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How Banks Work

You've done a great job saving. Now, your parents want you to put those dollars and cents into a savings account at a bank.

How do banks work? And how do people use banks?

Lots of people give their money to banks.

When you give your money to a bank, it's called a **deposit**. Banks keep your money safe. AND, more importantly, banks will pay you for every dollar you keep in a savings account! The money the bank pays you is called **interest**. The bank will pay you interest every month you keep the money in your savings account!

You're probably thinking, "Wait a second... banks pay ME money, and I don't have to do anything? Why in the world would a bank pay me money to do nothing?"

Banks lend your money to other people.

If people don't have enough money saved up to buy something, they often borrow money from the bank to buy big things, like houses and cars. The banks lend them the money to buy these things, but the banks expect people to pay the money back AND pay the bank a little extra money, besides.

Let's say you borrowed \$10 from a bank. You get the \$10 right away. But when you pay back the \$10, the bank will charge you \$1 or \$2 extra for giving you the money when you needed it. So you pay the bank \$11 or \$12. That's how banks earn money.

Without money from people like you, banks wouldn't have any money to lend. That's why banks will pay you interest.

If you leave your money in savings...

Every month, the bank pays you for keeping money in your savings account. And over time, that extra money really adds up!

Imagine if your parents gave you \$100 for your birthday every year for ten years. If you put it in your piggy bank, you'd have \$1,000. But if you put it in a savings account, you might have \$1,100 or even more. That's an extra \$100, and you didn't have to lift a finger! That's why it pays to open up a savings account!

Use the [Compounding Calculator](#) to see what will happen if you save on a regular basis. Have fun!

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