CHAPTER 1

The Business of Banking

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climbing the ladder

From Human Resource Assistant to Human Resource Specialist

Leya, a banking human resources specialist, finished giving a brief welcoming speech to a group of administrative assistants recently hired. Their eager faces and attentive manner prompted her to reflect fondly on the beginning of her career.

PHOTODISC

Leya began her banking career as a human resources administrative assistant. This entry level position provided Leya the opportunity to demonstrate her project management skills. By effectively processing job applications, co-coordinating new employee orientation, administrating employee training schedules, and handling travel schedules and expense reports for managers, she had proven herself as a reliable employee.

Leya's experience with new employees helped her earn an entry level corporate recruiter position. Conducting reference checks, overseeing background investigations, and arranging pre-employment drug screening were among her routine duties. Leya also enjoyed publicizing job postings, following up on employee referrals, representing her bank at career fairs, and traveling to colleges for campus recruitment.

As Leya had a knack for recognizing talent and sending viable candidates forward for additional interviews, she was tapped for a position as a corporate recruiter. To ensure she carried out her duties effectively, and in compliance with the law, Leya obtained training in employment law as well as wage and hour regulations. She also received training regarding how to avoid discrimination in the hiring process.

Her duties as a corporate recruiter varied. She updated and maintained her bank's Open Requisition Report that contained job postings for all open positions. Leya managed the bank's New Hire Orientation Program. She also participated in final hiring interviews for management level employees. Developing employment agreements was another part of her job.

As a corporate recruiter, Leya conducted exit interviews for employees. She developed a continuous improvement program which incorporated comments of exiting employees to develop strategies for reducing turnover.

With the breadth of her prior experience to support her, Leya applied for and obtained her current position as a human resources specialist. Leya enjoyed her current duties, which included staying current on banking salary trends to ensure her company offered competitive salaries, developing best practices for employee career development, and facilitating smooth transitions of employees from acquired banks into her bank's organization.

Upper Rungs to Consider

Leya found her current position challenging and gratifying. In order to prepare for future job opportunities, she planned to investigate the job responsibilities for a human resources manager and for a corporate training manager.

Preparing for the Climb

Career manuals often suggest taking on pieces of jobs that you would like to have while you are still in your current role. Are there responsibilities or projects you could ask for, in your current job, that would give you experience in a job you would like to have?

1.1 Introduction to Banking

goals

- Define the business of banking.
- Identify trends in modern banking.

terms

- medium of exchange
- financial intermediary
- commercial bank
- retail bank
- central banks

Banking Scene

Edouard Ramirez has taken his first full-time job working as a summer lifeguard at a local pool. After receiving his first paycheck, Edouard has decisions to make about how to handle that money. Along with choices about budgeting and spending, Edouard must decide what to do with his check, such as how to cash it, where to put his money, how to gain access to it, how to use it effectively, and how to take advantage of the range of services available to modern consumers. Writing checks, using ATMs, learning about debit and credit cards, and investigating forms of saving and investment are all things Edouard wants to consider. How can he get this information?

What Is a Bank?

When you think of a bank, what image comes to mind? Do you see a nearby building where people deposit their paychecks? Maybe you visualize the automated teller machine (ATM) where people use a card to get cash fast, or you recall the bank statements that many people still get in the mail. Perhaps you see a tall tower with a logo or a name you recognize. If you're technologically savvy, you may imagine someone going over personal finances while on the Internet. Maybe you think of managing all of your accounts from the convenience of your home computer or laptop. Performing account management functions from your cell phone is another option.

However you think of banks, and they include all these ideas and more, don't lose track of one basic idea. A bank is a business. Banks sell their services to earn money, and they market and manage those services in a competitive field. In many ways, banks are like other businesses that must earn a profit to survive. Understanding this fundamental idea helps explain how banks work, and helps you understand many modern trends in banking and finance.

A Unique Business

Banks, of course, don't manufacture cellphones or repair automobiles. The services banks offer to customers have to do almost entirely with handling money for other people. Money is a **medium of exchange**, an agreed-upon


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interesting *facts*

The first automated teller machine (ATM) appeared at a Chemical Bank branch in Rockville Center, New York, in 1969.

system for measuring the value of goods and services. Once, and still in some places today, precious stones, animal products, or other goods of value might be used as a medium of exchange. Roman soldiers were sometimes paid in salt, because it was critical to life and not easy to get. The word *salary* and the expression *not worth his salt* come from that practice. Anything with an agreed-upon value might be a medium of exchange. Today, many forms of money are used. Money simply shows how much something is worth, whether it is a new stereo or two hours of your labor. When you have money, a bank can act as your agent for using or protecting that money. A bank is a **financial intermediary** for the safeguarding, transferring, exchanging, or lending of money. Banks distribute the medium of exchange.

Because banks and money are essential to maintaining not only economies but entire societies, they are closely regulated and must operate by strict procedures and principles. In the United States, banks may be chartered by federal or state governments. Banks are usually corporations and may be owned by groups of individuals, corporations, or some combination of the two. In the United States, all federally chartered banks have been required to be corporations since 1863. A few states permit noncorporate banks, which are owned by partnerships or individuals. Around the world, however, banks are supervised by governments to guarantee the safety and stability of the money supply and of the country.

Types of Banks

Actually, a lot of businesses are involved in financial services. If you consider the definition of a bank to be a business that safeguards, transfers, exchanges, and lends money, many firms might qualify. Certainly banks perform these roles, but so do trust companies, insurance companies, stockbrokers, investment bankers, and other companies. Since the deregualtion of banks in in the 1980s, there has been a blurring of the line between "pure" banking and other providers of financial and investment services. Banks provide a multitude of financial services beyond the traditional practices of holding deposits and lending money. Consequently, not only has banking changed considerably, so have the people who work in the banking world.

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- **Commercial banks** are the institutions commonly thought of as banks. Commercial banks do about 60 percent of the deposit and loan business in the United States, and provide familiar services such as checking and savings accounts, credit cards, investment services, and others. Historically, commercial banks offered their services only to businesses. Today, commercial banks seek the business of any worthy customer.
- **Retail banks** and other thrift institutions such as mutual savings banks, savings and loans, and credit unions, developed to help individuals not served by commercial banks. These institutions help customers save money, acquire loans, and invest. They also offer a wide range of financial services to a broad customer base.
- **Central banks** are the government banks that manage, regulate, and protect both the money supply and the banks themselves. Central banks serve as the government's banker. Central banks issue currency and conduct monetary policy. In the United States, the Federal Reserve System performs the central banking function. Although the Federal Reserve is technically owned by the banks themselves, the Board of Governors is appointed by the President with the consent of the Senate. The President also selects the powerful chair of the Federal Reserve.

Edouard Ramirez has a number of options for what he might do with his paycheck. He'll need to know more about banking to make wise decisions that fit his needs.

checkpoint

List four functions that define a bank.

Banking Today

Banking used to be thought of as a solid and slow-moving industry. Banking today is an exciting, fast-moving, around-the-clock, global activity. Changes in regulation, changes in technology, and changes in competition have pushed banking, like most other businesses, to become organizations that must respond rapidly to changing business conditions in order to survive.

Mergers

One of the most significant changes in banking in the last twenty years has been the number of mergers. A *merger* occurs when one or more banks join or acquire another bank or banks. Mergers increase the size of banks, giving them more resources. Mergers also decrease the number of banks.

The effects of mergers have been mixed. Banks are larger and ownership is concentrated. Fewer banks control more and more of the nation's money. About 25 large banks control 45 percent of U.S. assets, and the number of commercial banks has dropped to around 8,000 from more than 14,000 in the 1980s. Although there were about 14,000 banks in the 1980s, there are about 6,500 banks today. The largest banks control about 75 percent of domestic assets.

Top Ten Largest Banks Worldwide

(Ranked by size of assets)

Bank	***Country***
UBS AG	Switzerland
Barclays PLC	United Kingdom
BNP Paribas SA	France
The Royal Bank of Scotland Group plc	United Kingdom
Crédit Agricole SA	France
Deutsche Bank AG	Germany
The Bank of Tokyo-Mitsubishi UFJ Ltd	Japan
ABN AMRO Holding NV	Netherlands
Société Generalé	France
Bank of America Corp. NA	United States

After a merger, some consumers face higher fees and find less community involvement and lending in local areas. People like to feel that their money is staying home. Mergers also created an opening, though, for a new wave of small local banks. Small banks have doubled the amount loaned to businesses in the last decade.

Banking is an international business as well, and becoming more so all the time. Technology has allowed instant communication as well as transfer of funds, so barriers of geography apply less than ever. U.S. commercial banks actively seek international business, putting together huge investment transactions overseas and engaging in investment banking prohibited in the United States.

“communicate”

Interview someone from a local bank and learn more about its history. Find out when and where it was founded and how it has changed over the years. Prepare a brief PowerPoint presentation for the class. Be sure to identify your sources.

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Technology

As with many industries, technology has changed everything. Perhaps no business has been more affected by the growth of computers and telecommunications than banking. Not only have accounting, auditing, and examining functions been taken over by fast and efficient technology, funds transfer, record keeping, and financial analyses have become instantaneous because of the powerful tools now available.

Technology’s changes are not limited to bankers either. Consumers’ relationships with their banks have changed also. Gone are the banker’s hours of 9:00 a.m. to 3:00 p.m., for consumers want instantaneous access to banking services just as they do from other businesses. They want access to their money at any time. Automated teller machines (ATMs), networked computers that allow access from around the world, “smart” cards with embedded microchips, and online banking via the Internet are some of the technological innovations changing the face of banking.

Competition

Banking is a business, and as with any business, competition is an ongoing challenge. As government regulations have loosened, competition between banks has become fiercer. This fact has resulted in mergers and decreasing numbers of banks, but it has also made more services available to consumers, as banks compete to earn customers’ financial business. Banks compete not only with other banks, but with other businesses that sell financial services, such as credit unions. Banks are more sales oriented than ever, with an emphasis on service, innovation, and marketing that could scarcely have been imagined 30 years ago.

✓ checkpoint

What three factors in modern banking have changed the industry?

assessment 1.1

Think Critically

1. What are ways a bank is like any other business? What are ways it is different from other businesses?

2. Name three ways you interact with your own bank. For each, explain how technology has changed the interaction between the bank and the customer.

3. Why do governments regulate banks?

4. What challenges do you think the trend toward mergers poses to banks? What skills will these challenges require of those making careers in banking?

Make Academic Connections

5. **Communication** Banking has changed over the years. Interview a member of a previous generation to find out more. Prepare a list of questions that will generate memories about banking in earlier days. What were banks and banking like? In what specific ways have banks changed? Which of those changes were for the better? Which, in the opinion of your interviewee, were for the worse? Compare the results of your interview with those of classmates. Compile a class list or table showing the composite results.

6. **Banking Math** In international banking, exchange rates are used to compute the value of currencies between different countries. Locate the current exchange rates in a newspaper or on the Internet. Using these exchange rates, compute the value of $20,000 $US expressed in Canadian dollars, Mexican pesos, and Japanese yen.

1.2 Role of Banks in the Economy

goals

- List banking activities that contribute to economic stability.
- Explain how banking expands the economy.

terms

- identity theft
- creditworthy

Banking Scene

As Edouard Ramirez thinks about how to use his paycheck, he begins to notice money and banking in the world around him. On the radio and television, he hears ads mentioning automobile deals and interest rates, and financing or refinancing plans for houses. He sees people using checks, debit cards, and credit cards as well as cash at the grocery store. Some even use an ATM in the store. When Edouard notices a clerk examining a twenty-dollar bill at a fast-food place, he begins to wonder about the nature of money itself. What other ways do banking functions play a role in Edouard's life?

Banks and Economics

Money is a medium of exchange and the basis of the modern economy. Banks play a huge role in the distribution of funds throughout society. Although there are many institutions involved in the movement of money today, banks remain fundamental to the flow of money that maintains local, national, and global economies.

Banks and other institutions play this critical role by performing services essential to the functioning of an economy. Safeguarding, transferring, lending, and exchanging money in various forms, along with evaluating creditworthiness of customers, are the main functions that banks perform. Each of these roles has a ripple effect in the economy that helps keep money moving.

Keeping Your Money Safe

Safeguarding the holdings of people may be the oldest bank function. Long before banks existed, people looked for ways to secure their valuables, whatever the medium of exchange. Many of these you may easily imagine. In some societies, such as Babylonia about 2000 B.C., people began to store money in temples, perhaps because they thought others would be less likely to steal from houses of gods. Ancient records indicate that about 4,000 years ago temples were in the business of lending and exchanging money. At that time, temples were acting as banks.

You may think of a bank vault or a safe-deposit box when you think of safeguarding money, and those on-site measures are certainly ways of protecting valuable assets. Yet there is much more to safeguarding money than simply storing it in a secure place.


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- **Record keeping is an important part of securing your money.** Banks devote much time and attention to both the practice and technology of maintaining and storing accurate records. If banks expect you to let them hold and use your money, they know you expect them to keep careful track of it. The same principle applies to large transactions between banks and industry and between banking institutions and the government.
- **Identification is an important security function of banking.** Obviously, you don't want unauthorized people walking in and taking money from your account, but the issue of security and identification goes far beyond the local branch. Identifying theft is a growing concern in the economy, and bank officials work closely with technology experts and law-enforcement agencies to prevent various forms of **identity theft**. Identity theft occurs when someone achieves financial gain by using another person's personal information to unlawfully assume the identity of the other person. An identity thief conducts transactions illegally for personal gain. With the increased reliance on the Internet for financial transactions, identity theft protections extend beyond conventional checking accounts to include online banking, automatic bill pay, and online shopping.
- **Enforcement is a part of safeguarding money that involves catching those who attempt to take it.** Not only does this function involve physical security, but it also includes tracking down fraud, making collections, and pursuing legal actions against those who inflict losses on the bank. Robbers, white-collar embezzlers, or people who default on loans are all included in the group targeted by enforcement efforts.
- **Transfer security is important to banks.** Although cash is still an important part of bank transactions, most money moves merely on computer screens. High-tech security measures are increasingly more critical to banking operations between banks and customers, between banks and banks, and between banks and the government. As all financial intermediaries become more dependent on electronic banking, technological security takes a on a more significant role.
- **Sound business practices also safeguard your money.** Most of these involve good judgment and management of daily bank operations. Banks invest time and money to train employees in procedures and practices. Training goals include ensuring accuracy, encouraging good decision-making

regarding creditworthiness of perspective customers, and teaching how to make sound financial decisions.

- **Federal and/or state bank examiners closely review the records of banks to protect consumers.** Their examinations include not only the accuracy of records but also the prudence of banks' policies. These thorough examinations may take a week or more for a small bank, and a much longer time for a larger institution.

You can see how these various ways of safeguarding your money work together within the local bank and the banking community at large to create a more secure financial environment. This system of checks and balances is important to the economy and to society.

checkpoint

Name six ways banks safeguard your money.

Spreading the Wealth

Banks are critical to the economy. Although there are many ways that money moves around the economy, banks play a central role in establishing the financial environment. Transferring money to provide growth and stabilizing the monetary supply are important functions performed by banks. Lending by banks makes money available to consumers and businesses to make purchases they might not otherwise be able to make, or at least not for a very long time. Banks also help determine the creditworthiness of prospective customers so that good money is not lost on bad loans.

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Transferring

Banks move money. They move it between banks, between banks and individual customers, between banks and industry, between banks and governments, and sometimes between governments. Sometimes the sums involved are huge. This motion of money throughout the nation and the world allows businesses to have access to capital. With capital to invest, businesses expand, job creation occurs, products get manufactured, services are performed, and the economy grows. This large-scale transfer of assets is a feature of the modern economy particularly in an age of fierce competition and globalization. Industries seek out financing wherever they can find it, and banks seek out investment opportunities wherever they may be.

In international banking, exchange rates measure the relative strength of one form of currency against another. These variable rates are often indications of the strength of a nation's economic position.

The ability to transfer sums of money between financial institutions safely and effectively depends on the stability of the institutions, the stability of the countries where the banks reside, and the security of the money supply itself.

Lending

Need a new car? Reach into your wallet and pull out $28,000. How about a new home? Do you have $246,000 in your piggy bank? Most people don't, of course, and bank lending is the main reason that people are able to own homes and cars without waiting forever to buy them.

Lending makes up most of a bank's business. Many bank deals are more complex than automobile or home loans. In fact, banks lend money to businesses and governments in a wide variety of ways, with loan duration

flat world...

The European Union and the Euro

In Europe, banking has changed dramatically in the past decade. European nations have been working since 1958 to provide a single market and single banking structure. The European Union (EU) consists of 27 nations. On January 4, 1999, these nations began using the euro, an agreed-upon currency with stable values among the nations. For example, a euro is always worth 6.55957 French francs, the same way a dollar is always worth ten dimes, regardless of the overseas value of a dollar.

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Twenty EU member countries use the euro. A few nonmember nations also use the euro.

The implications for banking were huge. Although recognizing the primacy of a host country's banking laws, member nations accepted common rules and a common central bank, the European Central Bank (ECB), for the euro. All government debt, stock quotes, prices, and monetary policies were referenced in euros. Results have been mixed so far, as differing laws in countries have affected the flow of capital, but with the pressures of technology and globalization increasing, the EU may eventually bring about price stability, increased banking efficiency, and more services for member nations and their neighbors.

Think Critically What are the advantages of using a common currency for member nations? Why might some nations be reluctant to do so? Do you think there will ever be a world currency? Why or why not?

ranging from a single day to decades. A variety of loan products provide many choices for banks to transfer money in the economy. In the far-ranging and fast-shifting world of banking, strong management skill and a thorough understanding of finance are required.

Credit cards issued by banks are another form of lending, and they are not only good business for the bank, they help the economy. People buy things with credit, and keep merchandise moving and manufacturing producing at a more rapid rate than if transactions had to take place in cash. Although there is risk in the unwise use of credit cards by consumers, the judicious use of credit stimulates the economy.

Home loans still constitute an important part of the banking business, too. Loan decisions need to be made in a healthy, rational way to borrowers who are qualified for the loans they obtain. The mortgage loan crisis that began escalating in the summer of 2007 illustrates the fundamental importance of a healthy, stable mortgage market in the U.S. economy. As the mortgage crisis escalates, the ripple effect of loan defaults can be seen in all areas of the economy—from the impact on the personal lives of individual homeowners, to businesses that do not get paid, to municipalities that are faced with bearing the costs of maintaining the safety of abandoned properties.

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People want to own their own homes and will work hard to do so. Matching appropriate loans to qualified buyers facilitates long-term home ownership. A healthy housing economy provides jobs for people who construct, furnish, and repair homes. Workers in construction industries want homes built, furnished, and repaired for themselves, and so the cycle of economic activity expands. Without bank lending, the cycle would be far smaller and slower. The automobile and housing industries have grown hand in hand with a solid banking industry, and the American economy has grown with it.

Creditworthiness

A **creditworthy** customer has a good credit rating, sufficient collateral for loans, and an ongoing income source sufficient to make timely loan payments. Evaluating the creditworthiness of customers, whether they are large industries, governments, or individual consumers, is a critical banking function that affects the economy. It is a good business practice for banks to evaluate loan applications carefully because their profits, and in some cases their survival, depend upon being repaid the principal and the interest from loans. If banks were to overextend themselves with uncollected loans, they could begin to fail, and if they fail, the economy is at risk. Bank failures played a role in the Great Depression. The mortgage loan crisis, which began in the summer of 2007, pushed the American economy to the brink of recession. Banking policies and regulations regarding creditworthiness and the ratio of loans to deposits help guarantee a secure financial environment. These policies also assure that businesses get paid for the things that consumers buy with bank funds.

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www.cengage.com/school/pfinance/banking

Guaranteeing the Money

So what makes that piece of green paper that Edouard handed the cashier worth twenty dollars? The government guarantees the value of money, and the banks back up the guarantee. In the United States, banks and the government work together to form the banking system and to make sure the money supply is adequate, appropriate, and trustworthy. Much of this guarantee is backed through the central banking function of the Federal Reserve. Individual banks also work with the government to implement monetary policy, perform exchange functions for citizens, defeat counterfeiters of currency, and prevent identity theft.

In addition, banks guarantee their own policies. Networks of banks agree to honor credit cards. If you write a check on your account, you can be sure that the recipient of the check will get his or her money from your bank, providing you have sufficient funds in your account to cover the check amount. These actions make the transfer of money between citizens and businesses easy, which helps to keep the economy going.

The Substance of Society

The functions that banking institutions perform do more than move money through the economy. They also provide a common system. A great part of an economic system is psychological. It is your belief and trust in the financial system that makes you willing to borrow and pay later for a car, to invest money in businesses you've never seen, to deposit money in banks that is in turn loaned to people you don't know, or to take on a 30-year mortgage. Banks are at the heart of this financial system, and their effect on your life cannot be calculated.

✓ checkpoint

How does lending stimulate the economy?

assessment 1.2

Think Critically

1. How do banks contribute to the stability of the society at large while safeguarding the funds of their own customers?

2. Governments don't routinely examine the books of many businesses. Poor business practices just put them out of business. Why should banks be treated any differently?

3. In what ways have security issues for banks changed in the last 30 years?

Make Academic Connections

4. **TECHNOLOGY** Banks have been using computer networks to transfer funds for some time. Customers can now get in on the act with online banking. Use the Internet or other reference materials to learn about secure servers. Summarize ways that Internet providers attempt to guarantee security and privacy.

5. **HISTORY** One banking function is guaranteeing the worth of money. One big historical change was the growth of paper money, which depended upon people believing that the paper was worth something. Research the history of paper currency. Choose an interesting example, and write a one-page report explaining the case.

6. **COMMUNICATION** With a classmate, make a list of the most important services you want from a bank. Rank these services in order of importance. Compile a class list from the results of all pairs, and come to a consensus on the most important services wanted by customers.

How the Banking System Works

1.3

goals

- Explain how banks acquire money to do business.
- Identify new services that banks offer to stay competitive.

terms

- depositor
- spread
- profit
- asset
- liquid asset
- liability
- return on assets (ROA)
- return on equity (ROE)
- equity
- niche market
- deregulation

Banking Scene

As he considers places to deposit his paycheck, Edouard Ramirez sees a bewildering array of offers from banks and other financial institutions. He recognizes that banks want his business, no differently from the electronics store where he bought an MP3 player or the grocery where his family shops. Unlike those stores, however, banks are selling services. He knows that banks are big businesses, but he wonders where they get their funds. He knows they make money on services, but how exactly does the bank earn its profit? What sources of information might Edouard use to find answers to these questions?

MONEY AT WORK

Despite their central role in the economy at large, banks are businesses. For their services, banks earn money in various ways. Banks also have income from other sources, but most of their money comes from lending—or, to be more precise, the loan interest paid by borrowers.

When banks lend money, they put it to work. The money that people borrow goes to buy products or services, to manufacture goods, and to start businesses. In this way, the money that banks lend works to keep the economy going.

The Spread

People who put money into banks are called **depositors**. Banks encourage deposits by protecting the money and by paying the depositor *interest*, a percentage of revenue earned on the principal over a period of time. The depositor thus earns some money from the deposits. Using the accumulated funds of many depositors, the bank makes loans to customers it considers likely to repay. The bank charges more interest on the money it lends than it pays depositors, so when the money is repaid, more comes in than went out. The difference between what a bank pays in interest and what it receives in interest is the **spread**, or *net interest income*.

	Revenue
−	Cost
=	**Profit**

The spread is not pure profit. The spread is income, or *revenue*, but costs have yet to be considered. Costs include maintaining the security of your money, personnel expenses, building maintenance costs, and so forth. **Profit**, or *net income*, is what's left of revenue after costs are deducted. What happens if a homeowner can't repay a loan? With the loss of these funds, the bank loses the ability to earn money on the loan.

What happens to your prior deposits if after two months a tree falls on your roof and you need to withdraw your $10,000 savings? The bank has loaned it to another homeowner, but it must have reserves to meet the obligation of your $10,000 withdrawal. It's not really the same money. The bank has other depositors, not all of whom, the bank hopes, need their money at once. Even if they did, the bank has a backup, the Federal Reserve System.

Other Funds

Banks have additional income sources. In addition to loan income, including credit-card interest, they also charge for various services. Charges include fees for rental of safe-deposit boxes, checking account maintenance, online bill payment, and ATM transactions. It is important to note that banks do not earn interest on money kept on hand for services such as ATM transactions. Thus, banks charge fees to offset lost interest. To keep pace with the rising cost of servicing accounts, fees for services have increased significantly. These service fees provide substantial revenues for banks.

Banks, like people and other corporations, make money on investments. Especially since the early 1980s, banks have become large and careful

Banking Math *Connection*

Calculate the one-year spread for a bank that receives a deposit of $10,000 from a customer and lends it out to a homeowner who needs to make some repairs. Assume the bank pays a straight 6% per year interest to the customer and charges 12% per year for the loan.

Solution

The formula for calculating the spread is

Income from interest − Interest paid to depositors = Spread

Income from interest:	12% × $10,000 =	$1,200
Interest to depositor:	6% × $10,000 =	600
	Spread =	$600

The spread is $600. This is a simplified example and does not take into account compounding, declining balances, or other factors that affect deposits and loans in the real world.

investors in some types of securities and government bonds. Because banks can at times invest large amounts of money, they can do well, but they face the same risks as other investors. The speed of modern communication allows banks to move their investments quickly if necessary. Even a day or two of a large investment can yield a good return. Professional investment staffs work hard to make every dollar return a profit in the financial market.

Because most banks are corporations, banks may have funds from stockholder investments to use. Stockholders buy bank shares, hoping to receive a return on them and get a say in how the bank does business.

Assets and Liabilities

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Why aren't deposits themselves a form of bank income? The money in them doesn't really belong to the bank. You may not like to think of your savings account as a problem for the bank, but it is one in theory. If depositors simultaneously want all their money from all their accounts, banks would be in trouble.

An **asset** is anything of value. In financial terms, that usually means money. A **liquid asset** is anything that can readily be exchanged, like cash. A **liability**, in financial terms, is a cash obligation. If you borrowed $5 from a friend for lunch, you have a liability of $5 and your friend has an asset of $5. The asset's liquidity depends on how quickly you've agreed to repay the sum and how reliable you are.

For banks, deposits are liabilities. Depositors have the right to request their funds, and the bank must pay them. Money the bank borrowed is also a liability, a debt to be paid.

A bank's assets are its loans and investments, which may be less liquid by contract than deposits. Deposits may have to be returned any time, but assets can arrive in small amounts over a long period.

Because banks have more money out working than they keep on hand, two principles of the banking business come into play.

- **A bank's liabilities exceed its reserves.** The money is loaned out, and the reserves don't match the total of deposits (liabilities). However, the money is out working, financing businesses and expanding the economy.

- **A bank's liabilities are more liquid than its assets.** A bank must give depositors their money if they request it. The bank's assets, however, may be less liquid because they are tied up in longer-term loans, so the bank can't get them as quickly. If many depositors need their money at once, the bank must either break its promise to depositors or pay until its reserves are gone. If the bank fails, unpaid depositors lose their money. In the United States, deposit insurance, backed by the government since 1934, has kept people from fearing the loss of their deposits. A "run on the banks," when people call for their money all at once, is rare.

Faulty Investment Strategies

A problem for banks has been faulty investment strategies. Especially in international banking, some banks have sometimes invested substantial amounts of money in questionable businesses or complicated financial products. If those businesses fail, the banks don't get their assets. A crisis in the Asian economy in the late 1990s nearly destroyed the Asian banking system, which was neither carefully funded nor controlled. A crisis in the U.S. mortgage lending markets, which began in the summer of 2007, impacted foreign investors with investments in the mortgage market. In the first quarter of 2008, fraudulent investments by a trader at a French bank resulted in a massive sell-off of faulty investments that impacted international financial markets.

Banking today is not as simple as earning interest on the spread. Rapidly changing conditions, complex factors, a 24-hour-a-day global economy, and financial interdependency among nations set the banking climate.

Tests of Bank Profitability

Information from financial statements, which report a bank's assets, liabilities, and net income, can be used to determine its profitability—a necessary condition for survival. Of the various profitability tests, two commonly used are *return on assets* and *return on equity*.

Return on assets (ROA) is the ratio of net income to total assets. It indicates how well bank management used its total amount of assets (loans and investments) to earn income. ROA is also interpreted as the amount earned for each $1 in assets.

As an example, Hometown Bank (HB) has net income of $10,000 ($220,250 revenue − $210,250 in expenses). HB has total assets of $171,500 and total liabilities of $100,000. HB's ROA is calculated using net income from the financial statement as follows:

Net income ÷ Total assets = Return on assets
$10,000 ÷ $171,500 = 0.058 or 5.8% ROA (5.8 cents on the dollar)

Another important ratio is **return on equity (ROE)**, which measures how well a bank is using its equity (also called stockholders' equity). **Equity** represents net assets, or total assets, minus total liabilities. HB's ROE is:

Net income ÷ Total equity = Return on equity
$10,000 ÷ $71,500 = 0.139 or 13.9% ROE (13.9 cents on the dollar)

ROA and ROE are of particular interest to stockholders (investors). ROA measures how efficiently the bank is using its assets to generate revenue. ROE represents the amount or return earned on each dollar invested. Investors can compare a bank's ROA and ROE to those of other banks to see how it performed relative to the other banks. A bank's ratios for several years can be reviewed to determine whether they have remained the same, increased, or decreased. A bank's ratios that decrease or stay the same are cause for concern.

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✓ checkpoint

Name three sources of bank income. What is a bank's spread?

Banks Working for You

Like any business, a bank must attract customers in order to make money. Banking has changed radically in the last 20 years, and it is now one of the most competitive businesses in the world. Today, large regional banks may have huge resources, and when these giants compete, consumers can sometimes be the winners. Smaller banks that target particular consumers work in **niche markets**, targeting particular customers in defined locations or by particular services. They use the flexibility that sometimes comes with smaller size to their advantage.

Although there are fewer commercial banks than there were ten years ago, there is an ever-wider array of services. It was not always so. You'll learn more about the history of U.S. banking in Chapter 2, but one consequence of the Great Depression of the 1930s was heavy regulation of banking. Banks could make good profits simply on the spread, for there were fewer financial options for consumers.

In the early 1980s, however, interest rates rose for all types of debts and investments. Banks were still paying only 5½ to 5¾ percent, as prescribed by law. Consumers, who could get 10 to 14 percent on other investments such as mutual funds, began removing their money from banks or depositing it elsewhere. Some banks (primarily savings and loans associations) had trouble, and with their problems the American economy was at risk. A series of laws passed in the early 1980s loosened the restrictions on bankers and let them compete in the open market like other financial businesses. This loosening of government control, called **deregulation**, changed the banking environment in the United States completely.

Changes in Traditional Services

One of the most obvious changes in banking was a new focus on consumers. Banks were not as customer-oriented as they are now and advertising was far different. They often kept the so-called "banker's hours" of 9:00 a.m. to 3:00 p.m., were closed on Saturdays, and were sometimes closed Wednesdays. That way of doing business is a fading memory, as banks keep doors and windows open longer and have branches in more places than ever. Innovations such as drive-up windows with extended hours took on more importance as banks scrambled to attract customers. Many banks are now open six days a week, and bank operations at most banks run twenty-four hours a day, seven days a week. Also, many banks have opened branches in

interesting *facts*

The word *bank* comes from the Italian word *banco*, or bench, from which money changers in medieval Italy carried on their business in the marketplace.

retail stores and shopping centers, making it more convenient for consumers to access their services.

In addition, changes in traditional services help keep customers. These are the promotions you may often see in banking advertisements today. Several types of checking accounts, for example, are typically available at a single institution, as banks tailor their offerings to match consumer needs. No-cost checking above a minimum balance, overdraft protection, interest-bearing accounts, no-frills checking accounts, or a custom-tailored mix of features let customers pick an account to suit their wishes and balances.

Traditional savings accounts still exist too, but so do other savings options. A variety of ways to compound interest maximizes the money customers can earn, or they may place funds in special accounts, such as money-market accounts that may offer higher interest rates.

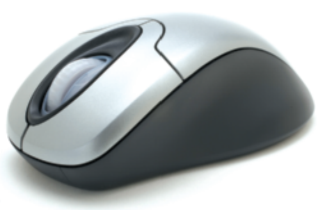
Marketing is an ever more important matter to banks in today's environment. Bank personnel often become experts in certain services, and selling is now an important part of any banker's job. Small community banks often offer excellent personal service, important to survival in a niche market, on such personalized traditional services as trust accounts and safe-deposit boxes.

New Services

One of the biggest effects of deregulation was that banks got into new areas of business. Banks began offering financial services such as credit cards, innovative lending options, and technology-related services.

Credit Cards Banks (or their holding companies) are facilitators in the credit card business in a big way. This profitable field is a form of lending that has greatly expanded in the last few years. Some economists worry that

tech talk



Intranet

You know about the Internet, of course, but do you know what an *intra*net is? An intranet is a private network that uses Internet software to store information for internal use by a company. Essentially, an intranet is a collection of web sites to which only specified users can gain access. Passwords, software security measures, and data encryption protect the intranets from unauthorized use. Intranets make it possible for employees to use the resources on them with standard Internet browsers. Banks routinely use intranets to provide a centralized source for everything from updated forms to training materials to their recent financial performance.

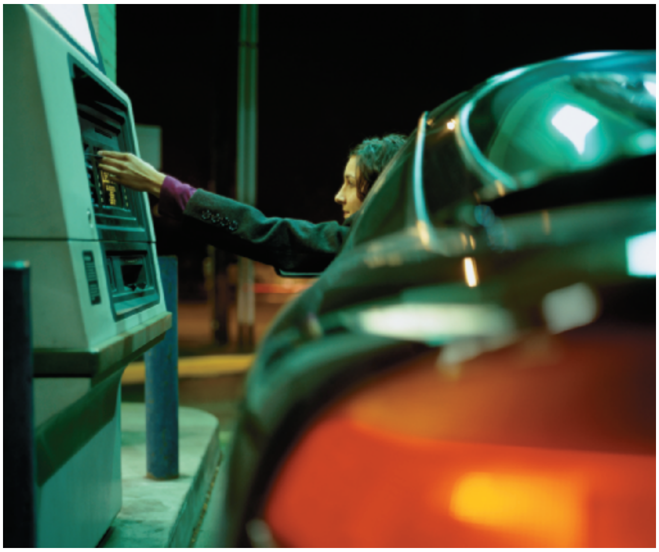
Think Critically In an industry that needs to keep current with changes ranging from legal requirements to fluctuating interest rates, how can the use of an intranet streamline the operating efficiency of a bank?

the growth in this business comes at the expense of saving, perhaps a recipe for long-term trouble. Still, banks compete fiercely for this business and offer varying forms and types of credit-card accounts. Many banks change or negotiate rates with consumers, and special low-rate promotions are a daily fact of credit card life.

Innovative Lending New types of lending are also made available to consumers. A recent boom in second-mortgage loans has brought a wave of new business. These loans, called home-equity loans, are secured by the difference between the value of a home and the amount the homeowner still owes on it. The loans may take the form of a special credit card, a line of credit, or a single disbursement. They have become a popular form of credit because the interest on them is tax-deductible for the consumer.

Reverse mortgages allow consumers age 62 or older to utilize the equity from their homes by receiving payments from a lender based on the value of the equity. These payments can be received either in monthly installments, in a lump sum, or as a line of credit. Typically the equity does not need to be paid back until the home is sold.

Technology Tools Probably the flashiest new services banks offer involve technology. The revolution in computers and telecommunications affected banks dramatically and helped drive a reliance on Internet-based transactions. New and expanded services based on a blend of technologies are now available.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- **Automated teller machines (ATMs)** were the first of the high-tech revolutions for consumers. First appearing as novelties in the late 1960s, ATMs have made "banker's hours" irrelevant. Customers can now perform almost any banking function from an ATM, and have access to their accounts day or night. Networked ATMs have made it possible to do business with one's bank at any time from almost anywhere in the world. ATMs reduce transaction costs, encourage the use of the bank, and earn income from fees. ATMs are available in a variety of venues, including shopping centers, amusement parks, universities, airports, sports arenas, and workplaces. Because ATMs are everywhere, using an ATM, which often intimidated early customers, is today a common and casual act that most people take for granted.
- **Smart cards** are credit, debit, or other types of cards that have embedded microchips. Smart cards are useful for a wide variety of "electronic purse" applications, which allow the card to store a value. When the card is used, the stored value decreases. You may have used these already in grocery or video-rental stores. Gift cards, security cards, and

customer loyalty reward cards are also examples of smart cards. Consumers should use smart cards cautiously. In November 2007, in conjunction with the start of the holiday shopping season, *Consumer Reports* placed an ad in *The New York Times* advising consumers that in the prior year consumers lost $8 billion dollars due to unredeemed gift cards. Although smart cards do provide many conveniences, consumers should take care to examine the fees and terms (including expiration dates) associated with the cards.

- **Payroll cards** are a specific type of smart card. Banks can facilitate salary payments between employers and employees. By using a bank as an intermediary, payroll cards enable an employer to load salary payments onto an employee's smart card. Employees can then access their pay even if they do not have a bank account.
- **Online banking** takes advantage of growing Internet use. Whether called Internet banking, electronic banking, home banking, or PC banking, online banking allows customers to perform banking transactions from their home computers. Everything from balance inquiries to bill paying to applying for a loan may be available online at any time. Some banks use Internet technology in intranets, and others simply provide a dial-in service to their mainframe computer. Online services can be complicated and costly to set up, and some consumers are not comfortable using computers for private matters such as banking. The future is bright for online banking, though, as security systems improve, software applications become more sophisticated, and a new generation of customers comfortable with the technology matures.
- **Mobile banking** has grown in popularity as reliance on sophisticated cell phones and related technology has grown. Consumers can execute a variety of banking transactions with mobile phones. Customers can check their account balances, make requests for payments, and even receive updates regarding their accounts on their mobile phones.

The new services and the new environment for banking offer both challenges and rewards to consumers and bankers alike. Opportunities to handle money more efficiently and effectively for both are increasing, and they offer possibilities unimagined just a few years ago. They also require a thorough understanding of how the system and its tools work, and how money moves in an increasingly complex economy.

✓ checkpoint

What changes have deregulation and competition brought to modern banking?

assessment 1.3

Think Critically

1. How does the fact that consumers have many choices for places to put their money affect the banking industry?

2. Savings deposits today are smaller by percentage than they once were. Why do you think some economists feel that this is a risk to the economy?

3. What reasons might some people have for not taking full advantage of today's banking services and technology?

4. How might smart-card technology reduce the number of cards in a consumer's wallet or purse?

Make Academic Connections

5. **BANKING MATH** If you had $8,400 placed in an account that earned 5½ percent interest, paid just once a year, how much money would be in the account at the end of four years, assuming you made no withdrawals of any kind from the account?

6. **TECHNOLOGY** Find out more about online and mobile banking. Visit the online site of three banks of your choice. Many online banking sites offer a demonstration of how the system works. List the services available on the sites, including whether mobile banking services are offered. Identify what is needed to enroll in online and mobile banking.

1.4 Other Financial Institutions

goals

- Define depository financial institutions.
- Explain nondepository financial institutions.

terms

- depository intermediaries
- nondepository intermediaries
- wholesale bank

Banking Scene

Deciding how to manage his earnings, Edouard Ramirez has investigated various local banks and learned about their services. He has an uncle who works at a nearby college and is a member of the college's credit union. He mentions to Edouard that credit unions can perform many of the same functions of a bank, although some of the terms may be different. Edouard wants to learn more about credit unions. What other types of financial institutions act as intermediaries to help people handle money?

Depository Intermediaries

A bank is a financial intermediary for the safeguarding, transferring, exchanging, or lending of money. There are two primary types of financial institutions. **Depository intermediaries** are those that get funds from the public and use them to finance their business. **Nondepository intermediaries** are those that do not take or hold deposits. They earn their money selling specific services or policies.

Depository intermediaries receive deposits from customers and use the money to run their businesses. These institutions may have other sources of income, but the bread and butter of their business is handling deposits, paying interest on them, and lending money based on those deposits. There are four main types of depository institutions. Although there are fewer differences today than in the past, some important distinctions remain.

Commercial Banks

You have been working with concepts and services based mostly on commercial banks throughout this chapter. One of the big distinctions between commercial banks and other depository institutions is that commercial banks are owned by stockholders who expect a profit on their investments. Today commercial banks may work with both businesses and individuals. Commercial banks that specialize only in business banking are sometimes called **wholesale banks**.

Savings and Loan Associations

Savings and loan associations (S&Ls) may go by various names. Building and loan associations, homestead banks, and cooperative banks are all names for savings and loan associations. Savings and loan associations receive most of their deposits from individuals. Chartered by either state or federal governments, these institutions grew by focusing on real-estate lending for people. Today, they offer most of the same services as commercial banks. Savings and loan associations are owned not by outside investors, but by depositors themselves, who receive shares of the company.

Mutual Savings Banks

Mutual savings banks are similar to savings and loan associations. They receive deposits primarily from individuals and concentrate also on private real-estate mortgages. Mutual savings banks are owned by depositors as well. These state-chartered banks are sometimes granted greater powers with regard to assets and liabilities than S&Ls, but usually not as much as those of commercial banks.

Mutual savings banks and savings and loan associations are sometimes called *thrift institutions*. Few remain as a result of a crisis in the industry in the 1980s. These institutions are regulated and protected by the state or federal government, which is not necessarily true of nondepository intermediaries.

Credit Unions

Credit unions also are owned by depositors, but there are a couple of key differences. First, users of credit unions must be members. Membership is usually based on some type of association, such as a common employer, a certain line of work, a geographical region, or even a social or religious

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affiliation. Second, credit unions are *not-for-profit* financial institutions that exist to benefit the members. Any money beyond costs is returned to the members in the form of dividends on savings, reduced fees for services, or lower rates for loans.

checkpoint

What is a wholesale bank? What is the primary difference between credit unions and other depositor-owned financial institutions?

Nondepository Intermediaries

As the name suggests, nondepository intermediaries don't take deposits. Instead, they perform other financial services and collect fees for them as their primary means of business. In many cases, these institutions are private companies. Although they may be regulated by the government, they are usually not backed or protected by the government.

Insurance Companies

You might not think of insurance companies as financial institutions, but they are. Insurance companies make money on the policies they sell, which protect against financial loss and/or build income for later use. The policies are not tangible and the protection they offer is financial, so the companies are performing a financial service. Some types of insurance policies have a cash value that can be redeemed at any time, and some policies let customers remove cash gradually. Although insurance companies do not typically make loans, in some cases the cash value of a policy may be used to secure a loan from elsewhere. Insurance premiums (costs) are not deposits. Private insurance companies try to earn a profit from the premiums beyond the cost of insurance payouts. Many professional money managers regard insurance as essential financial protection, but not a good investment.

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Trust Companies/Pension Funds

Companies that administer pension or retirement funds also perform financial services. These companies manage money for a fee and promise in return to provide future income. Some pension funds are closely regulated, but others may not be. Growth for the contributor comes not from interest on deposits, but investments made by the administrator. These investments may yield a profit, but there is a risk of loss as well.

Brokerage Houses

Brokers are people who execute orders to buy and sell stocks and other securities. They are paid commissions. Their service is to help investors do as well as possible with their investments. Brokerage houses may offer advice or guidance, but are private companies who make a profit on the transactions.

Loan Companies

Loan companies, sometimes called finance companies, are not banks. They do not receive deposits, and they should not be confused with banks, savings and loan associations, or credit unions. They are private companies who lend money and make a profit on the interest. Loan companies sometimes make loans to customers when other institutions will not, but they charge higher interest rates to offset the risk.

Payday Loans

A specific form of loan company focuses on payday loans. These companies offer extremely short-term loans against an expected paycheck or other check at high interest rates. Other names for these loans include deferred deposit check loans, check advance loans or post-dated check loans.

Ethics in Action

Banks are required by law to offer their products and services on an equal opportunity basis. According to the Federal Trade Commission, the Equal Credit Opportunity Act (ECOA) ensures that all consumers are given an equal chance to obtain credit. This doesn't mean all consumers who apply for credit get it. Factors such as income, expenses, debt, and credit history are considerations for creditworthiness.

What the law guarantees is that all applicants be treated fairly. Applications for credit cannot be evaluated on the basis of sex, race, marital status, national origin, or religion.

Think Critically

Banks want to attract and keep customers. Why do you think a law like ECOA might have become necessary?

Payday loans usually require an upfront fee that is immediately deducted from the loan amount. Exorbitantly high interest rates are common for payday loans. Although disclosure of the effective annual percentage rate (APR) is required by law, consumers who utilize this type of loan may not fully understand the financial consequences of using this type of financing.

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Many online sites are available to facilitate obtaining payday loans. Many even sweeten the offer by providing direct deposit of the loan to a consumer's banking account. However, these same loan providers often require authorization for automatic withdrawal of the funds from the consumer's bank account on a predesignated date. These companies also may perform some of the same services as currency exchanges.

Currency Exchanges

Currency exchanges do not make loans or receive deposits. Currency exchanges are private companies that cash checks, sell money orders, or perform other exchange services. They charge a fee, usually a percentage of the amount exchanged. Because their business depends on these fees, interest rates are usually higher than at banks or other financial institutions. Currency exchanges often locate in areas where no other financial intermediaries exist, and they offer the only financial services available to people in those areas.

A wide range of financial services is available from both depository and nondepository intermediaries. Most of the nondepository institutions are private companies earning money by performing specific services. You don't make deposits, earn interest, or have checking or savings accounts with them. Nondepository institutions are a part of the financial world and help move money through the economy. However, they are not part of the banking system and may not really be considered to be in the business of banking.

✓ checkpoint

Why is an insurance company considered a financial intermediary? What is the primary difference between depository institutions and most nondepository institutions?

assessment 1.4

Think Critically

1. Services from depository institutions have become similar since deregulation. Why is there any need for different forms of depository institutions?

2. Credit unions are not-for-profit institutions. They return profits to members. Why wouldn't everyone place their money only in credit unions?

3. Do you think payday loans and currency exchanges take advantage of those who do not have access to other forms of financial services? Why or why not?

4. How does the fact that the government backs many forms of depository institutions affect the confidence of consumers about their deposits?

Make Academic Connections

5. **Social Science** Until late in the twentieth century, the financial world was male territory and not ethnically diverse. Contact a large bank and learn what policies they have in place to guarantee and encourage equal opportunity careers, for both genders and all races, in the banking profession. List some of those policies.

6. **History** Although services offered seem similar today, there was once a great difference between thrift institutions and banks. Find out more about the way these institutions arose to meet a particular social need. Write a one-page report about the beginnings of savings and loans, credit unions, and mutual savings banks.

chapter 1 assessment

Chapter Summary

1.1 Introduction to Banking

A. Banks are financial intermediaries that safeguard, transfer, exchange, and lend money. Commercial, retail, and central banks are three main types.

B. Mergers, technology, and competition have reshaped banking.

1.2 Role of Banks in the Economy

A. Banks safeguard our money through various business practices that protect, record, and evaluate banking transactions and businesses.

B. Banks expand the economy by transferring and lending funds to creditworthy borrowers, thus supporting markets and providing economic stimulus for jobs.

1.3 How the Banking System Works

A. Banks make money on the spread between interest paid and received. Bank assets include earnings and investments. Deposits are liabilities. ROA and ROE are two ratios used to measure a bank's profitability.

B. Bank deregulation brought expansion of customer services. New services banks offer to stay competitive involve credit cards, new types of loans, smart cards, online banking, and mobile banking.

1.4 Other Financial Institutions

A. Depository intermediaries include banks, savings and loan associations, mutual savings banks, and credit unions. Most of these are backed by the government.

B. Nondepository institutions include insurance companies, trust companies, brokerage houses, loan companies, and currency exchanges. Most of these are private firms not part of the national banking system.

Vocabulary Builder

Choose the term that best fits the definition. Write the letter of the answer in the space provided. Some terms may not be used.

a. asset
b. central banks
c. commercial bank
d. creditworthy
e. depositor
f. depository intermediary
g. deregulation
h. equity
i. financial intermediary
j. identity theft
k. liability
l. liquid asset
m. medium of exchange
n. niche market
o. nondepository intermediary
p. profit
q. retail bank
r. return on assets (ROA)
s. return on equity (ROE)
t. spread
u. wholesale bank

____ 1. The difference between interest paid and interest received
____ 2. A private company that does not receive deposits but sells financial services
____ 3. Government banks that regulate and manage money supply
____ 4. The ratio of net income to total assets
____ 5. Most common form of government-backed corporate bank
____ 6. To banks, deposits represent this type of obligation
____ 7. The loosening of government control
____ 8. Anything of value that can be readily exchanged
____ 9. Revenue minus cost
____ 10. An agreed-upon system for measuring value of goods and services
____ 11. Net income ÷ Total equity
____ 12. Total assets − Total liabilities

Review Concepts

13. Why are banks called financial intermediaries?

14. List four functions that banks perform.

15. Name three trends in recent banking history.

16. List four ways that banks safeguard money.

17. How do banks help expand and maintain the economy?

18. Why is a deposit considered a liability for a bank?

19. How might investors evaluate a bank's ROA and ROE ratios?

20. What has been the effect of competition between banks?

21. Name five types of technological innovations in banking.

22. Name two types of thrift institutions.

23. What is a nondepository financial institution?

Apply What You Learned

24. Why are banks regulated and protected by government?

25. What are advantages and disadvantages of mergers in banking?

26. How did deregulation ultimately result in more banking services for consumers?

27. Would consumers be better off if all public utilities, including electric and gas companies, were deregulated so that the marketplace could set prices?

28. Consumer debt is higher than ever in the United States. What would happen if people suddenly simply stopped borrowing from banks?

29. How has the U.S, mortgage crisis affected both the U.S. economy and the international economy?

30. If private, nondepository loan companies charge higher interest than depository institutions backed by government, how do they stay in business?

Make Academic Connections

31. **Problem Solving** Most insurance is bought to protect against the possibility of loss, except life insurance. Everybody who buys life insurance eventually dies. Explain how life insurance works.

32. **Advertising** Analyze five bank advertisements from a variety of media, such as newspapers, magazines, radio, television, billboards, and the Internet. What do banks do to get your business? Keep a journal for one week, noting each advertiser, the services being advertised, and a basic description of each ad. Make a chart that shows your analysis.

33. **Banking Law** *Usury* is the practice of charging extreme interest rates. From your library or the Internet, find out more about usury limits, what they are, how they work, and what the usury limits are in various states. Write a one-page report summarizing what you learn.

34. **Ethics** ATM fees are a source of revenue for banks. If you use an ATM from a bank different from your own, you may be charged a fee for the transaction both by the bank that owns the machine and by your own bank for processing the transaction. Does this seem fair to you? Why or why not?

35. **Ethics** Some lenders target the neediest consumers. The recent mortgage crisis was fueled, in part, by qualifying borrowers for loan amounts that exceeded their realistic ability to meet monthly payments. Likewise, payday loans charge exorbitant interest rates with high processing fees. Are the terms and conditions offered by these lenders fair and reasonable? Why or why not?

36. **Careers** Visit the web site of a large regional bank. Find out what opportunities the bank offers to prospective employees. Make a list of some of the positions available and the training and experience required.