Family Economics & Financial Education

Depository Institutions

Information on Depository Institutions & Services

Introduction

Consumers have the option to use a depository institution to manage their finances. However, approximately 10 million households in America choose to not use depository institutions.[1] Consumers have indicated that primary reasons for making this choice include banking fees being too high, minimum balances required are too high, and they want to keep their financial information private. If consumers decide to use a depository institution, they will benefit the most by conducting research first.[1]

Depository Institutions

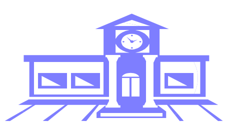
An important element in money management is choosing the correct depository institution to meet an individual's needs. **Depository institutions** are businesses which offer multiple services in banking and finance. These institutions include commercial banks, savings and loans, and credit unions. The services customers receive may include savings and checking accounts, loans, investments, and financial counseling. Depository institutions are regulated by state and federal agencies. There are many different depository institutions available to consumers. Each offers a variety of services to best meet an individual's needs.

Federal Reserve Bank

The **Federal Reserve Bank** is a part of the central banking system in the United States. A goal of each Federal Reserve Bank is to control the amount of money and credit available to the public. The Federal Reserve Banks occupy twelve regional locations in major cities throughout the United States. They provide essential services to depository institutions including collecting checks, electronically transferring funds, and distributing and receiving cash and coin. Additionally, the Federal Reserve Banks act as banks to the federal government by providing depository services to the United States Department of Treasury.[2]

Commercial banks

Commercial banks are often called full service institutions because they offer a wide variety of services, including checking and savings accounts, loans, credit cards, investments, and financial counseling. They operate under state, and federal laws and usually are the largest depository institutions. Depository institutions are open to all individuals within a community.



Credit unions

Credit unions are non-profit cooperative institutions that often charge lower fees and loan rates than other depository institutions. They are owned by their members. Government regulatory agencies require credit union members to possess a common bond such as people who live, work, or attend school in a well defined geographical area. Many credit unions offer financial counseling, credit cards, and mortgages. They often provide a higher interest rate on savings and checking accounts than commercial banks. Credit union accounts offer unique services such as share drafts (checking accounts), and share certificate accounts (saving accounts).

Savings and Loan Associations (S&Ls)

Savings and loan associations (S&Ls) focus on providing loans and mortgages to customers as well as offering both savings accounts and checking accounts. Compared to commercial banks, the interest rates are often higher.

Risk of Loss

A feature of depository institutions that consumers should be aware of is insurance. If the institution is insured, it will be posted in view for the customer to see. Depository institutions should be insured to protect consumers against loss. The **risk of loss** is a term that is used to determine which party should be responsible for damage occurring to products after a service transaction has been completed but prior to delivery. Depository institutions are insured by one of the following:

- ★ **Federal Deposit Insurance Corporation** (FDIC) is a federal government agency which insures federally chartered commercial banks and savings and loan associations against loss. Each depositor is insured up to at least $100,000 for money deposited in a regular account and up to $250,000 for qualified retirement deposits. Under the Federal Deposit Insurance Act of 2005, the former commercial bank insurance and savings and loan association insurance programs were merged under one program called the Deposit Insurance Fund. [3]
- ★ **National Credit Union Administration** (NCUA) provides insurance protection for credit unions. Each depositor is insured up to at least $100,000 on regular deposit accounts and up to $250,000 for retirement savings plans that qualify.[4]

Interest

For the consumer, depository institutions differ from one another about services offered and their interest rates. **Interest** is the amount of money that is either gained or lost when accessing services offered by a depository institution. There are two types of interest. **Interest bearing accounts** charge for money that a consumer borrows from a depository institution. **Interest earning accounts** is money earned on a savings account or other investment instrument. The **interest rate** is the percentage used annually to calculate the total interest either gained or lost from an account supplied by a depository institution.

Common Services

- ★ **Checking account (share draft account at a credit union)**—Paper checks or debit cards that are used to withdraw money deposited into the account to pay for purchases of goods and services. They may be interest or non-interest bearing.
- ★ **Savings account (share account at a credit union)**—An account in which money normally is deposited to earn interest. They are interest bearing.

Interest Earning Accounts

- ★ **Stock**—Ownership, represented by shares in a corporation.
- ★ **Certificate of deposit (share certificate account at a credit union)**—An insured interest-earning savings instrument with restricted access to the funds.
- ★ **Money market account**—An account which offers higher interest rates than a savings account and may offer limited check writing privileges.
- ★ **Bond**—A debt instrument issued by an organization designed as an investment for the purchaser to earn interest.

Interest Bearing Accounts

- ★ **Credit Card**—A card used to make a purchase now, with repayment made later without interest (if the balance is paid before the grace period ends) or requiring the payment of interest (if the balance is paid after the grace period ends).
- ★ **Loan**—Money borrowed and paid back with interest. Loans can be a mortgage for a person to by property such as a home or personal for items such as a vehicle or school.

Additional Services Offered

- ★ **Safe-Deposit Box**—A secured box in a depository institution to be used for valuable and important personal items.
- ★ **Financial Counseling**–Information and advice is given to customers to help them make financial decisions.

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