Financial Institutions

Part I: Overview

A financial institution is a type of business that provides services to help people manage their money. The financial industry in the US today is complex and includes many kinds of institutions including banks, credit unions, savings and loan associations (S & L´s) and, increasingly financial technology companies, that provide a wide variety of services for the general public. Over 90 percent of the people in the US have a checking or savings account in either in a bank or a credit union. A bank is a for-profit company chartered (licensed) by either the state where it is headquartered or by the federal government. Credit unions are similar to banks, except they are nonprofit organizations owned by the members who use their services. A savings and loan (S & L) specializes in savings accounts and home mortgage and other loans, with special limitations that banks do not have.

Other financial institutions serve only certain consumers with specialized offerings. For example, a brokerage company buys and sells stocks for investors. A mortgage company makes loans for the purchase of a house or other real estate. Payday lenders make short-term loans to customers, using the customer's future paycheck as collateral; while check cashing companies cash checks for a fee.

Below are descriptions of some of the services provided by four types of financial institutions.

1. Check-Cashing Store

A check-cashing store allows customers to cash checks, send wire transfers (electronic transfers of money from one financial institution to another), and purchase money orders (pre-paid paper documents, other than checks, used for making payments). An identification card is the only requirement to obtain these services; there is usually no credit background information required. Fees for services are generally higher than those charged by a bank or credit union.

2. Payday Loan Store

Payday loan stores offer customers loans for small amounts of money that must be repaid by the borrower's next payday. The borrower can obtain the loan immediately, and there is usually no credit background information required. However, borrowers must be 18, need proof of employment, and have a checking account. In addition, the interest rate charged on the loan may be 300-400%, far greater than that charged by banks and credit unions. If a borrower does not have enough money to pay off loan by the next payday, they may need to take out another loan.

3. Bank

Banks offer customers checking & savings accounts that are insured by the federal government; longer-term loans; home mortgages; credit cards; and retirement and investment accounts. The interest rate charged on loans is lower than that charged by payday lenders, and customers can develop a financial history by records of their transactions at the bank. Usually, banks will only cash checks for customers who have an account, and banks may not offer small or short-term loans. There are credit and background checks for loans, so the money may not be available immediately.

4. Credit Union

Unlike banks, credit unions are non-for-profit financial institutions offered to their member-owners who meet certain requirements. Credit unions offer most of the same services as banks, including checking and savings accounts that are insured by the federal government; longer-term loans; home mortgages; credit cards; and retirement and investment accounts. The interest rate charged on loans is also lower than payday lenders, and customers can develop a financial history by records of their transactions at the credit union. Usually, credit unions will only cash checks for customers who have an account and may not offer small or short-term loans. There are credit checks and other requirements for loans, so the money may not be available immediately.

Part II: Which Institution Would You Choose?

Read the question that your team has been assigned. Decide which of the four financial institutions described in Part I (check-cashing store, payday loan company, bank, or credit union) would best provide the service you need. Once you have made your decision, stand by the name of this financial institution. Be able to explain why you chose this institution.

After your teacher tells you to return to your seat, record the correct answers to each of the Financial Service Questions in the second column of the table below.

Financial Service Question	Financial Institution
a. Where can I go to cash a check if I don't have a checking account?	
b. Where can I go to develop a financial history without being a member-owner of a financial institution?	
c. Where might I have to pay interest rates of over 300 percent for a short-term loan?	
d. Where can I go to develop a financial history and be a member-owner of the financial institution?	
e. Where can I go to cash a check without needing a credit background check?	
f. Where can I safely save my money, knowing that it is insured by the federal government if the financial institution fails?	
g. Where can I get a long-term home or auto loan?	
h. Where can I get a loan immediately?	
i. Where would I pay the highest fees to purchase a money order?	

Part III: Questions

a. Which of these four financial institutions do you think would be the most useful to you?

b. Explain your reasoning.