Financial Services

Financial institutions provide many services to consumers. Deposit services are designed to keep your money safe and allow payments and withdrawals when needed. Credit services are those that provide loans to borrowers. Investment services help people meet their financial needs for the future.

Deciding which financial service to use can be challenging because the quality of service, the types of services, and the fees charged for services can vary from one provider to another. Being informed will help you find the types of services you want and save money getting them. The information below lists some of the advantages and disadvantages of several types of finance services.

Part I. Deposit Services – Checking and Savings Accounts

Deposit Services	Characteristics
Certificate of Deposit (CD)	This is insured by the federal government. It requires you to leave your money in the account for a set amount of time (usually from 3 months to 5 years), during which time you receive a fixed rate of interest that is usually higher than savings accounts. They may require a minimum deposit, and if you withdraw your money before the end of the agreed-upon time you will lose interest earnings.
Checking Account	This type of account is convenient and insured by the federal government. You can make transactions using checks, debit cards, or online banking instead of cash, and records of transactions are provided. There may be a fee for checks; the account pays low or no interest; and it may require a minimum balance to avoid a monthly maintenance fee.
Deposit Insurance	The federal government reimburses depositors up to $250,000 if the financial institution fails; agencies providing this insurance are the Federal Deposit Insurance Corporation (FDIC) for banks and S&Ls or the National Credit Union Administration (NCUA) for credit unions.
Money Market Deposit Account	This is insured by the federal government. It earns interest rates higher than regular savings accounts but may require a larger minimum deposit and monthly balance. Interest rates vary on the account balance, and users are allowed a limited number of withdrawals without a service charge.
Savings Account	This is insured by the federal government. Interest is earned on deposits, but interest rates vary depending on the account balance. Funds may be withdrawn via withdrawal slips and ATMs but the number of withdrawals per month is limited; interest rates earned are typically lower than the rate of inflation.

Part II. Deposit Services - Withdrawal, Deposit, Payment & Transfer Options

Deposit Services	Characteristics
Automated Teller Machines (ATMs)	This electronic banking outlet allows customers to complete basic transactions without the aid of a bank teller; anyone with a credit card or debit card can access their account to make deposits & withdrawals, transfer money between accounts, and check account balances. Access to money is available from multiple locations, 24 hours a day, but the user may be charged fees, which vary depending on the type of machine and the situation.
Automatic Deposit and Payment	Users can direct their employer to deposit their paychecks directly into their bank account or transfer money directly from their account to pay bills to businesses on a certain date each month. This avoids having to cash or write checks and pay postage to send payments, and bills can be paid on time. The user needs to monitor the account for accuracy and make there is enough money in the account before spending it.
Debit Card	This plastic card is used to deduct a purchase amount directly from a checking account. It is safer and more convenient than carrying cash; the user is not responsible for all purchases made with a stolen card, provided the theft is promptly reported to the financial institution; and the user can only spend what they have in their account (unless they have overdraft protection, which charges fees for exceeding your balance). The card can also be used at ATMs to make deposits, withdrawals, and transfers and to the check account balances, but the user may be charged fees.
Money Order	This is a paper document used for making payments without having a checking account, issued only after a buyer pays for it with cash or other funds; widely available; and fees vary by location and by the amount.
Online Banking	This allows customers to use their phone, tablet, or home computer to make financial transactions on a secure web site operated by their financial institution. They may transfer money between accounts and make a deposit or pay bills 24 hours a day. Users need to monitor their account, so they have enough money to pay their bills.
Overdraft Protection	This feature provides an automatic loan from the financial institution to cover an overdraft, which happens when a withdrawal is greater than the amount of money in a checking account. The user must pay a fee.

Deposit Services	Characteristics
Person-to-Person Account (P2P)	These are payments sent directly to another person via a mobile device or any home computer with access to the internet; the account is linked to one or more of the user's bank accounts. Users must pay a fee and monitor the account to make sure they have enough money in the account to make the payment.
Pre-paid Debit Card	This is a plastic card that can be "loaded" with cash, and users can add more to the card when they run out. They are not a credit card, so users can't run up debt on them, but the user pays activation fees, reload charges, and ATM fees that vary widely.
Wire Transfer	This is an electronic movement of money from one financial institution to another. It allows people to quickly and safely transfer money around the world, but the user will pay a fee.

Part III. Credit Services

Credit Services	Characteristics
Credit Card	This type of loan allows the cardholder to "buy now and pay later" up to an approved credit limit. The user is not responsible for all purchases made with stolen card, provided the theft is promptly reported to the financial institution. The user must pay fees for late payments; interest is charged on any unpaid balance each month; and there are fees for charging more than your credit limit.
Installment Loan & Line of Credit	These types of loans provide opportunities to borrow money for major items such as a new or used automobile, home improvement, and other personal or household items. Interest rates vary and add to the cost of the purchases.
Mortgage	This type of loan provides opportunities to borrow for the purchase of a home, or business property. Interest rates vary and add to the cost of the purchase.
Student Loan	This type of loan provides opportunities to borrow money to pay for a college education (often at below-market rates). Interest rates vary and add to the cost of your education.
Payday Loan	This type of loan is easy to obtain, even for someone with bad credit, but usually the loan must be paid back within two weeks. Borrowers need proof of employment, a checking account, and be 18 years old. If the borrower does not have enough money to pay off the loan by the next pay day, they may need another loan. The annual interest rate may be 300-400%.

Part IV. Investment Services

Investment Services	Characteristics
Individual Retirement Account (IRA)	This type of account provides a way for people to save a certain amount of money each year for their non-working years at a lower tax rate. The holder may pay penalties for early withdrawal of funds.
Stock & Bond Accounts	This type of account provides a way for people to buy ownership of a corporation (a stock) or lend money to corporations and governments (bonds) to make money for future financial wants. These accounts usually offer a higher return than savings accounts and CDs, but also involve varying amounts of risk and are not insured.

Part V: Questions

a. What are three types of financial institutions that would offer these types of financial services?

b. What services do payday lenders and check-cashing firms provide that are NOT provided by banks and credit unions?

c. What are ways to get your money out of a bank?

d. How might you pay for goods and services without using cash?