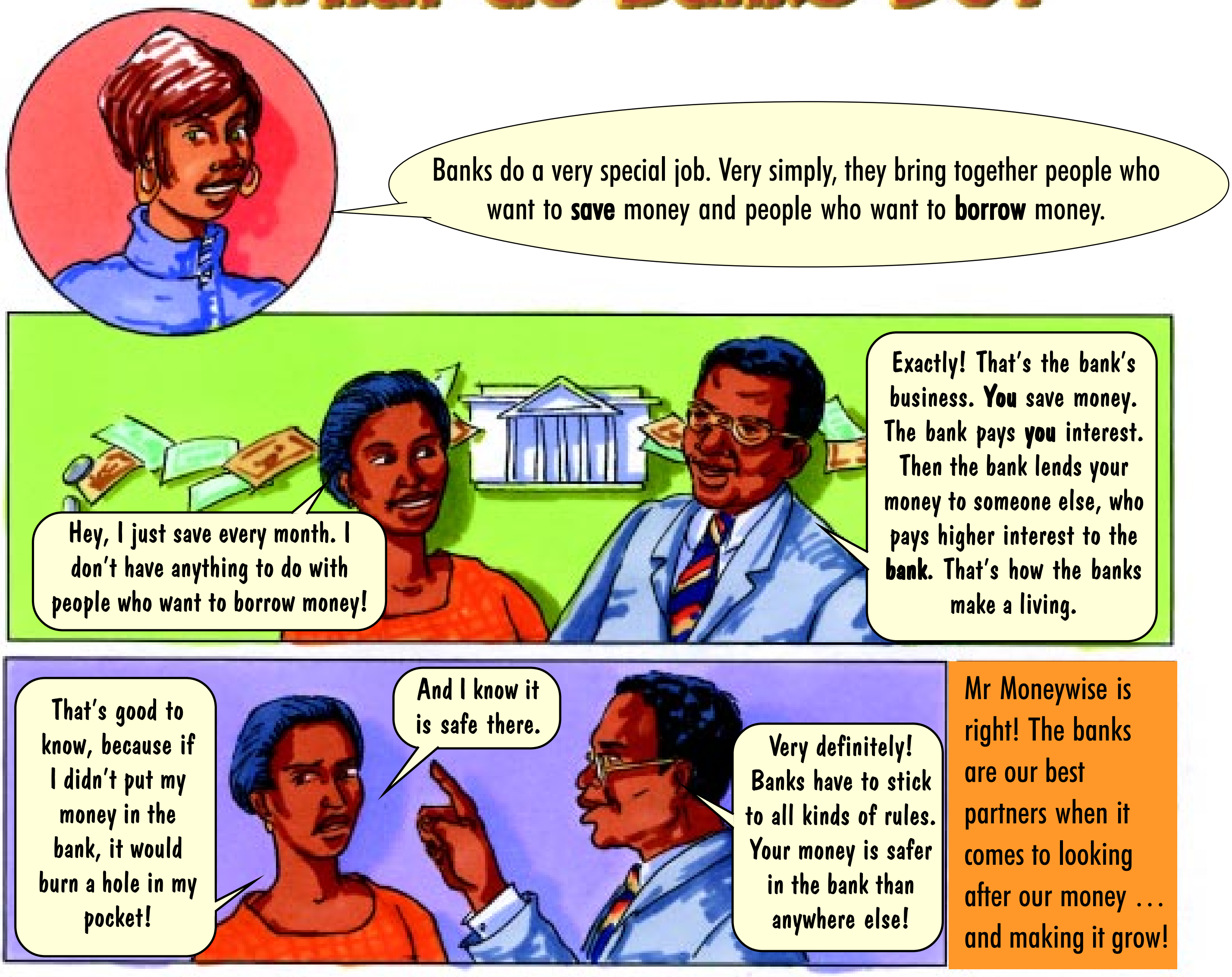
What do Banks Do?



BANKS PROVIDE THREE MAIN KINDS OF SERVICES

- They receive **deposits** (savings) from us and invest our money. Then they pay us interest on our money.
- They do banking **transactions** for us. We pay "bank charges" for these transactions — such as cashing cheques, transferring payments etc.
- They **lend** us money.
  Then **we** pay **them** interest.

HOW DO THE BANKS KNOW THEIR BORROWERS WILL REPAY THEIR LOANS?

Banks are very **strict**. They check up to see if a person or a company has a good **credit record** before they **approve** a loan!

What Services do Banks Offer?

South Africa has one of the best banking services in the world. But **different customers** have **different needs**, and so you must find the bank that suits **your** needs best.

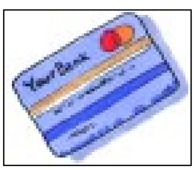
When you decide to open your first bank account, go to two or three **different** banks. Ask to speak to someone who can give you **advice** … and then decide which bank **feels** right for you. Does the bank **understand** what you need? Does it make you feel **comfortable** and **special**? What are the service fees?

Here are some of the services that banks offer you

Savings accounts

This is mainly for saving, but you can also use it to make other transactions. You need only a small amount of money to open a savings account — and you are paid **interest** on your money. Some banks allow you to make a certain number of cheque withdrawals from your savings account. **ATMs (Automatic Teller Machines)** give you access to your savings 24 hours a day.

Debit cards

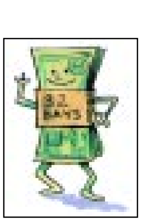


A debit card gives you the benefits of "electronic banking" without the danger of spending money you do not actually have. Managing your finances is **easy** — you can only spend money that you have in your account and it comes out of your account immediately! You also get a printout once you have finished your transaction, showing how much money is left in your account.You can now pay for your shopping with a debit card at more and more businesses.

Credit card accounts

With a credit card, you can pay for your shopping without having to own a cheque book or carry cash. All your purchases go onto your **account** (you buy "on credit") and you pay the bank once a month. You will only qualify for a credit card once you have a **good credit record**. If possible, avoid using a credit card for term purchases (on your budget account) as interest rates are very high.

Notice deposit accounts



Notice deposit accounts earn you higher interest, but there are **restrictions**. The minimum amount needed to open the account is higher than for an ordinary savings account. The main difference is that you have to give the bank an **agreed period of notice** (e.g. 32 or 60 days) before you can access money in your account.

Fixed deposit accounts

This account offers a **fixed interest rate** over a **fixed period of time** (say 12 or 24 months). The money must remain in the account for the specified period of time. This protects you from the temptation of drawing the money, and is a good form of saving for a **particular goal**, such as education or a new car.

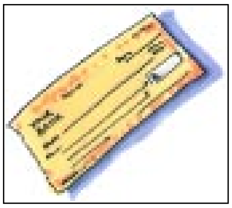
Unit trusts

Banks do offer unit trusts as part of their service. See page 39 for more information on unit trusts.

Society or group accounts

Designed for a group of people who want to **save together**, this type of account is similar to a stokvel. Bank costs are low and your savings earn **interest**. A minimum amount has to remain in the account to keep it open.

Cheque accounts



With a cheque account (or **current** account) you receive a cheque book, and you can pay people by cheque. But there is a **fee** for every transaction. Your cheque account will pay you no **interest**, but your bank may allow you an **overdraft** (a type of loan) on it, depending on your **credit record**.

Personal loans

When you have a good track record with your bank, it may allow you to take out a personal loan.

Retail bonds

Buying retail bonds is an alternative to depositing your money in a bank account. Retail bonds are issued by the Government and are a safe and risk-free way of investing your money. The interest rate of retail bonds is fixed for the entire period of investment, which guarantees the steady growth of your money.

Home loan account (bond)

A home loan account, or bond, is probably the most important contract, apart from marriage, that you will sign in your life. It is a **long-term agreement** between you and your bank. If you qualify, the bank lends you money to buy or build a home. The loan, with **interest**, is repaid over 20 or 30 years. By repaying it sooner, you can save on interest. Your home is the bank's security. If you fall behind with your repayments, the bank may repossess your home to cover any money that you still owe.

Hire Purchase (HP) accounts

Certain **banks** specialise in hire purchase loans which are registered over the items you buy. If you don't pay your instalments, the items you have purchased are repossessed. Usually the dealer negotiates the loan with the bank on your behalf, but you can talk to the bank direct to try to get a slightly lower **interest rate.** Before you take out an HP, the company usually checks your **credit record.** A bad credit record will usually mean the HP application is turned down.

Internet and telephone banking

If you have a **computer** (and you subscribe to the **Internet)** or your own **touch-tone phone,** you can do a lot of your banking from home or from your office.

Some accounts have no upper or lower limits, as long as you keep them open and you use them regularly. When an account has been **dormant** (not used) for a certain period, the banks have the right to close it and keep your money in a special reserve fund until you claim it one day.

Talk to your bank. Find out more about the different services it can offer you.

REMEMBER THE GOLDEN RULE:
MONEY THAT YOU SAVE *MAKES* YOU MONEY.
MONEY THAT YOU BORROW *COSTS* YOU MONEY -
AT HIGHER INTEREST RATES THAN YOU EARN ON YOUR SAVINGS!