How Banks Make Money

Interest on Loans

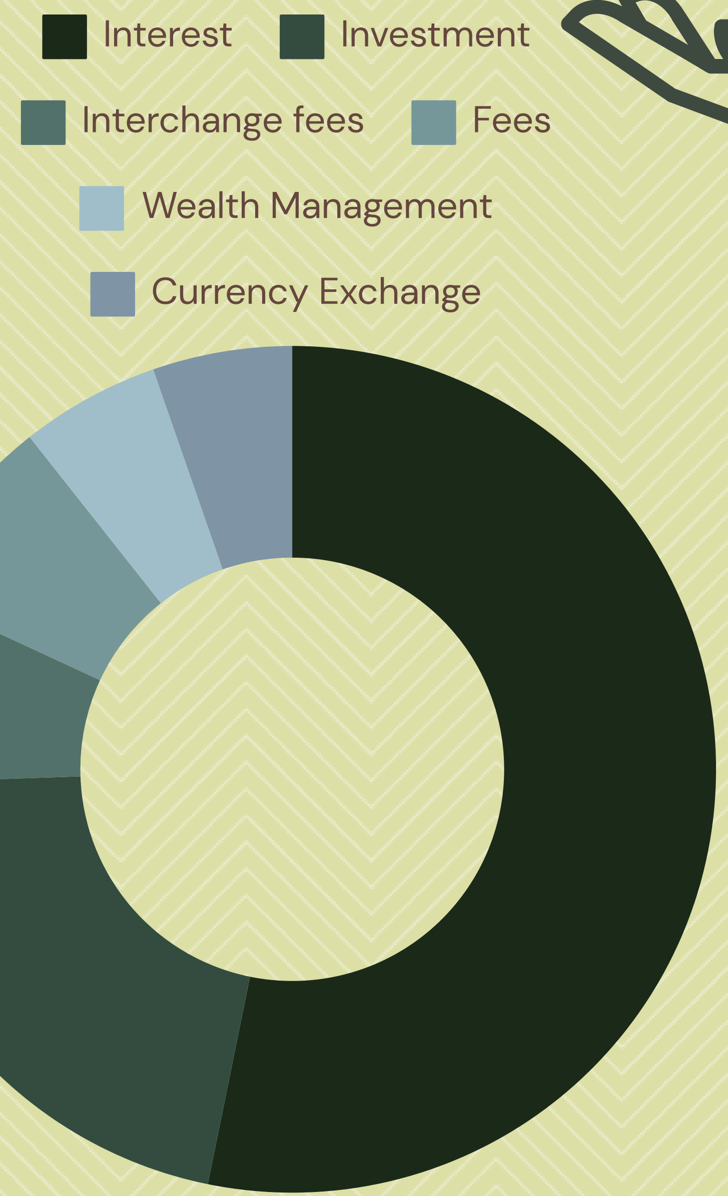
Investment of Deposits

Interchange Fees

Fees for services

Wealth Management,
Advisory services

Currency exchange



How Banks Make Money

1. *Interest on Loans 50-60%*
   - Banks lend money to individuals and businesses in the form of loans, such as mortgages, car loans, and personal loans.
   - They charge interest on these loans, which is a primary source of income.
2. *Investment of Deposits 20-30%*
   - Banks invest a portion of the deposits they receive from customers in various financial instruments such as government bonds, corporate bonds, and other securities.
   - The returns from these investments provide another income stream.
3. *Fees 10-20%*
   - Banks charge various fees for services, including account maintenance fees, overdraft fees, ATM fees, and transaction fees.
   - These fees contribute significantly to their revenue.
4. *Interchange Fees 5-10%*
   - When customers use credit or debit cards, banks earn interchange fees from merchants for processing these transactions.
5. *Wealth Management and Advisory Services 5-10%*
   - Banks offer financial advisory services, investment management, and other wealth management services for a fee.
6. *Currency Exchange 1-5%*
   - Banks earn money from the spread in currency exchange rates when they provide currency exchange services to customers.

Note: These percentages are rough estimates and can fluctuate based on economic conditions, regulatory changes, and the specific strategies and operations of individual banks. Large, diversified banks might have more substantial income from wealth management and advisory services, while smaller banks may rely more heavily on interest from loans and fees.

How Banks Make Money FROM YOU, specifically - Detailed example

Imagine you have a few accounts and loans with a bank. Here's a breakdown of how they make money from you:

1. Savings Account
    - Interest Paid to You: The bank pays you 0.5% interest on your savings account balance. For example, if you have $1,000 in your savings account, you earn $5 annually.
2. Car Loan
    - Interest Charged to You: You have a car loan of $20,000 with an interest rate of 5%. Annually, you pay $1,000 in interest to the bank.
3. Checking Account
    - Overdraft Fee: One month, you accidentally overdraft your checking account, and the bank charges you a $35 overdraft fee.

How the Bank Comes Out Ahead:

1. Interest Differential:
    - Interest Paid to You: $5 on your savings account.
    - Interest Charged to You: $1,000 on your car loan.
    - Net Interest: The bank makes $995 from the difference in interest rates.
2. Fees:
    - Overdraft Fee: $35.

Total Revenue from You: $995 (interest) + $35 (fee) = $1,030.

In this example, even though the bank pays you a small amount of interest on your savings account, they earn significantly more from the interest on your car loan and the overdraft fee. This difference between the interest they pay and the interest they charge, along with the fees, is how they make money and come out ahead.