

Lesson Four

Banks

Review

What are the three main things you can buy money with? (stuff, talent and time)

What determines the value of your time? (skills, abilities and knowledge)

What are some of the ways that claim to bring wealth quickly? (gambling, the lottery and easy business)

Why do you tithe?

Introduction

This week we will be learning about something very practical. Tonight we will learn about banking and how banks work. Probably all of you have been to a bank before and several of you may even have a bank account. How many of you do have a bank account?

However, most of you probably do not know very much about a bank?

What are banks for?

What are some of the things that banks do?

(Expect answers like to keep money and to protect money. You might have someone say to lend money)

Money Stores

Well, did you know that banks are businesses just like McDonalds and Wal-Mart? Most every business tries to make money by selling stuff.

What do you think banks sell to make money?

Banks sell money to make money. We will go into detail later, but people buy money from the bank. Do your parents own a car? Do they own a house? Then your parents probably bought money from the bank to buy the house of the car.

Well, if banks are selling money, where do you think that they get the money they sell?

Who thinks that they print money and sell it?

Raise your hand if you have a bank account. They get the money they sell from you!

Buying and Selling Money

Let's look at how this works. Banks not only sell money, but they buy it too. When you open up a savings account, they are actually buying money from you.

Does anyone know what the term "interest" means?

Interest is the price that banks buy money from you. Usually the bank will pay you to keep your money safe. If you were to put your money in a bank account that pays 10% interest a year (which is actually more than banks will pay), then the people at the bank will add that amount to your money.

Let's demonstrate

Give a child \$10 and tell them to pretend that they are coming to the bank to open a savings account. Have them give you the \$10 and hold it in your hands. This bank pays 10% interest a year so if you wanted to withdraw the money exactly a year later you would have more than \$11. (Talking about compounding interest would probably be too confusing) That doesn't seem like very much, but if you have more money earning interest, then you will get more in interest.

It is also important to know that your money is not sitting in the vault somewhere. You don't get the same crispy bills back that you put in. The bank keeps track of your money and your interest but it does something else with your money.

The bank is out to make money, so it takes your money and sells it along with other people's money to people who need money. And instead of paying interest, the bank charges interest. That means that the person buying the money (commonly called borrowing) has to pay for the money with extra money... interest. The person may have to pay 20% interest (which is probably more than most banks would charge).

Let's demonstrate

Hold the \$10 from earlier in your hand and give it to someone saying that you are selling a loan to them and charging 20% interest. (give him \$2 extra saying that he made it from his job) At the end of the year, you will owe me the \$10 plus \$2.

Put it together

Now you can see how the bank makes money. Give one kid (kid A) the \$10 and give another kid (kid B) \$2. Now look at kid A and say, "you want to open up a savings account? I'll take your money and keep it safe and pay you 10% interest." Then turn to kid B and say, "so you need to borrow some money? I'll loan you \$10 so that you can do whatever you need to do. I'll charge you 20% interest for the loan."

Then tell every one that a year has gone by. Turn to kid B and say, "it's time to pay up. \$10 plus 20% interest, that will be \$12." Collect the money. Then turn to kid A and say, "Well we have taken good care of your money and have paid you 10% interest. Here is your money." Give him \$11.

Now how much do I have left. By buying money for a low price and selling it at a high price, the bank made \$1.

Well, a dollar may not seem like a whole lot, but most savings accounts have more than \$10 in them and most loans are for more than \$10. Also, most loans last for longer time periods like 10,15 and 30 years.

What if?

Before you even ask it, we know what you are going to ask. What if I want my money out of my savings account before the other person is done paying back the loan. How can I get my money if someone else is using it right now?

Well the answer is very simple. Remember that you are not the only one using the bank. There are many other people who have their savings accounts in the bank and there are several people who are paying for loans as well. Some of the money you withdraw may come from that as well. Also, incase of emergencies, the bank has extra cash in the vault.

Conclusion

As you can see, the bank is a lot like a money juggler. It takes money from one person, gives it to another and vice versa. Now you understand the very basic of what a bank does.

The challenge

Remember that this is financial stewardship. Your money is really God's money and you need to take care of it and use it wisely. Keeping all your money in a piggy bank at home is not necessarily the best thing to do with your money. Putting it in the bank is a safe place and the bank will even pay you for doing it.

Let's be good stewards of God's money. You need to think ahead. What is something far down the road that you are going to need? In 8 to 10 years, all of you will be buying a car, going to college or even getting married. All those things cost a lot of money. Just think, you can begin saving now so that you can get what you need simply because you were a good steward.

If you open up a savings account tomorrow and decide to put in \$5 a week into the account, by the time you are 18, you will have close to \$3000 to put toward a car, pay for college or other big expenses. Maybe you can't quite do \$5 but you can do \$2. When you are 18, that will be close to \$1000. When you are 18, and you have that money in savings, you will be so glad that you were financially wise. Talk to your parents tonight about opening a savings account or starting to put money in your current account regularly.

Remember, whatever you get for allowance, tithe first. Then take a little, whether it is \$5, \$2 or \$1 a week and put that into a savings account for the future.