



PENNSYLVANIA ASSOCIATION OF COMMUNITY BANKERS

THE VOICE FOR COMMUNITY BANKING IN PENNSYLVANIA SINCE 1876

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Never before has the difference between your local community bank and the Wall Street and non-traditional financial institutions been more apparent than in today's financial services marketplace.

Remember the good old days when you could easily identify a bank. Today, there are several different types of "banks":

- **Community Banks** are locally owned and managed by a local board of directors and characterized by local lending decisions, local investment and civic involvement in their communities. Community banks are chartered in your state, or may have "national" or "N.A" in their name, which connotes a federal charter. They are, in most cases, small businesses. The vast majority of banks in the United States are "community banks".
- **Mega-Banks** could be defined as those multi-billion dollar banks that are "too big to fail." They operate across multiple state lines, and are engaged in a multitude of financial services related businesses.
- **Investment Banks** work with companies or other entities who want to raise capital. These banks generally do not accept customer deposits.
- **Central Banks** are responsible for managing monetary policy. In the United States, the Federal Reserve is the central bank empowered to conduct monetary policy and enforce regulations of financial institutions.
- **Savings Banks** were originally created to promote affordable home ownership. While the number of thrift charters has declined since the 1980s, many still exist throughout the United States and are effectively traditional banks. They are insured by the FDIC as are commercial banks. Generally, these entities are distinguishable only with the addition of the initials "SSB" – state savings bank, or "FSB" – federal savings bank.
- **"Offshore" Banks** are chartered outside of the United States, and frequently in the Caribbean. While many of these entities are perfectly legitimate, you should use caution prior to investing or depositing your money into any entity with a "deal that is too good to be true".

During the past few years, the lines have become blurred when talking about financial institutions. Many people confuse other types of financial institutions with banks because of some of the services they provide.

- **Online banks** are a relatively new banking concept. They are driven strictly by the Internet with no brick and mortar buildings. While there is no personal touch, some prefer the convenience and speed of the Internet. Don't confuse "online banks" with "online banking." Most traditional banks offer online banking services for their customers, but should a problem arise, you can go to a brick and mortar building to talk to a bank representative.
- **Payday lenders** provide small, short-term loans, usually \$500 or less, intended to cover a borrower's expenses until the next payday. According to Wikipedia, finance charges on payday loans are typically in the range of 15 to 30 percent of the amount for the two-week period, which translates to rates ranging from 390 percent to 780 percent when expressed as an annual percentage rate.
- **Credit unions** like to position themselves as banks. However, they are not subject to some of the strict banking regulations of traditional banks and are not required to adhere to the Community Reinvestment Act (CRA), which requires banks to serve the needs of the communities in which they are located. Additionally, credit unions are not subject to federal income tax or a number of state and local taxes.

Consumers should remember that banks and other financial institutions are not public utilities, but rather private businesses with shareholders expecting a return on their investments. Dramatic developments over the past months have created some concerns and many questions as several of the largest institutions in the country have received substantial government assistance. This is a rapidly changing world; however, the bottom line is that the FDIC insurance fund is backed by the United States government, and your deposits are safe. More information is available at www.fdic.gov. Your local community banker is a great resource for any questions you may have regarding your financial needs, and is a source of stability in these turbulent times.

This information is provided with the understanding that the association is not engaged in rendering specific legal, accounting, or other professional services. If specific expert assistance is required, the services of a competent, professional person should be sought.

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