
MODULE 7, BANKING AND INVESTMENT, helps participants make wise decisions about choosing financial institution products and services. There are three exercises in this chapter:

- **Opinions about Banking and Investment** allows family members to compare and contrast their opinions about the ramifications of using financial institutions and other money management services.
- **Comparing Financial Products by Crunching the Numbers** assists participants in applying math skills to compare the cost and value of various financial products and services.
- **Financial Traps and Financial Freedom** offers ways to explore financial solutions and spending behaviors that are relatively better or worse than others.

43. Opinions about Banking and Investment

OBJECTIVE: Get people talking about banking and investment issues.

TIME: 10 minutes

MATERIALS:

A copy of the handout for the leader

3 Sheets of flipchart paper: one labeled “Strongly Disagree,” another “Strongly Agree,” and another “Undecided.”

NOTE TO TRAINER:

This activity works very well for large groups, even up to 100 people! Prepare the classroom by marking one side of the room as strongly agree, the other side as strongly disagree, and the center of the room as undecided by taping up the flipchart pages accordingly.

ACTIVITY:

Let the class know that you will be calling out common statements about banking and investment. As each statement is called out, ask participants to decide how they feel about the statement: Do they agree, disagree or don't know? Ask them to show their response by moving to the corresponding section of the room. Now, ask people in each group to explain why they agree or disagree with the statement. Make sure to ask people in the center, too. Their responses are usually equally thoughtful. Go through each statement using the same methodology.

When couples and families are in the class, encourage family members to freely go where they want and to note respectfully where their partner or family members go. Suggest that they take time soon at home to share thoughts, memories, and feelings together on these statements.

GROUP DISCUSSION:

Were you surprised by the class opinions?

Were different family members in different places?

HANDOUT: Opinions about Banking and Investment

| STATEMENT | STRONGLY AGREE | UNDECIDED | STRONGLY DISAGREE |
|---|----------------|-----------|-------------------|
| Banks are a safe place to keep my money. | | | |
| Banks offer a good return on my investment. | | | |
| The higher the return on my investment, the higher the risk of the investment. | | | |
| Banks offer financial products that are useful to me. | | | |
| When I want a loan, I go to a bank. | | | |
| Money in a bank loses money. | | | |
| When I need to cash a check, I go to a bank. | | | |
| When I need to send money to family and friends in another country, I go to a bank. | | | |

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44.

Comparing Financial Products by Crunching the Numbers

OBJECTIVE: Participants will apply math skills to compare the cost and value of various financial services and products.

TIME: 50 minutes, including about 30 minutes for crunching the numbers for both case studies in small groups and 20 minutes for reporting back to the larger group for discussion. Alternatively, you can do the activity in 30 minutes by assigning each case study to a different group.

MATERIALS:

Paper and pencils with erasers

Calculator for each small group and for the trainer

Scrap paper

NOTE TO TRAINER:

Highlight that math is an important tool for comparing the costs of financial services and products such as checking accounts, check cashing, ATM machines, etc. In order to do the math correctly, it is important to know how to factor in key elements such as length of time, frequency of charges, and balancing interest earnings with fees charged (the “return”).

This activity can be accomplished in 30 minutes by assigning different case study problems to each group so each group gets only one to work out. The small-group presentations to the whole group will fill in everyone’s understanding of all three case study problems.

ACTIVITY:

Divide the participants into groups of two couples each or small groups of 2-4. Provide each group with the word problems, scrap paper, pencils, and a calculator.

Assign the case studies to each group. Allow 30 minutes for completion of all three problems (or 10 minutes for one). Before they begin, let them know that they will be presenting their answers to one or more of the problems in the larger group discussion. Ask them to designate a “reporter” to explain how they calculated the answers. As the groups work, walk around the room with a calculator and be prepared to answer questions.

Reconvene the class as a whole and lead a group discussion to review the activity.

GROUP DISCUSSION:

What are some things we can look at to compare the prices of financial products?

- Minimum balance requirements and fees
- Interest rates
- ATM fees
- Check ordering and processing fees
- Monthly account maintenance fees
- Other fees (such as NSF – insufficient funds)

Encourage the participants to go home and look at the financial products they and their spouses use and calculate their costs. Follow up the next week to see if any couples learned whether they should change or keep their current product package.

HANDOUT: Case Studies for Comparing Financial Services Products

CASE 1: Day-to-Day Checking

Jason and Isabelle just got married. As they start their new life together, they want to figure out the best way to manage their money jointly. Jason has always cashed his paycheck at a local check casher and used money orders to pay bills. Jason also saves regularly out of each paycheck by stowing cash away in his secret spot at home. Isabelle, on the other hand, has always used a checking account (where her paycheck is automatically deposited every two weeks by her employer and from which she pays all her bills). She also has a savings account for emergencies and for major expenses like gifts.

As they discuss which of these two methods should be the one they use together, they find themselves having their first disagreement as a married couple—each one thinks his or her method is better.

Jason and Isabelle decide to compare the affordability of these two methods. Which is less costly, check cashing and money orders or using bank accounts?

***Jason's Method**

Jason cashes two paychecks each month at a PayRite Check Cashers near his job. Each check cashing transaction costs him \$2.50. In addition, he buys four money orders with his first paycheck of the month and three money orders with his second paycheck. Each money order costs \$1.50.

- 1) How much is Jason paying each month in check cashing fees?
- 2) What does that add up to for the year?
- 3) How much is Jason paying for money orders each month?
- 4) What is the total cost of money orders for the year?
- 5) What is the total annual cost of this method (check cashing + money order fees)?

HANDOUT: Case Studies for Comparing Financial Services Products

*Isabelle's Method

Isabelle has an account at ABC Bank and pays no fee for having her paycheck directly deposited into her checking account. She pays \$12 once a year for a box of checks and also pays a \$4 monthly fee for using the checking account. She also withdraws spending money from her checking account twice a month at an ATM. The ATM withdrawal is free when she goes to her bank, but unfortunately there is no ABC branch near her work. Usually one time per month she uses the local National Bank near her job. National Bank charges her \$2.00 each time she uses their ATM. Isabelle's savings account is free and has a minimum balance requirement of \$50 that she always maintains.

- a) How much is Isabelle paying each month for her checking account?

(Hint: Don't forget to divide up the \$12 ANNUAL fee for the checks themselves and to add her ATM withdrawals to the monthly fee).

- b) How much is Isabelle paying annually for her checking account?

Conclusion:

- Whose method is cheaper monthly and annually?
- Whose method for saving is safer?

HANDOUT: Case Studies for Comparing Financial Services Products

CASE 2: Long-term Saving

Maria and Andre have saved \$3,000 in their joint savings account and now feel ready to invest these funds in a certificate of deposit (CD), where they know the money will earn more interest. They also know they will not need these funds for at least 12 months, when they plan to buy a used car. They have selected information about CD products offered at three local financial institutions, including the Neighborhood Credit Union where they are members and have a checking and savings account.

Compare the interest earnings and fees for these products and decide which one offers the best return on Marie and Andre's investment?

- **Neighborhood Credit Union:** 12-month CD earning 4% interest.
- **ABC Bank:** 12-month CD earning 5% interest but requiring them to open a checking account with a \$5.00 monthly usage fee. This would be an additional cost because Maria and Andre want to maintain their checking and savings accounts at the Neighborhood Credit Union.
- **XYZ Savings and Loan:** 12-month CD earning 6% interest but requiring them to open a checking account with Internet access that costs \$10 / month. This would be an additional cost because Maria and Andre want to maintain their checking and savings accounts at the Neighborhood Credit Union.

**Calculate interest on the \$3,000 balance only one time during the term.*

- a) Which of these three CD's offers the highest interest rate?
- b) Which of these has the highest fees?
- c) Which offers the greatest return for the investment?

Hint: Subtract total annual fees from annual interest earnings.

HANDOUT: Case Studies for Comparing Financial Services Products

CASE 3: Financing Purchases

Juanita and her mother, Magda, just bought a home together. They want to buy a dining room set to make the new place feel like home for Juanita's three children.

One evening, Magda sees a lovely dining set at the local furniture store and takes Juanita to see it. The set is on sale for \$600 with a regular retail price of \$725. While they both love the set, they do not have \$600 in cash right now to buy the set outright. Magda tells Juanita that the store manager offered her special financing, where they could have the furniture now and pay monthly installments of \$35 for the next two years, with no down payment. Juanita thinks they should wait and save the money first; she estimates that it will take eight months or so to save the full amount. But Magda is concerned that if they wait, they will lose the sales price and end up paying more for the set at the retail price.

Is Magda right? Will they pay too much if they wait and save money, paying the full retail price later? What is the most expensive?

- a) At the end of two years of finance payments, how much will Magda and Juanita have paid for the dining set?
- b) What is the difference between the sales prices and what they will pay for their two-year financing deal?
- c) What is the difference between the regular retail price and what they would pay with financing?
- d) So is Magda right? Will they pay too much if they take the time to save money and pay full retail price later? What is the more expensive option?

HANDOUT: Case Studies for Comparing Financial Services Products

CASE 4: Choosing Banks

David and Tina are having their first baby together. As they make preparations for their growing family, they have decided to consolidate their finances, using only one financial institution for their checking and savings accounts. David has been a member of an employer-based credit union while Tina has used BigTown Bank, which has a branch located near her work.

By comparing the terms of the products offered by each institution, which will be less costly for them to use?

For all the calculations, keep in mind that David and Tina know their financial behaviors well. They know, for example, that they typically order checks twice a year to cover all of their bill payments; they get cash from an ATM at their bank or credit union one time per month and at an ATM at another bank an average of three times per month. Finally, they know that the amount they have saved in any given month fluctuates a lot since they both use savings for big purchases; it never drops below \$100, though it will drop below \$500 for an average of three months out of the year.

The Credit Union:

Checking Account: \$12 check ordering fee
\$ 2 monthly account maintenance fee
\$ 0 ATM per use fee at credit union;
\$2.00 ATM per use fee at another bank
Savings Account: \$ 3 monthly fee if the balance drops below \$100

BigTown Bank:

Checking Account: \$15 check ordering fee
\$ 5 monthly account maintenance fee
\$ 0 ATM per use fee at bank; \$1.50 ATM per use fee at another bank
Savings Account: \$ 4 monthly fee if balance drops below \$500

Questions:

- a) What is the total annual cost of each checking account? Which is less expensive?
- b) What is the anticipated cost of each savings account? Which will be less costly for them?
- c) Which financial institution will be the least expensive for them?

HANDOUT: Case Study Instructor's Answer Key

CASE 1: Day-to-Day Checking

JASON'S METHOD

- 1) How much is Jason paying each month in check cashing fees?
KEY INFO: Jason cashes two checks per month, costing \$2.50 EACH.
MATH: $2.50 \times 2 = \$5$ per month
- 2) What does that add up to for the year?
MATH: $\$5/\text{month} \times 12 \text{ months} = \60 per year.
- 3) How much is Jason paying for money orders each month?
KEY INFO: Jason buys seven money orders at 1.50 EACH every month.
MATH: $(\$1.50 \times 7) = \10.50 per month for money orders.
- 4) What is the total cost of money orders for the year?
MATH: $\$10.50 \text{ per month} \times 12 \text{ months} = \126 per year
- 5) What is the total annual cost of this method (check cashing + money order fees)?
KEY INFO: Use ANNUAL figures--\$60 for check cashing and \$126 for money orders.
MATH: $\$60 + \$126 = \$186$ per year is Jason's total cost for his method.

ISABELLE'S METHOD

- 1) How much is Isabelle paying each month for her checking account?
KEY INFO: She has a \$4 monthly checking account fee, one ATM fee per month and an annual \$12 check printing fee.
MATH: $\$12/12 = \1 monthly checking printing fee.
 $\$1 + \$4 + \$2 \text{ (ATM)} = \7 per month.
- 2) How much is Isabelle paying annually for her checking account?
MATH: $\$7 \text{ per month} \times 12 \text{ months} = \84 annually.

CONCLUSION: Whose method is less expensive monthly and annually?

ANSWER: Isabelle's. Jason's monthly fees are \$15.50 per month (check cashing fees plus money order fees) while Isabelle's are only \$7 per month. Jason's fees are \$186 per year while Isabelle's are only \$84. Jason's method costs more than TWICE as much as Isabelle's.

HANDOUT: Case Study Instructor's Answer Key

CASE 2: Long-Term Saving

- a) Which of these three CD's offers the highest interest rate?

ANSWER: XYZ Savings and Loan with an interest rate of 6%.

- b) Which of these has the highest fees?

ANSWER: XYZ Savings and Loan with a combined annual fee of \$120.

- c) Which offers the greatest return for the investment?

KEY INFO: Calculate the return for each CD multiplying the interest rate by \$3,000, subtract the fees from each, and then compare the three.

MATH: Neighborhood Credit Union: $\$3,000 \times 0.04 = \120 RETURN

ABC Bank: $\$3,000 \times 0.05 = \$150 - \$60$ annual fee = \$90 RETURN

XYZ Savings and Loan: $\$3,000 \times 0.06 = \$180 - \$120$ annual fee = \$60 RETURN.

ANSWER: Neighborhood Credit Union offers the best RETURN ON INVESTMENT.

CASE 3: Financing Purchases

- a) At the end of 2 years of finance payments, how much will Magda and Juanita have paid for the dining set?

MATH: $\$35$ per month \times 24 months = \$840.

- b) What is the difference between the sales price and what they will pay for their 2-year financing deal?

KEY INFO: *Use the answer above of \$840 and subtract \$600 from that.*

MATH: $\$840 - \$600 = \$240$.

They will pay \$240 over the sales price for financing the set.

- c) What is the difference between the original retail price and what they would pay with financing?

MATH: $\$840 - \$725 = \$115$

The financing costs \$115 MORE than the retail price.

So is Magda right? Will they pay too much if they take the time to save money and pay full retail price later? What is the most expensive option?

ANSWER: Magda is incorrect. While the sales price of \$600 is a savings IF they paid in cash right then, the financing will cost more than the retail price of \$725. The financing is the most expensive option offered here.

HANDOUT: Case Study Instructor's Answer Key

CASE 4: Choosing Banks

Key Info for answers below: Order checks twice per year

Make ATM withdrawals three times/month at another bank

Savings never goes below \$100

Savings DOES drop below \$500 three times/year

- What is the total annual cost of each checking account? Which is less expensive?

MATH: Credit Union Account: $(\$12 \times 2) + (\$2 \times 12) + (\$2 \times 3 \times 12) = \120

BigTown Bank Account: $(\$15 \times 2) + (\$5 \times 12) + (\$1.5 \times 3 \times 12) = \144

ANSWER: The Credit Union is less expensive.

- What is their anticipated cost for the savings accounts for David and Tina? Which will be cheaper for them?

There is no expected cost of having a savings account at the credit union because David and Tina will not incur the \$3 monthly fee. As stated above, they do not let their balance go below \$100.

David and Tina will incur a fee at BigTown Bank three times each year because the minimum balance for that account is \$500. BigTown Bank Account: $\$4 \times 3 = \12

Therefore, the Credit Union Savings Account will be cheaper for them.

- Which financial institution will be the least costly for them?

The Credit Union.

| | Credit Union | Big Town Bank |
|------------------|--------------|---------------|
| Checking Account | \$120 | \$144 |
| Savings Account | \$0 | \$12 |
| TOTAL | \$120 | \$156 |

45. Financial Traps and Financial Freedom

OBJECTIVE: To help families think of alternative financial options instead of some common financial traps.

TIME: 10 minutes

MATERIALS:

Flipchart

ACTIVITY:

Ask the class to brainstorm situations that they consider financial traps. Write up their ideas on a flipchart or blackboard.

For each item on the list, ask the class why they consider these things to be financial traps for their family.

Discuss the following financial traps if they were not brainstormed by your class:

- Check cashing stores (You pay a high fee for this service.)
- Payday Loans (You pay a high fee for this service.)
- Rental Centers (You can end up paying much more than if you had bought the items.)
- Disconnect Notices (You have to pay to get reconnected.)
- Dollar Stores (You buy a lot of junk that doesn't last.)
- Impulse Buying (You buy things you don't need and maybe don't really want.)
- Fast Food Restaurants (You can eat more cheaply at home.)
- Going to the Grocery Store Hungry (You tend to buy more.)
- Credit Cards (You may buy more than your income can afford and pay a lot in interest charges if you don't pay off the balance right away.)

Now, for each of the traps, discuss a positive alternative. For example, instead of going to a check cashing store, they can open a checking account at a local credit union.

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