



CHP 9

Managing and Pricing Deposit Services

Learning Outcomes:

- Types of Deposits
- The Changing Mix of Deposit and Deposit Costs
- Pricing Deposit Services and Deposit Interest Rates
- Conditional Deposit Pricing
- Disclosure of Deposit Terms
- Lifeline Banking

Types of Deposit Offered by Banks and Other Depository Institutions:

A. Transaction or demand deposit

This deposit services requires the bank or other financial-service provider to honor immediately any withdrawals made either in person by the customer or by a third party. Transactions deposits include regular non-interest-bearing demand deposits, which do not earn an explicit interest payment but provide the customer with;

- Payment services
- Safekeeping of funds
- Record keeping for any transaction carried out by check
- Pay interest to the depositor as well

1. Non-interest Bearing Demand Deposit

Deposited for safety. Demand deposits are among the most volatile and least predictable of a depository institution's sources of funds, with the shortest potentials maturity, because they can be withdrawn without prior notice. Most non-interest-bearing demand deposits are held by business firms.

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2. Interest-Bearing Demand Deposits

NOW accounts: (negotiable order of withdrawals)

NOW's are interest-bearing saving deposits that give the bank or other service provider the right to insist or prior notice before the customer withdraws funds. Because this notice requirement is rarely exercised; the NOW can be used just like a checking account to pay for purchases of goods and services.

Money Market Deposit Accounts: (MMDA)

Mmda's are short-maturity deposits that may have a term of only a few days, weeks, or months, and the bank or thrift institution can pay any interest rate that is competitive enough to attract and hold the customer's deposits.

Up to six preauthorized drafts per month are allowed, but only three withdrawals may be made by writing checks. There is no limit to the personal withdrawals the customer may make. Not only businesses as well as individuals.

(However, Banks and Other services providers reserve the right to set maximum amounts and frequencies for personal withdrawals).

(today also known as saving deposits not transaction deposit but included under transaction deposits section because they carry checkwriting privileges).

Super NOWs:

Super NOWs were authorized at about the same time as MMDAs, but they may be held only by individuals and non-profit institutions. The number of checks the depositor may write is not limited by regulation. However, banks and thrift institutions post lower yields on SNOWs than on MMDAs because the former can be drafted more frequently by customers.

B. Non-transaction (Saving or Thrift) Deposits

Saving deposits, or thrift deposits, are deposited to attract funds from customers who wish to set aside money in anticipating of future expenditures or financial emergencies. These deposits generally pay significant higher interest rates than transaction deposits do.

Passbook saving deposits: were sold to household customers in small denominations (frequently a passbook deposit could be opened for as little as \$5) and withdrawal privileges were unlimited). Some banks insist on receiving prior notice of a planned withdrawal from a passbook saving deposit. Some do not insist on receiving a prior notice of a planned withdrawal because of low interest rates.

Statement Saving Deposits: evidenced only by computer entry. The customer can get monthly printouts showing deposits, withdrawals, interest earned and the balance in the account.

Time Deposits: for many years. Wealthier individuals and businesses have been offered time deposits, which carry fixed maturity dates (30, 60, 90 or 180 days) with fixed interest rates. Time deposits must carry out a minimum maturity of seven days and cannot be withdrawn before that. The money can not be withdrawn for a certain term, period. Once the term ends the depositor can withdraw the money from the account. Ex: certificate of deposits....(CO)

Source:

Casu, B., Girardone, C. & Molyneux, P. (2006) *Introduction to Banking*, Pearson Education Limited, England.

Rose, P. S. & Hudgins S. C. (2005) *Bank Management & Financial Services*, 6th ed., McGraw-Hill, NY.