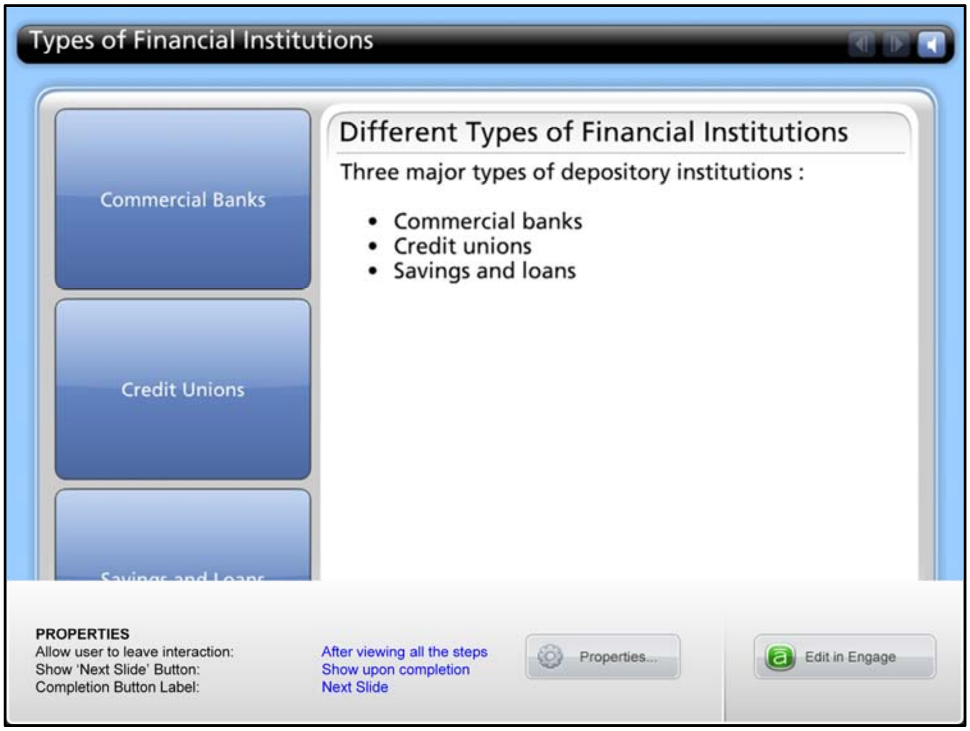
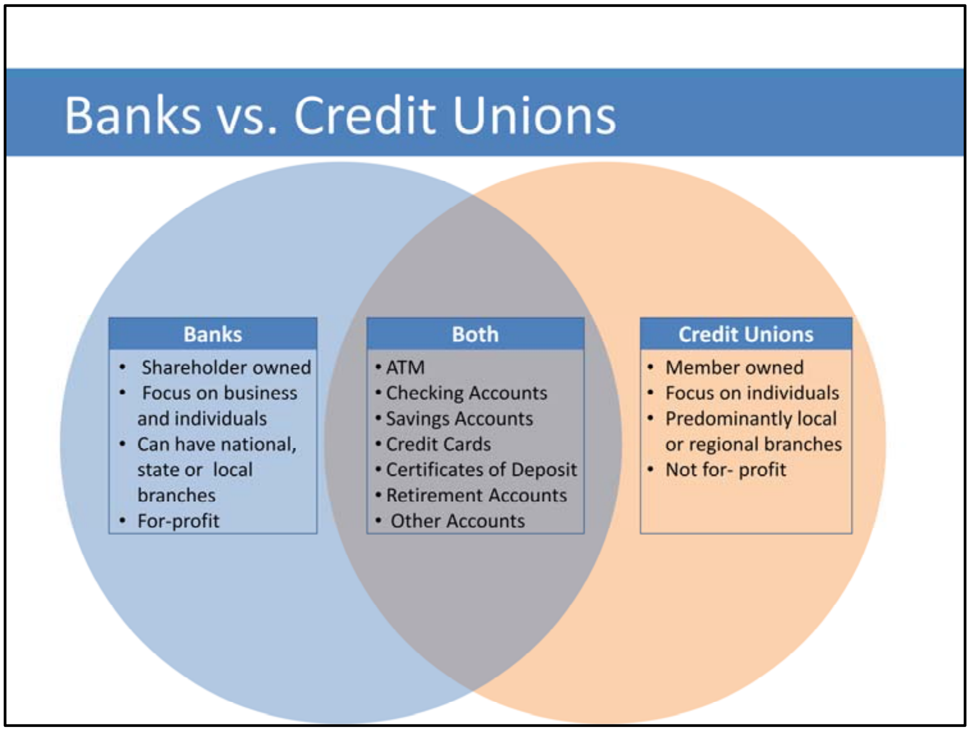
Selecting where you're going to put your hard-earned money can be a daunting process, but it all boils down to what's best for you. Every financial institution will tell you that they have the most services, the best employees, the most ways to access your money and so on. But these institutions aren't all the same. Let's look at some of the major differences among the most common types of financial institutions to see which one or ones best fit your needs.



There are three major types of depository institutions in the United States: commercial banks, credit unions and savings and loans.

In recent times, these institutions have become more like each other, but they still differ in specialization and emphasis, and in their regulatory and supervisory structures.

Let's take a closer look at each type.



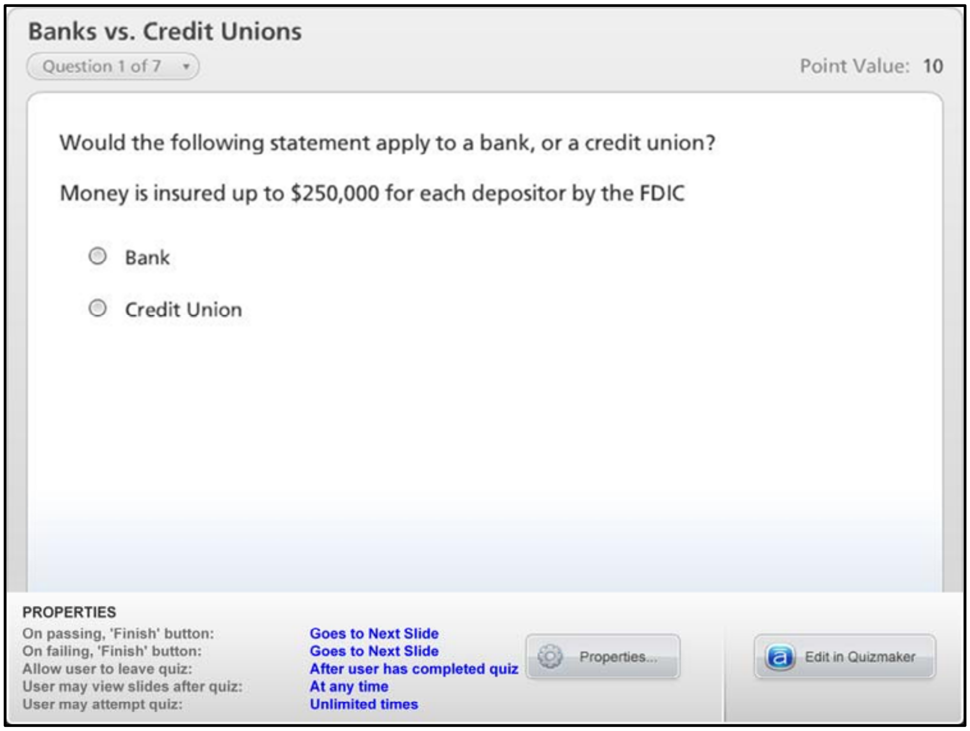
You probably will find that banks and credit unions are the most common financial institutions in your community. Depending upon where you live, you'll have several to choose from. Banks and credit unions tend to look a lot alike these days, but there are still some major differences as shown in this diagram.

Since credit unions are non-profit organizations dedicated to their member owners, they may offer lower interest rates on home and car loans since their main goal is to serve their members rather than produce profits.

Credit unions are much smaller than most commercial banks so they don’t have as many deposits. This means that they may not be able to offer the lowest rates on the market for other types of loans.

For you as a consumer, this means that it pays to shop around for the best interest rates and services that suit your individual needs. Remember, also that the rate you get depends on how likely you are to pay back the loan. This is determined by your credit rating.

Credit ratings will be discussed in more depth later, but simply put: it’s in your best interest to be one of the bank's best customers by keeping a careful eye on your checking account balance and paying your bills on time. If you do these things, you’re more likely to qualify for the bank's best rates when it comes time to apply for a loan.


Banks vs. Credit Unions
Question 1 of 7
Point Value: 10
Would the following statement apply to a bank, or a credit union?
Money is insured up to $250,000 for each depositor by the FDIC
Bank
Credit Union
PROPERTIES
On passing, 'Finish' button:
Goes to Next Slide
On failing, 'Finish' button:
Goes to Next Slide
Allow user to leave quiz:
After user has completed quiz
User may view slides after quiz:
At any time
User may attempt quiz:
Unlimited times
Properties...
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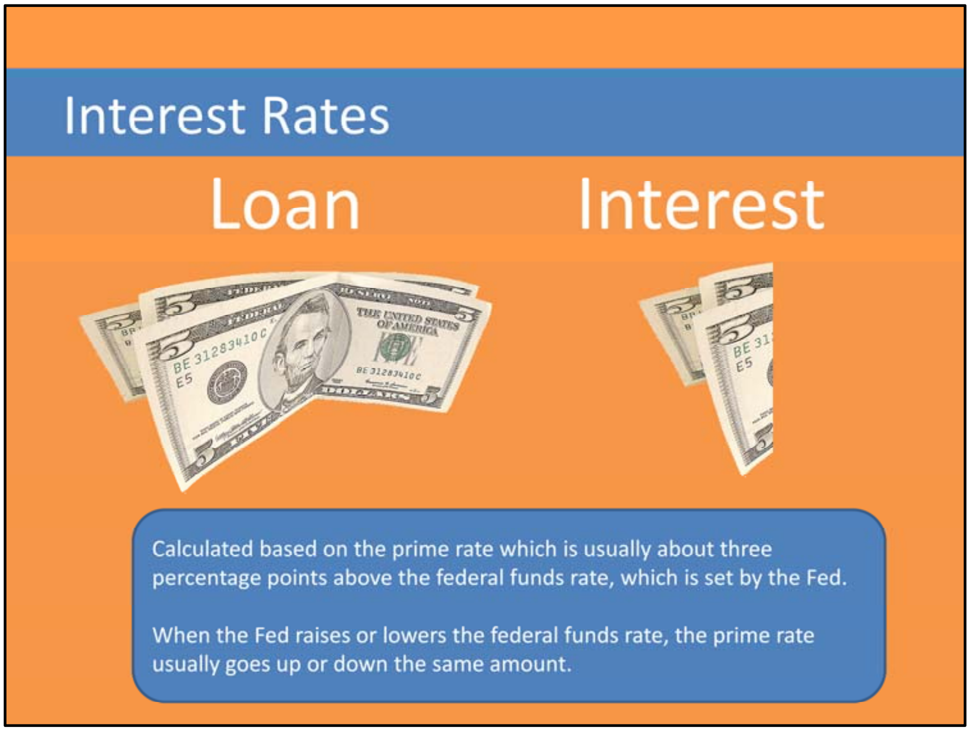
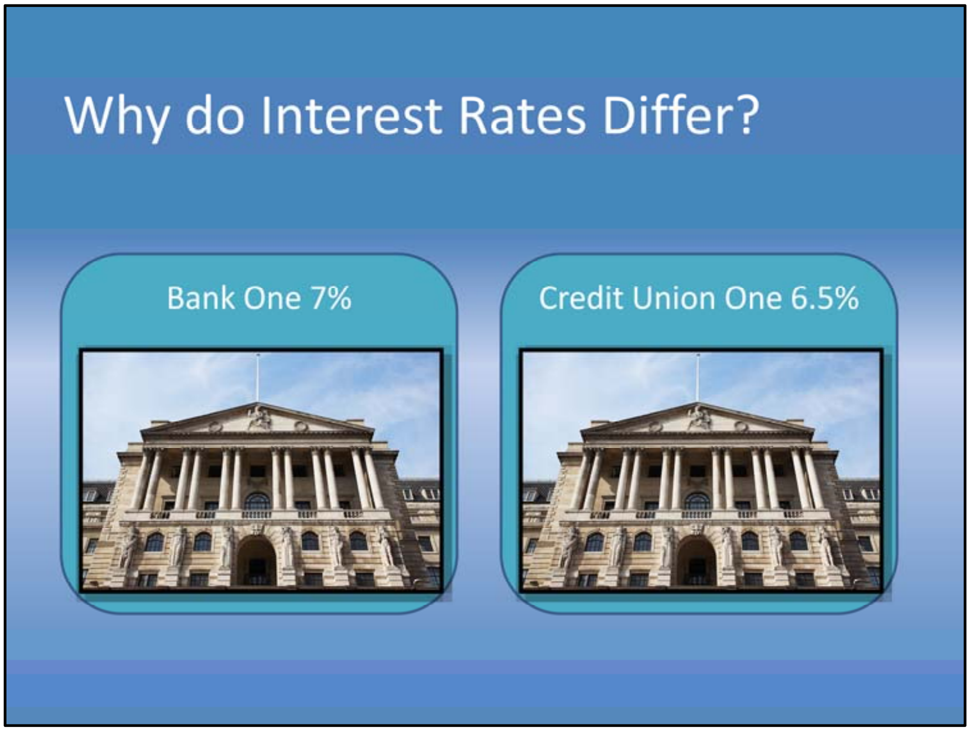


Banks charge interest on money you borrow through loans, credit cards and other services. The interest rate is set by the bank and is calculated as a percentage of the amount of money borrowed. Interest rates are calculated based on the prime rate which is usually about three percentage points above the federal funds rate, which is set by the Fed.

The prime rate serves as the basis for calculating all types of loans. When the Fed raises or lowers the federal funds rate, the prime rate usually goes up or down the same amount. Only the best customers get to borrow at rates that are close to the prime rate: people or businesses who are the most likely to pay the money back.



If the prime rate is the same for all banks, why do interest rates differ?

One of the ways that credit unions serve their member owners is by providing lower interest rates on loans to its members by reinvesting some of the money it makes on loans to subsidize loans. Banks are out to make a profit, so they take the profits and distribute them to shareholders.

Interest rates can influence which bank you choose and determine how much you will pay to borrow money for a car or a house. Remember that all financial institutions give their best customers the lowest interest rates, so it's important to be the best bank customer you can be.

There are lots of reasons that someone might get a higher or lower interest rate on a loan, but the main reason is their credit history. Is it good, bad, or non-existent? Those people with a bad or non-existent credit history have to pay higher interest rates because there's a greater risk that they won't pay back the loan.

When you're starting out, it's difficult to get the best rates for loans because you don't have much of a credit history; but you can have a good start by being the best bank customer you can be. You begin a relationship with the bank when you open an account. Maintaining a checking account without overdrawing (taking out more money than you deposited) is the first step towards building a positive relationship with the bank and building a strong credit history.

As you build a strong credit history, eventually you'll get the best interest rates. It all starts with you.