Teachers Mutual Bank

We put you first

MONEY 101

Money, interest and other fun banking stuff

Getting fluent in money speak

You've probably heard your Mum and Dad say, "Money doesn't grow on trees."

It's funny because, once upon a time, money *did* grow on trees. Well, it was made from paper, which came from trees…

These days money is plastic and most things are paid for over the Internet but the meaning hasn't changed. For most people, money is harder to come by and much easier to spend.

That's where Money101 is great. All those boring banking terms, like interest and term deposits, are all part of learning to speak the language of money. You might even get some tips on how to make your money make money.

What??? I hear you say. How can my money make money? Well, hold onto your seat; stop whatever you're about to do and get ready to read on…

What is money?

The question isn't as silly as it sounds.

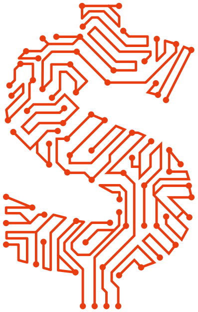
Online shopping, Internet Banking and plastic cards have turned cash into 'invisible' money. But it wasn't always the way. Before ATMs, tap to pay and debit and credit cards, the only way you could get paid or buy things was with cash. If you didn't have enough money, you had to save up or lay-by, which basically meant paying it off in instalments before taking it home. Weird, right!?

Today, money is mostly a number that gets moved around electronically. It's the way we go shopping, eat out or go to the movies. It might be the way you get pocket money. It's definitely the way your mum and dad pay their bills.

You don't even need to have enough money in your wallet. Banks now offer credit – such as credit cards or bank loans – which is basically an IOU to the bank that you have to be able to repay over time.

A credit card lets you buy what you want, take it home and pay for it later. Bank loans are generally for bigger buys and it's how most people buy their first home. Of course you have to be able to repay the credit.

Want to know another weird thing? Less than 1% of a bank's money these days is real cash![1] Sorry, thieving criminal masterminds.



(1) Ref: http://www.marketoracle.co.uk/Article11576.html

What happens to money in the bank?

It's much more exciting than you think.

That cash you deposited into your savings account? It becomes part of a big pool of money the bank uses to lend to people wanting to buy a home or a car and to invest in businesses that help make Australia prosper and grow.

It's pretty cool when you think about it. Even cooler when you think what other people's money could one day do for you. That dream of a teleporting spaceship might actually come true!

But if banks are constantly lending money to people and businesses, what happens when you want to withdraw your own money? Good question. Fortunately, banks have to keep a small amount of money in the bank for safekeeping, just in case depositors (that's you) want their money back. It's called a reserve.

What's so interesting about interest?

Saving your cash in a bank account doesn't just mean it's safe from robbers. It can actually make you money. It's called interest and here's how it works.

You've got your hands on some cash and you want to put it in a savings account. As a reward, the bank will pay you for every dollar you keep in your account. This payment is called interest that rises and falls as the economy changes.

To date, banks have always paid something on savings accounts, no matter what the economy is doing, in exchange for letting them use your money in loans and credit. Currently, most banks pay zero interest on transaction accounts.

Now, here's the kicker. Because interest works on every dollar in your account, the more money you save, the more interest you earn. Ka-ching!

What is a term deposit?

Hint: it's not cash you deposit into your everyday bank account.

A term deposit is like a savings account but with higher interest. And yes, that means you can earn even more money doing exactly zip.

The interest works differently too. Unlike a savings account, term deposits have a fixed interest rate. So the money you earn on interest doesn't change for the duration of the term. There is a catch, though. Unlike a savings account, you can't withdraw money from a term deposit account until the term is up. This can be anywhere from a month up to five years. So if you're saving for something big then this is for you.

If you do break the term deposit, be warned. Not only will you miss out on the interest (a.k.a. free money), you may even need to pay the bank a fee. So it's always good to be sure you won't need the money before the end of the term.

Investing vs. saving – what's the difference?

Investing is all about risk and return.

People invest their money in a variety of ways. Some buy property, art or antiques, others collectibles, like unopened original Star Wars figures (check the garage, you never know what you might find!). They hold onto these things until there is a demand for them and then sell them to the highest bidder for a profit.

Others invest on the stock market by buying shares in companies – this means they own a small part of the company but have no control over the decisions it makes. They get a share of the profits if the company is doing well but can also lose money if it goes downhill.

With investing, high returns usually come with big risks. You also have to be prepared to wait it out. Sometimes it can take years for an investment to make money.

So, what's next?

For more info on saving money and the ways in which Teachers Mutual Bank can help you, visit us at the URL below.

If you need help with anything, let us know. Call 13 12 21 8am-7pm weekdays, 9am-3pm Saturday or email enquiry@tmbank.com.au

tmbank.com.au/teenbanking

Any questions? Ask away.

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