

Understanding Banks



What is a bank?

A bank is a business that accepts and holds money for people. Banks pay interest in return for holding money. Banks make money by loaning money out to other people and businesses at a higher rate of interest.

Why are banks important?

Banks are very important to the economy. They help money flow and business to occur. On one hand, banks provide the service of keeping people's savings safe. On the other hand, they use that money to help people buy houses, cars, and start businesses. Banks are an essential part of the modern economy.

Deposits

One of the main functions of a bank is to accept and hold deposits. Deposits are money that people put into a bank. There are two main types of accounts that people have.

- 1) **Checking Account** - A checking account is an account where people can get easy access to their money. They can use their money in the checking account by writing checks or using a debit card. There are often fees associated with checking accounts and possible minimum balance requirements.
- 2) **Savings Account** - A savings account is mostly for savings. These accounts have less services and access than checking accounts, but typically offer higher interest and fewer fees.

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Transactions

Getting money in and out of your bank account is called a **transaction**. There are a number of ways to put money in or take money out. The most obvious way is to go to the bank physically and get your money or give them money. Some other ways include:

Check - One of the oldest ways to use money in a checking account is by writing a check. Once the check is written out for a certain value and signed, the person or business who it is written to can go to their bank and get the money.

ATM - ATM stands for Automated Teller Machine. Banks often offer a card that you can use at ATMs which may be located in different places like a grocery store or a gas station. With this card and a password, the ATM will give you cash and deduct it from your bank account.

Debit Card - A debit card is a card you can use to buy things directly. Debit cards work similar to credit cards, but the money comes directly out of your bank account.

Electronic Transactions - Money can even be moved in and out of a bank account electronically. Many people get their paychecks sent directly to their bank account using direct deposit. The money is sent electronically from their employer's bank right into their checking account.

What do banks do with all of the money they get? They loan it out to other people and businesses. They make money by charging a higher rate of interest on loans than they pay for deposits. Banks provide loans for people to buy cars, houses (a home loan is called a mortgage), and to start businesses.

What if the bank goes out of business?

You might think your money is completely safe, but what if the bank is robbed or goes out of business? Today, this isn't too much of a problem. Most bank deposits (up to a certain amount) are protected by the U.S. government through the Federal Deposit Insurance Corporation (which is usually just called the FDIC).

Interesting Facts About How Banks Work

- *The largest three banks in the United States by total assets in 2019 were 1) JPMorgan Chase, 2) Bank of America, and 3) Citigroup.*
- *The word "bank" comes from the Italian word "banco" which means bench or counter.*
- *Modern banking began in the early [Renaissance in Italy](#) in the 1300s. The oldest bank in existence is headquartered in Siena, Italy and has been in business since 1472.*