influence your choice. Here are some questions to consider when choosing a depository institution that best fits ***your*** financial needs:

- Is the depository institution accessible; does it have multiple locations close to home, work and school?
- Does the depository institution have locations (branches) throughout the United States (something to consider if you travel a lot or plan to move)?
- What type of transportation is required to access a branch if it isn't within walking distance?
- If you are considering a depository institution whose services are offered only online, will that type of access meet your financial needs?

Deposit Insurance

One of the most important services that a depository institution offers is a safe and secure place to deposit your money for future use. Stashing your money away in what you might consider a "safe" location within your home or having large sums of cash in your wallet is financially risky. If lost or stolen your money is most likely gone for good.

However, depository institutions offer secure storage of both cash and transaction data. Most importantly, deposits in many banks and credit unions are protected by insurance provided by two federal government agencies know as the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA).

Federal Deposit Insurance Corporation (FDIC)

The FDIC is a federal government agency that insures depository institutions that 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)

The NCUA provides insurance protection for credit unions. The coverage is the same as with the FDIC; each depositor is insured against loss up to a maximum of $250,000 against loss.

As long as you stay within the coverage limits your money is safe from loss due to theft or failure of the financial institution. Not all depository institutions are covered by the FDIC or NCUA, so you should check for coverage before depositing any money.

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 and fees) will vary for every service at every depository institution.

Transaction and Savings Tools

Think about how you make purchases at the point of sale. 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 services are known as transaction and **savings tools**. They are accounts offered by depository institutions whose main purpose is to help people manage their money.

Transaction and savings tools may or may not earn interest. **Interest** is the price paid for using someone else's money. If you deposit money in an interest-earning savings tool account you will be paid interest during the time the institution holds your funds and uses it for its own purposes. The depository institution is essentially "borrowing" your money. Eventually you'll see your initial deposit grow over time as it accrues interest paid by that institution.

If you want to earn interest on your deposits look for high interest rates. When you borrow money and have to pay interest look for low interest rates.

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

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

Checking Account

A checking account allows you quick access to funds for transactions. You're able to transfer money from one account to another or directly to another person through the use of paper checks, debit cards or withdrawing cash directly from your checking account.

Checking accounts are very popular among consumers because they reduce the need to carry large amounts of cash and are easy to use and manage. Some checking accounts earn interest but most do not.

Checking accounts at credit unions are known as ***share draft*** accounts. This type of account also provides an easy method for accessing your money.

Savings Account

A savings account is the most common type of bank account and may be the first type of account you open at your depository institution. Savings accounts are generally for money that you don't intend to use for daily expenses. Your savings account will earn interest on its balance and be stored in a secure location. To open a savings account, simply go down to your local bank with proper identification and ask to open an account.

A savings account at a credit union is sometimes referred to as a ***share account*** and is required for membership.

Has opening a checking or savings account positively influenced the way you manage your money? If you haven't opened up one at this point in your financial life, can you identify ways a bank account might influence your money management habits in the future?

Additional services offered by many depository institutions include:

Credit

Credit products allow you to borrow money from the financial institution in exchange for your promise to repay those funds in the future. Depository institutions may provide a variety of credit products such as loans for the purchase of a house, auto or education. Many depository institutions also offer credit cards to their customers. When you apply for credit, the financial institution will determine whether you qualify for the loan based on their assessment of the likelihood that you will repay as agreed. The institution will also determine the amount of time you have to repay, and the price of the loan, in the form of the interest rate to be charged on the amount of money you owe. By agreeing to these loan terms you will agree to pay the depository institution back the money borrowed plus interest.

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

Traveler's checks, certified checks, cashier's checks and money orders are all special payment instruments that have a specific function and are available at most depository institutions.

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 be required 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?

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Additional 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 with Internet access. Online banking activities include accessing account information and statements, transferring money between accounts, paying bills and applying for credit. In addition to paying bills online, consumers may also be able to set up a recurring bill payment. The payment will occur automatically on a specific date 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 sufficient funds in it to cover the amount of the automatic payment.

Many depository institutions have developed apps 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.**

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

Debit cards

A debit card is electronically connected to the cardholder's depository institution account. Debit cards allow customers easy access to money in their savings and checking accounts either at the point of sale or through an automated teller machine (ATM). As a payment tool, debit cards function in the same manner as a check, but debit transactions are faster and more portable because they are electronic. Debit cards also allow customers to withdraw cash or electronically access their accounts to transfer funds between accounts or view balances. 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 human assistance. ATMs are accessed via an ATM card (which is usually also the customers 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 view 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?

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Fees

Depository institutions often charge fees for certain services. Fee levels are important to consider when choosing a depository institution for your accounts. Examples of fees include:

Overdraft fee – A fee charged if you withdraw more money from your account than is available. Some depository institutions offer overdraft protection that helps you avoid overdraft fees if you exceed your account balance.

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

Minimum balance fees - Some accounts 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.

Depository institutions often charge many other types of fees. Fees can vary greatly across depository institutions. Researching potential fees that you may face as an account holder is an important part of choosing a depository institution. Ask for a list of fees when opening an account. Most fees charged for items and transactions can be avoided if you manage your account(s) well.

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. The most important factor when choosing a depository institution is to select one that helps you meet your financial goals. You may have more than one type of account with a single depository institution or open accounts with multiple institutions.

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 of deposits
- Products and services offered
- Interest rates on loans and deposits
- Features offered

What two factors are most relevant to you when choosing your depository institution?

Depository institutions are a valuable tool to help you manage your money in a positive manner.
Choose a depository institution that will help you reach your financial goals.

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