

SSEPF2

Explain that banks and other financial institutions are businesses that channel funds from savers to investors.

# Comparing services offered by different financial institutions

- ▶ There are many types of financial institutions and they offer a variety of services.
- ▶ Potential customers must compare services to determine which option fits their needs.
- ▶ The financial institutions detailed in this course include the following:
  - ▶ Banks Credit Union
  - ▶ Payday Loan Company
  - ▶ Title Pawn Lender

# Bank

- ▶ For most customers, banks provide a safe means to store earnings.
- ▶ Typically, banks also offer direct deposit (where a person's paycheck goes directly into his or her account)
- ▶ Check-writing services
- ▶ Debit and credit cards
- ▶ Loans of all sorts (personal, home equity, business), and a host of other services.

# Credit Union

- ▶ Credit unions provide services similar to a bank; the main difference is that a credit union only provides these services to its member.
- ▶ Members own and control the institution.
- ▶ Credit unions often offer higher interest rates on deposits and lower interest rates on loans than banks.

# Payday Loan Company

- ▶ Suppose you need \$50 on Wednesday but won't get paid by your job until Friday.
- ▶ To solve this temporary problem, a payday loan company will give out small loans in return for a portion of the upcoming paycheck.
- ▶ This means the person will get \$50 on Wednesday, but come Friday, \$55 of his or her paycheck will go to the payday loan company.
- ▶ Payday loan companies generally charge much higher interest on loans than other institution.
- ▶ **NOT A GOOD WAY TO BORROW MONEY!!**

# Title Pawn Lender

- ▶ Title pawn lenders provide short-term loans to individuals facing a gap between their income and expenses.
- ▶ Usually, those accessing loans through title pawn lenders lack access to other types of short-term loans like credit cards.
- ▶ Title pawn lenders make loans based on an individual's collateral.
- ▶ Collateral is an item of value one owns like a car.
- ▶ Lenders can sell the collateral to cover the value of an outstanding loan if the borrower cannot repay.
- ▶ Like payday loans, the fees associated with title pawn loans are usually much higher than those a bank would charge.
- ▶ In the case of title pawn loans, the inability to repay the loan could result in the loss of the vehicle put up as collateral.