

CASE STUDIES: Banking Choices

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. 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.

How much is Jason paying each month in...

- 1) 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)?

*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?

CASE 2: 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?

CASE 3: Financing Purchases

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 BigPhat 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

BigPhat 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?

CASE STUDY Answer Key

CS 1: Day-to-Day Checking

Whose method is less expensive monthly and annually?

Jason	Isabelle
Annual fees = \$60 (check cashing) + \$126 (money orders) = \$186	\$12/12 = \$1 monthly checking printing fee. \$1 + \$4 + \$2 (ATM) = \$7 per month. \$7/12 = \$84

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.**

CS 2: Financing Purchases

- a) At the end of two years of finance payments, how much will Magda and Juanita have paid for the dining set? **\$840** (\$35 X \$24)
- b) What is the difference between the sales prices and what they will pay for their two-year financing deal? **\$240** (\$840-\$600)
- c) What is the difference between the regular retail price and what they would pay with financing? **\$115** (\$840 - \$725)
- d) So is Magda right? **NO**. Will they pay too much if they take the time to save money and pay full retail price later? **NO**. What is the more expensive option? **Financing through the store.**

CS 3: Choosing Banks

- a) What is the total annual cost of each checking account? Which is less expensive?
 Credit Union Account: $(\$12 \times 2) + (\$2 \times 12) + (\$2 \times 3 \times 12) = \120
 BigPhat Bank Account: $(\$15 \times 2) + (\$5 \times 12) + (\$1.5 \times 3 \times 12) = \144
- b) What is the anticipated cost of each savings account? Which will be less costly for them?
 Credit Union Account – no cost
 BigPhat Bank Account - \$12/year because balance dips to \$100
- c) Which financial institution will be the least expensive for them?

	Credit Union	BigPhat Bank
Checking Account	\$120	\$144
Savings Account	0	\$12
Total	\$120	\$156