EST. 1899
United for Literacy
Littératie Ensemble

NAME: ____________________

Bringing Home the Banking

Banks and Credit Unions: The Basics

Write the facts in the arrows as you discover them.

Banks

What is fractional reserve banking?

What is CIDC insurance, and why is it important for the stability of the banking system?

Banks and Credit Unions: The Basics

Write the facts in the arrows as you discover them.

Credit Unions

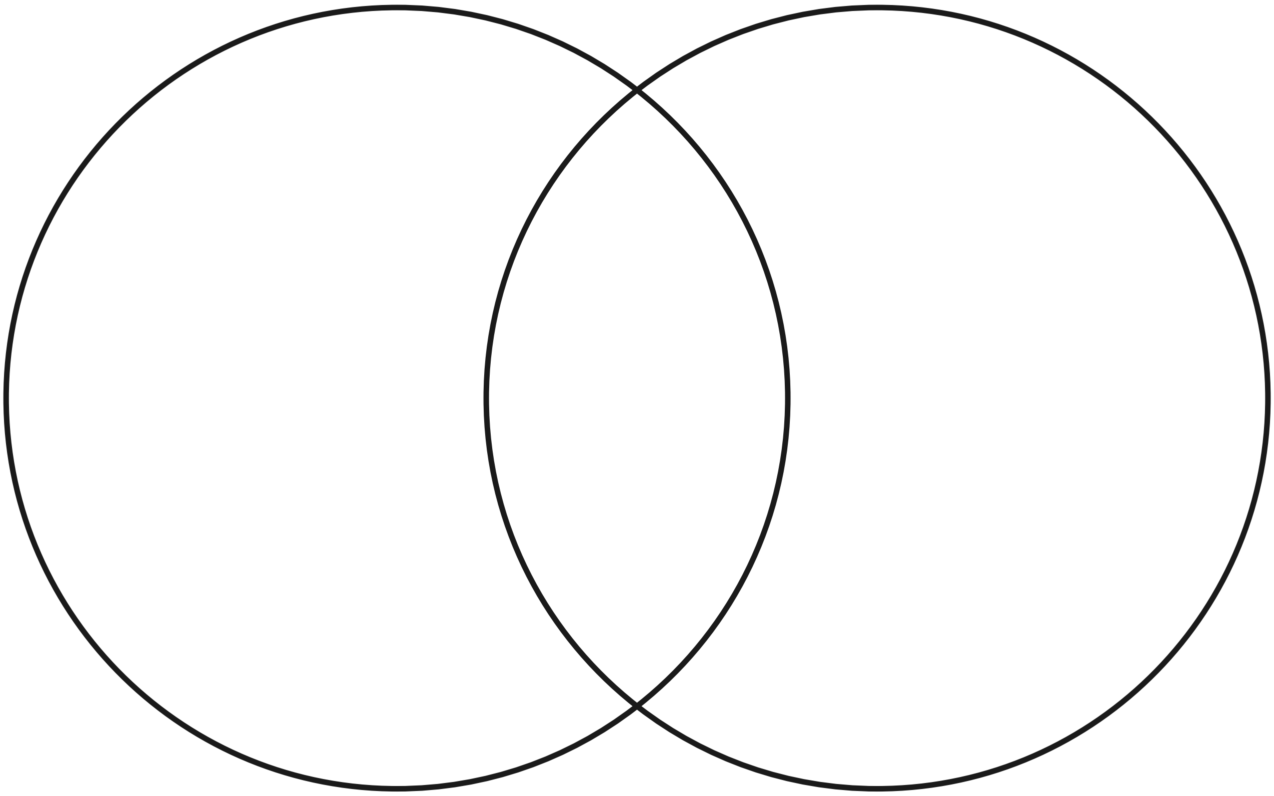
How are credit unions different from traditional banks?

What does it mean when we say that credit unions are not-for-profit organizations?

Banks vs. Credit Unions Death Match

VS

Banks **Credit Unions**



Knowing what you know about banks and credit unions, would you rather keep your money in a bank or a credit union? Explain your reasoning.

Pros and Cons of Payday Loans

Watch the videos on payday loans and answer the following questions.

What is a payday loan?

What are the pros?

What are the cons?

Do you think taking out a payday loan is a good idea? Why or why not?

Why do you think payday loans focus on people with lower credit rating or lower income? What can be done to address this social justice issue?

Role Play!

With a partner, you are going to play the role of either the lender or the borrower. At random, you are going to pick one scenario.

Choose your scenario! Write your scenario in the box below.

What is your lender scenario?

What is your borrower scenario?

What are you looking for in your borrower?

What information do you need to give the lender?

Would you lend to this borrower? Why or why not?

Would you borrow from this lender? Why or why not?

Time to reflect! Write your assessment in the box below.

Would you lend to the person you just interviewed? Why or why not?

Do you want to borrow from the person you just talked to? If not, what are your choices?

EST. 1899
United for Literacy
Littératie Ensemble

(Suggested Answers)

Banks and Credit Unions: The Basics

Write the facts in the arrows as you discover them.

Banks

Receive and hold deposits from the public (the public loans the bank money).

In order to prevent bank collapse, banks use CIDC insurance to protect customer deposits.

Holds some of the money in the form of reserves, in case customers want their money back.

Banks charge more for the loan than they pay out in interest.

The bank lends out the rest of the money to customers.

What is fractional reserve banking?

Fractional reserve banking is a system in which only a fraction of bank deposits are required to be available for withdrawal. Banks only need to keep a specific amount of cash on hand and can create loans from the money you deposit. Fractional reserves work to expand the economy by freeing capital for lending. Today, most economies' financial systems use fractional reserve banking.
(Source: Investopedia)

What is CIDC insurance, and why is it important for the stability of the banking system?

- Provides insurance for depositors' money
- Allows banks to carry very little reserves
- When depositors have peace of mind, they don't make withdrawal runs at the banks. When a lot of people withdraw their cash from banks, it causes banks to go bankrupt.

(Suggested Answers)
Banks and Credit Unions: The Basics

Write the facts in the arrows as you discover them.

Receive and hold deposits from the public (the public loans the bank money).

Are insured up to 100%, although it is not CIDC insured.

Credit Unions

Credit unions are Full Reserve.

Banks charge more for the loan than they pay out in interest. The earnings can be paid out to members as dividends or higher rates.

Credit unions lends out the rest of the money to customers.

How are credit unions different from traditional banks?

Credit unions are full reserve.

Credit unions are owned by their depositing members.

What does it mean when we say that credit unions are not-for-profit organizations?

- Instead of pocketing the interests charged on loans, their earnings are paid out as dividends.

(Suggested Answers)
Banks vs Credit Unions Death Match

VS

Banks

Credit Unions

Banks:

- Fractional reserve banking
- Generally more services
- Many branches around the country
- CIDC insurance
- Owned by shareholders

Both:

- Take deposits
- Makes loans
- CIDC insurance

Credit Unions:

- Mainly full reserve banking
- Most banking services, but not all
- Not as widespread as banks
- Sometimes 100% covered deposits
- Owned by depositors
- Often higher rates

Knowing what you know about banks and credit unions, would you rather keep your money in a bank or a credit union? Explain your reasoning.

I would rather keep my money in a bank. There are many choices of bank branches near my home.

I would rather keep my money in a credit union. Where I live we don't have banks, we mostly have credit unions.

Pros and Cons of Payday Loans

Watch the videos on payday loans and answer the following questions.

What is a payday loan?

A payday loan company makes short-term loans at high rates of interest. They forego doing credit checks on the borrowers, but charges high interest rates to compensate for the possibility of default.

What are the pros?

- Quick loans
- No credit checks
- Anyone can borrow money, even if they have low credit rating
- Can be a lifeline for those who cannot access bank loans

What are the cons?

- Exorbitant interest charges, way higher than credit cards
- Easy to enter into a debt spiral
- Quick money now, but borrowers pay so much more in the long term
- Often offered to vulnerable populations who may already be struggling financially.

Do you think taking out a payday loan is a good idea? Why or why not?

No. It is always better to practice good financial management such as budgeting and saving. Therefore, there will be some money for emergencies or unexpected life changes. It is also wise to start building a good credit history by paying bills on time, so that it will be easier to borrow from a bank when necessary.

Why do you think payday loans focus on people with lower credit rating or lower income? What can be done to address this social justice issue?

Payday loans take advantage of the situation where banks are often reluctant to lend money to those with lower credit rating or lower income.

One way is more government regulations to protect consumers and regulate the activities of these payday loan companies. It can be a cap on the interest rates charged or certain warnings or disclaimers posted on the storefront (like the warning label on a cigarette box). The government can also provide incentives for banks to loan money to the people they define as "risky borrowers".