Where Deposits Go

Read how deposits can help banks make loans and pay interest.

SS.4.FL.1.4 "People can earn interest income from letting other people borrow their money. Explain why banks and financial institutions pay people interest when they deposit their money at those institutions."

NAME ______________________ DATE ____________

1 READ AND MARK

Read it twice

YOUR JOB Underline the sentence that begins, "The bank pays Maya." This sentence directly explains why the bank pays interest to a depositor.

Maya's Savings Account

1 Maya put $50 from her birthday money into a savings account at a bank. Her deposit did not sit alone in a box with her name on it. The bank kept some money available for customers who wanted to withdraw it. It could use other deposited money to make loans to people who needed to borrow money for a car, home, or business.

2 Borrowers pay the bank interest for using the money they borrow. Because the bank earns interest on these loans, it has money to share with depositors. The bank also needs deposits so it can make loans. Paying interest helps the bank attract people who will deposit money and leave it there in accounts for a time.

3 The bank pays Maya a small part of the interest it earns from loans because her deposit gives the bank money it can lend. This payment to Maya is called interest income. Interest income is not a gift. It is money Maya earns for letting the bank use her deposited money, while the bank follows the account rules.

2 ANSWER WITH EVIDENCE

Use the passage

1. What can the bank do with some of the money people deposit?

2. What do borrowers pay the bank for using money they borrow?

3. Why can the bank share money with depositors such as Maya?

4. How does Maya earn interest income from her savings account?

3 YOUR TURN

Your own words

Imagine Jordan deposits money in a credit union savings account. Write exactly two sentences explaining how Jordan's deposit can help the credit union and why the credit union can pay Jordan interest.

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PART 1 · READ AND MARK

Underline the sentence that begins, “The bank pays Maya.” This sentence directly explains why the bank pays interest to a depositor. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	What can the bank do with some of the money people deposit?	**It can use some deposited money to make loans to people who need to borrow money.**
2	What do borrowers pay the bank for using money they borrow?	**Borrowers pay the bank interest.**
3	Why can the bank share money with depositors such as Maya?	**The bank earns interest on the loans it makes.**
4	How does Maya earn interest income from her savings account?	**She earns it by letting the bank use her deposited money.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Jordan's deposit gives the credit union money it can lend to borrowers. The credit union can pay Jordan interest because it earns interest from loans and shares some with depositors.

Accept answers that explain that financial institutions use deposits to make loans and earn interest from borrowers. Students should connect that loan interest to the interest paid to depositors.