Fundamental Problem with Banks

You

Asset + Cash Account

$100

→

Deposit $100

→

Bank

Liability Deposits Payable

→

$100

when you put $100 in Bank on your Books it is an Asset

when you put $100 in Bank on Bank's Books it is a Liability

How Banks Get Cash

1. Deposits (cash in) are Liabilities to Bank. Deposits are Short Term Debt.
   Depositors loan cash to Bank

2. Bank pays a small interest rate to Depositors

3. Bank receives a larger (larger than this) interest rate from people they lend to.

How Banks Pay Out Cash

Depositors can withdraw cash quickly if they want.

The people who borrowed from Bank pay back more slowly than depositors can make withdrawals.