Lecture 01:

What Is Financial Institution?

A financial institution (FI) is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange. Financial institutions include a broad range of business operations within the financial services sector, including banks, insurance companies, brokerage firms, and investment dealers.

Virtually everyone living in a developed economy has an ongoing or at least periodic need for a financial institution's services.

Financial institutions often match savers' or investors' funds with those seeking funds, such as borrowers or businesses seeking to finance their projects (investment opportunities). Typically, this leads to future payments from the borrower or business to the saver or investor. The tools for matching all of these parties up include products such as loans, and markets, such as a stock exchange.

At the most basic level, financial institutions allow people to access the money they need. For example, although banks do many things, their primary role is to take in funds—called deposits—from those with money, pool the deposits, and lend the money to others who need funds. Banks are intermediaries between depositors (who lend money to the bank) and borrowers (who the bank lends money to).

This works well because while some depositors need their money at any given moment, most do not. So, banks can use deposits to make long-term loans. This applies to almost every entity and individual in a capitalist system: individuals and households, financial and nonfinancial firms, and national and local governments.

Financial institutions serve most people in some way as a critical part of any economy—whether in banking, insurance, or securities markets. Individuals and companies rely on financial institutions for transactions and investing. For example, the health of a nation's banking system is a linchpin of economic stability. Loss of confidence in a financial institution can easily lead to a bank run.[1]

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[1] A bank run is when the customers of a bank or other financial institutions withdraw their deposits at the same time over fears about the bank's solvency. As more people withdraw their funds, the probability of default increases, which, in turn, can cause more people to

Lecture 02:

The Functions of Financial Institutions in Capital Markets

Capital markets are important for functioning capitalist economies because they channel savings and investments between suppliers and those in need. Suppliers are people or institutions with capital to lend or invest. Suppliers typically include banks and investors. Those seeking capital are businesses, governments, and individuals.

Financial institutions play an important role in capital markets, directing capital to where it is most useful. For example, a bank takes in deposits from customers and lends the money to borrowers, ensuring capital markets' efficient function.

Regulation

Governments oversee and regulate banks and financial institutions because the institutions play an integral economic role. Bankruptcies of a financial institution, for instance, can create panic. Central and local agencies can regulate financial institutions. Sometimes, multiple agencies regulate the same institution.

So:

- A financial institution (FI) is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange.
- Financial institutions are vital to a functioning capitalist economy in matching people seeking funds with those who can lend or invest it.
- Financial institutions encompass a broad range of business operations within the financial services sector including banks, insurance companies, brokerage firms, and investment dealers.
- Financial institutions vary by size, scope, and geography.

Types of Financial Institutions

Financial institutions offer various products and services for individual and commercial clients. The specific services offered vary widely between different types of financial institutions.

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withdraw their deposits. In extreme cases, the bank's reserves may not be sufficient to cover the withdrawals.

These financial institutions accept deposits and offers checking and savings account services; make business, personal, and mortgage loans; and provides basic financial products like certificates of deposit (CDs). They may also act as payment agents via credit cards, wire transfers, and currency exchange.

These types of financial institutions can include:

- Banking Institutions: they include Commercial and specialized banks
- Non-Banking Institutions: they include various institutions; such as insurance companies, pension funds, savings and loans associations, credit unions and etc.

Lecture 03:

Banks: Definitions, Types, and Functions

A bank is a financial institution that is licensed to accept checking and savings deposits and make loans. Banks also provide related services such as certificates of deposit (CDs), and currency exchange.

In Algeria, banks are regulated by the bank of Algeria, while in the U.S. banks are regulated by the national government and by the individual states.

Banks have existed since at least the 14th century. They provide a safe place for consumers and business owners to stow their cash and a source of loans for personal purchases and business ventures. In turn, the banks use the cash that is deposited to make loans and collect interest on them.

The basic business plan has not changed much since the Medici family started dabbling in banking during the Renaissance, but the range of products that banks offer has grown.

Basic Bank Services

Banks offer various ways to stash your cash and various ways to borrow money.

Checking Accounts

Checking accounts are deposits used by consumers and businesses to pay their bills and make cash withdrawals. They pay little or no interest and typically come with monthly fees, usage fees, or both.

Today's consumers generally have their paychecks and any other regular payments automatically deposited in one of these accounts.

Savings Accounts

Savings accounts pay interest to the depositor. Depending on how long account holders hope to keep their money in the bank, they can open a regular savings account that pays a little interest or a certificate of deposit (CD) that pays a little more interest. The CDs can earn interest for as little as a few months or as long as five years or more. It should be noted that the certificate of deposit (CD) is a savings product that earns interest for a fixed period of time. CDs differ from the saving deposits because the money must remain untouched for the entirety of

their term or risk penalty fees or lost interest. CDs usually have higher interest rates than savings deposits as an incentive for lost liquidity.

Loan Services

Banks make loans to consumers and businesses. The cash that is deposited by their customers is lent out to other customers at a higher rate of interest than the depositor is paid.

At the highest level, this is the process that keeps the economy humming. People deposit their money in banks; the bank lends the money out in car loans, credit cards, mortgages, and business loans. The loan recipients spend the money they borrow, the bank earns interest on the loans, and the process keeps money moving through the system.

Just like any other business, the goal of a bank is to earn a profit for its owners. For most banks, the owners are their shareholders. Banks do this by charging more interest on the loans and other debt they issue to borrowers than they pay to people who use their savings vehicles.

For example, a bank may pay 1% interest on savings accounts and charge 6% interest for its mortgage loans, earning a gross profit of 5% for its owners. So, banks make a profit by charging more interest for loans than they pay on savings accounts.

How Are Banks Regulated?

Due to their importance, banks are tightly regulated by a high authority, in Algeria banks are regulated by the central bank named “Bank of Algeria”. However, in other countries the case may differ. For instance, U.S. banks may be regulated at the state or national level, or both. State banks are regulated by each state's department of banking or department of financial institutions. This agency is generally responsible for issues such as permitted practices, how much interest a bank can charge, and auditing and inspecting banks. National banks are regulated by the Office of the Comptroller of the Currency (OCC). OCC regulations primarily cover bank capital levels, asset quality, and liquidity.

Types of Banks

Most banks can be categorized as commercial or corporate, or specialized banks.

1. **Commercial or Corporate Banks**

The term “commercial bank” refers to a financial institution that accepts deposits, offers checking account services, makes various loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses.

Commercial banks make money by providing and earning interest from loans such as mortgages, auto loans, business loans, and personal loans. Customer deposits provide banks with the capital to make these loans.

Most banks active now in Algeria are commercial banks.

How Do Commercial Banks Work?

Commercial banks provide basic banking services and products to the general public, both individual consumers and small to midsize businesses. These services include checking and savings accounts; loans and mortgages; basic investment services such as CDs; and other services such as safe deposit boxes.[1]

Banks make money from service charges and fees. These fees vary based on the products, ranging from account fees (monthly maintenance charges, minimum balance fees, overdraft fees, and non-sufficient funds [NSF] charges), safe deposit box fees, and late fees. Many loan products also contain fees in addition to interest charges.

Banks also earn money from interest they earn by lending out money to other clients. The funds they lend comes from customer deposits. However, the interest rate paid by banks on the money they borrow is less than the rate charged on the money they lend. For example, a bank may offer savings account customers an annual interest rate of 0.25%, while charging mortgage clients 4.75% in interest annually.

Commercial banks have traditionally been located in buildings where customers come to use teller window services and automated teller machines (ATMs) to do their routine banking. With the rise in internet technology, most banks now allow their customers to do most of the same services online that they could do in person, including transfers, deposits, and bill payments. A growing number of commercial banks operate exclusively online, where all transactions with the commercial bank must be made electronically. Because these banks don't have any brick-and-mortar[2] locations, they can offer a wider range of products and services at a lower cost—or none at all—to their customers.

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[1] A safe deposit box (or safety deposit box) is an individually secured container—usually a metal box—that stays in the safe or vault of a federally insured bank or credit union. Safe deposit boxes are used to keep valuables, important documents, and sentimental keepsakes protected. Customers rely on the security of the building and vault to safeguard their contents.

[2] The term "brick-and-mortar" refers to a traditional street-side business that offers products and services to its customers face-to-face in an office or store that the business owns or rents. The local grocery store and the corner bank are examples of brick-and-mortar companies. Brick-and-mortar businesses have found it difficult to compete with web-based businesses like Amazon.com Inc because the latter usually have lower operating costs and greater flexibility.

Significance of Commercial Banks

Commercial banks are an important part of the economy. They not only provide consumers with an essential service but also help create capital and liquidity in the market.

Commercial banks ensure liquidity by taking the funds that their customers deposit in their accounts and lending them out to others. Commercial banks play a role in the creation of credit, which leads to an increase in production, employment, and consumer spending, thereby boosting the economy.

As such, commercial banks are heavily regulated by a central bank in their country or region. For instance, central banks impose reserve requirements on commercial banks. This means that banks are required to hold a certain percentage of their consumer deposits at the central bank as a cushion if there is a rush to withdraw funds by the general public.

2. **Specialized Banks**

Under the resolutions of their founding, specialized banks are described as banking operations that service a particular sort of economic activity, such as industrial activity, agricultural activity, or real estate. The significant features of a specialized bank's activity do not require it to take demand deposits.

These banks give financial assistance to specialized sectors, international trade, and other areas. Foreign exchange banks, export and import banks and other specialized banks are a few examples.

Advantages of Specialized Banks

- Specialized banks do not rely on financial resources from individual deposits, such as commercial banks, but instead rely upon capital or bonds issued.
- It is linked to a problem that specialized banks cannot develop into diverse activities due to a lack of financial resources. Businesses, including banks, cannot invest money from clients due to a lack of financial resources.
- The majority of the loans were provided over relatively long periods. Most specialized banks invest resources in long-term loans.
- Specialization in a particular economic activity, such as finance. Banks specialize in certain activities, as evidenced by their names, such as industrial banks, which finance the industrial sector. Agricultural banks finance the agricultural industry,

and real estate banks primarily finance the construction industry, housing, and utilities.

- The government usually owns them since they aim to create economic and social development rather than make a profit.

3. Central Banks

Unlike the banks above, central banks do not deal directly with the public. A central bank is an independent institution authorized by a government to oversee the nation's money supply and its monetary policy.

As such, central banks are responsible for the stability of the currency and of the economic system as a whole. They also have a role in regulating the capital and reserve requirements of the nation's banks.

Bank of Algeria is the central bank of Algeria. The U.S. Federal Reserve Bank, the European Central Bank, the Bank of England, the Bank of Japan, the Swiss National Bank, and the People’s Bank of China are among its counterparts in other nations.

Lecture 04:
Non-Banking Institutions

Insurance: Definition, How It Works, and Main Types of Policies

What Is Insurance?

Insurance is a contract, represented by a policy, in which a policyholder receives financial protection or reimbursement against losses from an insurance company. The company pools clients' risks to make payments more affordable for the insured. Most people have some insurance: for their car, their house, their healthcare, or their life.

Insurance policies hedge against financial losses resulting from accidents, injury, or property damage. Insurance also helps cover costs associated with liability (legal responsibility) for damage or injury caused to a third party.

Therefore:

- Insurance is a contract (policy) in which an insurer indemnifies another against losses from specific contingencies or perils.
- There are many types of insurance policies. Life, health, homeowners, and auto are among the most common forms of insurance.
- The core components that make up most insurance policies are the premium, deductible, and policy limits.

How Insurance Works

Many insurance policy types are available, and virtually any individual or business can find an insurance company willing to insure them—for a price. Common personal insurance policy types are auto, health, homeowners, and life insurance.

Businesses obtain insurance policies for field-specific risks, for example, a fast-food restaurant's policy may cover an employee's injuries from cooking with a deep fryer. Medical malpractice insurance covers injury- or death-related liability claims resulting from the health care provider's negligence or malpractice. Businesses may be required by state law to buy specific insurance coverages.

Insurance Policy Components

Understanding how insurance works can help you choose a policy. For instance, comprehensive coverage may or may not be the right type of auto insurance for you. Three components of any insurance type are the premium, policy limit, and deductible.

Premium

Often, an insurer takes multiple factors into account to set a premium. Here are a few examples:

- **Auto insurance premiums**: Your history of property and auto claims, age and location, creditworthiness, and many other factors that may vary by state.
- **Home insurance premiums**: The value of your home, personal belongings, location, claims history, and coverage amounts.
- **Health insurance premiums**: Age, sex, location, health status, and coverage levels.
- **Life insurance premiums**: Age, sex, tobacco use, health, and amount of coverage.

Much depends on the insurer's perception of your risk for a claim. For example, suppose you own several expensive automobiles and have a history of reckless driving. In that case, you will likely pay more for an auto policy than someone with a single midrange sedan and a perfect driving record. However, different insurers may charge different premiums for similar policies. So, finding the price that is right for you requires some legwork.

Policy Limit

The policy limit is the maximum amount an insurer will pay for a covered loss under a policy. Maximums may be set per period (e.g., annual or policy term), per loss or injury, or over the life of the policy, also known as the lifetime maximum.

Typically, higher limits carry higher premiums. For a general life insurance policy, the maximum amount that the insurer will pay is referred to as the face value. This is the amount paid to your beneficiary upon your death.

Deductible

The deductible is a specific amount you pay out of pocket before the insurer pays a claim. Deductibles serve as deterrents to large volumes of small and insignificant claims.

For example, a 100,000 dinars deductible means you pay the first 100,000 dinars toward any claims. Suppose your car's damage totals 200,000 dinars. You pay the first 100,000 dinars, and your insurer pays the remaining 100,000 dinars.

Deductibles can apply per policy or claim, depending on the insurer and the type of policy. Health plans may have an individual deductible and a family deductible. Policies with high deductibles are typically less expensive because the high out-of-pocket[1] expense generally results in fewer small claims.

Types of Insurance

There are many different types of insurance. Let’s look at the most important.

[1] Out-of-pocket expenses are costs that an individual is responsible for paying that may or may not be reimbursed later.

Health Insurance
Health insurance helps covers routine and emergency medical care costs, often with the option to add vision and dental services separately. In addition to an annual deductible, you may also pay copays and coinsurance,[2] which are your fixed payments or percentage of a covered medical benefit after meeting the deductible. However, many preventive services may be covered for free before these are met.

Health insurance may be purchased from an insurance company, an insurance agent, the National Health Insurance Marketplace, provided by an employer, or National Medicare and Medicaid coverage. The government requires their residents to have health insurance.

Home Insurance
Homeowners insurance (also known as home insurance) protects your home, other property structures, and personal possessions against natural disasters, unexpected damage, theft, and vandalism. Renter's insurance is another type of homeowners insurance.

Homeowner insurance will not cover floods or earthquakes, which you will have to protect against separately.

Your lender or landlord will likely require you to have homeowners insurance coverage. Where homes are concerned, you do not have coverage or stop paying your insurance bill, your mortgage lender is allowed to buy homeowners insurance for you and charge you for it.

Auto Insurance
Auto insurance can help pay claims if you injure or damage someone else's property in a car accident, help pay for accident-related repairs on your vehicle, or repair or replace your vehicle if stolen, vandalized, or damaged by a natural disaster.

Instead of paying out of pocket for auto accidents and damage, people pay annual premiums to an auto insurance company. The company then pays all or most of the covered costs associated with an auto accident or other vehicle damage.

If you have a leased vehicle or borrowed money to buy a car, your lender or leasing dealership will likely require you to carry auto insurance. As with homeowners insurance, the lender may purchase insurance for you if necessary.

Life Insurance
A life insurance policy guarantees that the insurer pays a sum of money to your beneficiaries (such as a spouse or children) if you die. In exchange, you pay premiums during your lifetime.

There are two main types of life insurance. Term life insurance covers you for a specific period, such as 10 to 20 years. If you die during that period, your beneficiaries receive a payment. Permanent life insurance covers your whole life as long as you continue paying the premiums.

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[2] Coinsurance and copays are both important terms for understanding the costs of health insurance. These and other out-of-pocket costs affect how much you'll pay for the healthcare you and your family receive.

Travel Insurance

Travel insurance covers the costs and losses associated with traveling, including trip cancellations or delays, coverage for emergency healthcare, injuries and evacuations, and damaged baggage, rental cars, and rental homes.

What Is Insurance?

Insurance is a way to manage your financial risks. When you buy insurance, you purchase protection against unexpected financial losses. The insurance company pays you or someone you choose if something bad occurs. If you have no insurance and an accident happens, you may be responsible for all related costs.1

Why Is Insurance Important?

Insurance helps protect you, your family, and your assets. An insurer will help you cover the costs of unexpected and routine medical bills or hospitalization, accident damage to your car or injury of others, and home damage or theft of your belongings. An insurance policy can even provide your survivors with a lump-sum cash payment if you die. In short, insurance can offer peace of mind regarding unforeseen financial risks.

Is Insurance an Asset?

Depending on the type of life insurance policy and how it is used, permanent or variable life insurance could be considered a financial asset because it can build cash value or be converted into cash. Simply put, most permanent life insurance policies have the ability to build cash value over time.

Insurance helps to protect you and your family against unexpected financial costs and resulting debts or the risk of losing your assets. Insurance helps protect you from expensive lawsuits, injuries and damages, death, and even total losses of your car or home.

Sometimes, your state or lender may require you to carry insurance. Although there are many insurance policy types, some of the most common are life, health, homeowners, and auto. The right type of insurance for you will depend on your goals and financial situation.

Insurance Companies

A company that creates insurance products to take on risks in return for the payment of premiums. Companies may be mutual (owned by a group of policyholders) or proprietary (owned by shareholders). (Also known as insurer or provider).
In other words, Insurance companies are financial intermediaries which offer direct insurance or reinsurance services, providing financial protection from possible hazards in the future.

Under an insurance policy, the insurance company undertakes to compensate the policyholder for losses caused by a pre-defined event against a fee, or “premium”.

Typically, insurance companies may cover specific kinds of events.

- In the case of **life insurance policies** the event is usually the death or a deterioration of the health of the insured person. Life insurance contracts are often held to save money over a longer time span and sometimes for retirement.
- **Non-life insurance** policies protect against risks of financial loss. They cover expenses the policyholder incurs from damages to health or property (policies typically offered are medical expenses, or house, motor vehicle and fire insurance), and financial losses like a loss of income.
- A special case of non-life insurance is reinsurance. Under a **reinsurance** contract an insurance corporation agrees to take on the risk related to a policy held by another insurance company against a premium. If a payment obligation arises, the reinsurance corporation has to pay.

Why are they important?

Insurance policies are an important cornerstone of many households' income and wealth in Europe. Insurance companies also play an important role in financial markets as institutional investors and investment targets. For these reasons, the monetary authorities oversee these institutions.

Lecture 05:

Credit Unions

A credit union is a type of nonprofit financial institution providing traditional banking services and is created, owned, and operated by its members.

Historically, credit unions used to serve a specific and shared demographic group, also known as the field of membership. The commonality might be based on employer, a geographic area, or membership in another type of group. Today, many have loosened membership restrictions and are open to the general public with minimal requirements, such as joining a nonprofit organization for a small fee.

Credit unions are not publicly traded and only need to make enough money to continue daily operations, so they often can afford to provide reduced fees and better interest rates than banks.

In other words, A credit union is a type of financial cooperative that provides traditional banking services. Ranging in size from small, volunteer-only operations to large entities with thousands of participants spanning the country, credit unions can be formed by large corporations, organizations, and other entities for their employees and members.

Credit unions are created, owned, and operated by their members. As such, they are not-for-profit enterprises that are accorded tax-exempt status.

So:

- Credit unions are financial cooperatives that provide traditional banking services to their members.
- Credit unions have fewer products than traditional banks, but offer clients access to better rates and more ATM locations.
- They are not publicly traded and only need to make enough money to continue daily operations.
- However, credit unions have fewer brick-and-mortar locations than most banks, which can be a drawback for clients who like in-person service.
- Credit unions are exempt from paying corporate income tax on their earnings.
- Credit unions follow a basic business model. Members pool their money (technically, they are buying shares in the cooperative) to provide loans, demand deposit accounts, and other financial products and services to each other. Any income generated is used to fund projects and services that will benefit the community and the interests of members.

Requirements for Membership
Originally, membership in a credit union was limited to people who shared a common bond. They may have worked in the same industry or for the same company. Or they may have lived in the same community. However, credit unions have loosened the restrictions on membership and often allow the general public to join. To do any business with a credit union, you must join it by opening an account there (often for a nominal amount). As soon as you do, you become a member and partial owner. That means you participate in the union's affairs. You may vote to determine the board of directors and decisions concerning the union. A member's voting right is not based on how much money is in their account; each member gets an equal vote.

Advantages of Credit Unions vs. Banks

Non-Profit Status
As with banks, the process of making money at credit unions starts by attracting deposits. In this, credit unions have two distinct advantages over banks, both resulting from their status as nonprofit organizations:

1. Credit unions are exempt from paying corporate income tax on earnings.
2. Credit unions need to generate only enough earnings to fund daily operations. As a result, they can work with narrower operating margins than banks, which are expected by shareholders to increase earnings every quarter.

Better Rates and Fees
The profits that credit unions do make are used to pay members higher interest rates on deposits, and to charge lower fees for services, such as checking accounts and ATM withdrawals. In short, a credit union can save members money on loans, deposit accounts, and savings products.

Disadvantages of Credit Unions vs. Banks

Fewer Locations
Credit unions have considerably fewer brick-and-mortar locations than most banks, which can be a drawback for clients who like in-person service. Most offer modern services such as online banking and auto-bill pay. Still, the small size of many credit unions can mean a compromise on accessibility.

Lower Tech
Smaller credit unions typically do not have the same technology budget as banks, so their websites and security features are often considerably less advanced. That said, some mid-sized and larger credit unions may offer mobile banking apps that rival those of much bigger, for-profit institutions.

Limited Products and Services
While credit unions offer most of the financial products and services that banks do, they often provide less choice. Some banks have 20 different credit card options, ranging from rewards cards to student cards, while some credit unions have only six and offer one credit card.

Less Flexibility
With more resources to allocate to customer service and personnel, banks are keeping later and longer hours. You may find them open until 4 p.m. or 5 p.m. on weekdays, as well. Credit unions tend to maintain traditional bankers' business hours (9 a.m. to 3 p.m., fewer days).

What Benefits Do Credit Unions Offer?

Normally, credit unions offer higher rates on interest-bearing accounts, lower rates on loans, lower fees, and a more personal touch when it comes to customer service.

Can Anyone Join a Credit Union?

Nowadays, you will find more credit unions offering membership to all. Some still have specific eligibility requirements, though, so be sure to check out a credit union's "field of membership" section on its website for details about joining.

How Do I Join a Credit Union?

Once you have located a credit union that interests you, you should be able to find membership specifics and an application to join on its website. The application usually requires the kind of personal information related to opening a financial account (which is what you are doing as part of applying for membership). You will then need to make a deposit to fund the account you have chosen.

The Bottom Line

Credit unions are significantly smaller in size than most banks and are structured to serve a particular region, industry, or group. And though they may have fewer branches, they can still provide customers ample access to their funds as many credit unions are part of expansive ATM networks.

While credit unions must make enough to cover their operations, any profit beyond that goes back to the members in the form of lower fees and account minimums, higher rates on deposits, and lower borrowing rates.

Lecture 06:

Savings and Loan Associations

savings and loan association, a savings and home-financing institution that makes loans for the purchase of private housing, home improvements, and new construction. Formerly cooperative institutions in which savers were shareholders in the association and received dividends in proportion to the organization's profits, savings and loan associations are mutual organizations that now offer a variety of savings plans. Many offer the same services as do other savings institutions, such as tax-deferred annuities, direct deposit of Social Security checks, automatic deductions from accounts for mortgage payments and insurance premiums, and passbook loans.

Under a ruling of the Federal Home Loan Bank Board, which regulates federally chartered savings and loan associations, associations need not rely only on individual deposits for funds. They can borrow from other financial institutions and market mortgage-backed securities, money market certificates, and stock.

The savings and loan association plan for loan repayment, the direct-reduction loan plan, was the prototype of present-day loan-amortization plans requiring the home buyer to make a fixed payment each month; part of the payment is applied to the principal and part to interest, the former increasing each month as the latter decreases. Because high inflation rates have made such fixed-rate mortgages unprofitable, savings and loan associations in the United States are now allowed to renegotiate mortgages.

Savings and loan associations originated with the building societies of Great Britain in the late 1700s. They consisted of groups of workmen who financed the building of their homes by paying fixed sums of money at regular intervals to the societies. When all members had homes, the societies disbanded. The societies began to borrow money from people who did not want to buy homes themselves and became permanent institutions. Building societies spread from Great Britain to other European countries and the United States. They are also found in parts of Central and South America.

The Oxford Provident Building Association of Philadelphia, which began operating in 1831 with 40 members, was the first savings and loan association in the United States. By 1890 they had spread to all states and territories.

Lecture 07 :
Pension Funds

The most common type of traditional pension is a defined-benefit plan. After employees retire, they receive monthly benefits from the plan, based on a percentage of their average salary over their last few years of employment. The formula also takes into account how many years they worked for that company. Employers, and sometimes employees, contribute to fund those benefits.

As an example, a pension plan might pay 1% for each year of the person's service times their average salary for the final five years of employment. So an employee with 35 years of service at that company and an average final-years salary of 50,000 Da would receive 17,500 Da a year.

So:

- Traditional defined-benefit pension plans are vanishing from the retirement landscape, especially among private employers, but many still exist.
- Pension plans are funded by contributions from employers and occasionally from employees.
- Public employee pension plans tend to be more generous than ones from private employers.
- Private pension plans are subject to national regulation.

How Pension Funds Work

For some years now, traditional pension plans, also known as pension funds, have been gradually disappearing from the private sector. Today, public sector employees, such as government workers, are the largest group with active and growing pension funds.

Private pension plans offered by corporations or other employers seldom have a cost-of-living escalator to adjust for inflation, so the benefits they pay can decline in spending power over the years.

Public employee pension plans tend to be more generous than private ones. In addition, public pension plans usually have a cost-of-living escalator.

Lecture 08:

Mortgage Company

A mortgage company is a specialized financial firm engaged in the business of originating and/or funding mortgages for residential or commercial property. A mortgage company is often just the originator of a loan; it markets itself to potential borrowers and seeks funding from one of several client financial institutions that provide the capital for the mortgage itself.

That, in part, is why many mortgage companies went bankrupt during the subprime mortgage crisis of 20008-09. Because they weren't funding most of the loans, they had few assets of their own, and when the housing markets dried up, their cash flows quickly evaporated.

So:

- A mortgage company is a lender specializing in originating home loans.
- Some mortgage lenders offer creative and out-of-the-box loan offerings, such as no origination fees or offering loans to those with less than stellar credit.
- The factors that differentiate one mortgage company from another include relationships with funding banks, products offered, and internal underwriting standards.
- It is possible today to complete a mortgage application entirely online, although some customers prefer face-to-face meetings with a loan offer at a bank.

A mortgage company is a financial firm that underwrites and issues (originates) its own mortgages to homebuyers, using their own capital to issue the loans. Also known as a direct lender, a mortgage company typically only specializes in mortgage products and does not offer other banking services such as checking, investments, or loans for other purposes. Moreover, they will usually offer their own products and will not offer loans or products from other companies.

Many mortgage companies today operate online or have limited branch locations, which may reduce face-to-face interaction, but could, at the same time, lower the costs of doing business.

While a mortgage company will originate loans, they may not service your loan, or keep it on their balance sheet for long. Indeed, many times, a mortgage lender will sell the loan (individually or bundled together with others) to a third-party mortgage servicing institution such as an investment bank, hedge fund, or

agency like Fannie Mae or Freddie Mac. While this typically has no bearing on an individual borrower, this practice has been criticized for creating an abundance of subprime debts that ultimately led to the 2008-09 financial crisis.

Lecture 09:

Brokerage Firm

A brokerage firm or brokerage company is a middleman who connects buyers and sellers to complete a transaction for stock shares, bonds, options, and other financial instruments.

Brokers are compensated in commissions or fees that are charged once the transaction has been completed.

Most discount brokerages now offer their customers zero-commission stock trading. The companies make up for this loss of revenue from other sources, including payments from the exchanges for large quantities of orders and trading fees for other products like mutual funds and bonds.

So:

- A brokerage company primarily acts as a middleman, connecting buyers and sellers to facilitate a transaction.
- Full-service brokerage companies are compensated via a flat annual fee or fees per transaction.
- Online brokers offer a set amount of free stock trading but charge fees for other services.
- The lines are blurring, with full-service brokers launching phone apps and online discount brokers adding fee-based services.

In a perfect market in which every party had all of the necessary information, there would be no need for brokerage firms. That is impossible in a market that has a huge number of participants making transactions at split-second intervals. The Nasdaq alone has in excess of 30 million trades per day.

Brokerage companies exist to help their clients match two sides for a trade, bringing together buyers and sellers at the best price possible for each and extracting a commission for their service. Full-service brokerages offer additional services, including advice and research on a wide range of financial products.

Types of Brokerages

The amount you pay a broker depends on the level of service you receive, how personalized the services are, and whether they involve direct contact with human beings rather than computer algorithms.

Full-Service Brokerage
Full-service brokerages, also known as traditional brokerages, offer a range of products and services including money management, estate planning, tax advice, and financial consultation.

These companies also offer stock quotes, research on economic conditions, and market analysis. Highly trained and credentialed professional brokers and financial advisers are available to advise their clients on money matters.

Traditional brokerages charge a fee, a commission, or both. For regular stock orders, full-service brokers may charge up to $10 to $20 per trade. However, many are switching to a wrap-fee business model in which all services, including stock trades, are covered by an all-inclusive annual fee. The fee averages 1% to 3% of assets under management (AUM).

Many full-service brokers seek out affluent clients and establish minimum account balances that are required to obtain their services, often starting at six figures or more.

Some full-service brokerages offer a lower-cost discount brokerage option as well.

Merrill Lynch Wealth Management, Morgan Stanley, and Edward Jones are among the big names in full-service brokerages.

Discount Brokerage
A discount brokerage is an online brokerage. The online broker's automated network is the middleman, handling buy and sell orders that are input directly by the investor.

The introduction of the first discount brokerage is often attributed to Charles Schwab Corp., which launched its first website in 1995. Competitors soon appeared.

As they have evolved, the brokerages have added tiered services at premium prices. Fierce competition on the web and, later, on phone apps, have led most competitors to drop their fees to zero for basic stock trading services.

Charles Schwab remains one of the biggest names in online brokerages, along with others including Fidelity Investments, TD Ameritrade,

The same names pop up for mobile brokerage apps, along with newer competitors such as Robinhood and Acorns.

Independent vs. Captive Brokerage

If you're buying or selling certain financial products, including mutual funds and insurance, it's important to know whether your broker is affiliated with certain companies and sells only its products or can sell you the full range of choices.

You should also find out whether that broker holds to the fiduciary standard or the suitability standard. The suitability standard requires the broker to recommend actions that are suitable to your personal and financial circumstances. The higher fiduciary standard requires the broker to act in your best interests.

Independent Brokerage

Registered investment advisors (RIAs) are the most common type of independent broker found today.

Independent brokerages are not affiliated with a mutual fund company. They may be able to recommend and sell products that are better for the client.

They are required to hold to the fiduciary standard, meaning that they must recommend the investments most in the client's best interest.

Captive Brokerage

A captive brokerage is affiliated with or employed by a mutual fund company or insurance company and can sell only their products. These brokers are employed to recommend and sell the range of products that the mutual or insurance company owns.

The products they recommend may not be the best choice available to the client.

How Does a Brokerage Firm Work?

A broker is essentially a middleman. Brokers match buyers with sellers, complete the transaction between the two parties, and pocket a fee for their service.

If you use an online brokerage to buy stock, there's no human standing between you and the transaction. The brokerage software makes the match.

If you use a full-service brokerage, the process is much the same, except that someone else is pressing the keys on the keyboard. However, the full-service

brokerage may have identified a good investment opportunity, discussed it with the client, and acted in the client's behalf in making the transaction.

How Does a Brokerage Firm Make Money?

Generally, brokerages make fees for every transaction. The online broker who offers free stock trades receives fees for other services, plus fees from the exchanges.

Full-service brokerages increasingly charge a so-called wrap fee, an all-in-one charge for all or most services, this is usually 1% to 3% of the amount in the client's account per year and covers advisory services and investment research as well as trading fees.

Lecture 10:

Mortgage Companies

A mortgage company is a specialized financial firm engaged in the business of originating and/or funding mortgages for residential or commercial property. A mortgage company is often just the originator of a loan; it markets itself to potential borrowers and seeks funding from one of several client financial institutions that provide the capital for the mortgage itself.

That, in part, is why many mortgage companies went bankrupt during the subprime mortgage crisis of 20008-09. Because they weren't funding most of the loans, they had few assets of their own, and when the housing markets dried up, their cash flows quickly evaporated.

So:

- A mortgage company is a lender specializing in originating home loans.
- Some mortgage lenders offer creative and out-of-the-box loan offerings, such as no origination fees or offering loans to those with less than stellar credit.
- The factors that differentiate one mortgage company from another include relationships with funding banks, products offered, and internal underwriting standards.
- It is possible today to complete a mortgage application entirely online, although some customers prefer face-to-face meetings with a loan offer at a bank.

A mortgage company is a financial firm that underwrites and issues (originates) its own mortgages to homebuyers, using their own capital to issue the loans. Also known as a direct lender, a mortgage company typically only specializes in mortgage products and does not offer other banking services such as checking, investments, or loans for other purposes. Moreover, they will usually offer their own products and will not offer loans or products from other companies.

Many mortgage companies today operate online or have limited branch locations, which may reduce face-to-face interaction, but could, at the same time, lower the costs of doing business.

While a mortgage company will originate loans, they may not service your loan, or keep it on their balance sheet for long. Indeed, many times, a mortgage lender will sell the loan (individually or bundled together with others) to a third-party mortgage servicing institution such as an investment bank, hedge fund, or agency like Fannie Mae or Freddie Mac. While this typically has no bearing on an individual borrower, this practice has been criticized for creating an abundance of subprime debts that ultimately led to the 2008-09 financial crisis.