

# What Are Financial Institutions?

**F**inancial institutions help people manage, protect, and increase their money. Individuals may use different types of financial institutions in different stages in their lives. While there are several different sorts of financial institutions to study, we will examine four:

- Commercial banks
- Savings and loan associations (S & Ls)
- Credit unions
- Brokerage firms

In the past, each type of financial institution offered specific and limited services. Banks took deposits in the form of checking accounts, savings accounts, and certificates of

deposit and they granted credit to qualified individuals. Savings and loans offered savings accounts and home mortgages. Credit unions were a type of member-owned cooperative. Credit unions made low-interest loans available to their members. Brokerage firms were businesses that bought and sold stocks on an exchange, and offered other financial services.

Deregulation in the financial industry has blurred the lines between these institutions and increased competition among them. Deregulation means that laws were enacted to remove some of the restrictions (or regulations) that affected the industry. For example, savings and loans can offer many types of loans in addition to home mortgages as well as checking accounts. Many commercial banks can now sell stock.

## Overview of Financial Services

### DEPOSIT SERVICES

Types	Characteristics
Checking accounts	The convenience and safety of paying by check instead of cash.
Savings accounts and certificates of deposit (CDs)	Safe places to let your money grow.
Automated teller machines (ATMs)	Easy access to your money from multiple locations, 24 hours a day.
Direct deposits and automatic withdrawals	The ability to deposit money or pay bills automatically.
Deposit insurance	The guarantee that your deposits are insured by the federal government for up to \$100,000 per depositor. Agencies which provide this insurance are FDIC (banks and S&Ls) or NCUA (credit unions).

## CREDIT SERVICES

Types	Characteristics
Credit cards	The ability to access credit conveniently up to the amount of your approved credit limit.
Installment loans and credit lines	The opportunity to borrow for major items such as a new or used automobile, education, home improvement, and other personal or household items.
Mortgages	The opportunity to borrow for a home purchase.
Home equity loans	The ability to borrow against the equity in your home.
Student loans	The ability to borrow at below-market rates to pay for a college education.
Small business loans	The ability to borrow for the financial needs of a small business.

## INVESTMENT SERVICES

Types	Characteristics
Retirement accounts (IRAs, SEPs, KEOGHs)	The ability to save money toward retirement on a tax-deferred basis.
Stocks, bonds, and mutual funds	The ability to invest in corporations and governments in order to meet your financial needs for the future.



Questions (2-5 continued on next page)

1. Name four common financial institutions.

## Questions (continued)

- 2. How are financial institutions changing?**
- 3. What are some of the common deposit services?**
- 4. What are some of the common credit services?**
- 5. What are some common investment services?**

