

ANSWER KEY FOR INSTRUCTOR ONLY**Topic 2: Case Study – Answer Key**

After taking English language classes and a food service training class, Marta's mother Cecelia (age 59) was able to start a part-time entry level job at a local eatery. Her net weekly paycheck is \$175. She came to the United States two years ago. She has no banking relationship or credit established.

She went to the local bank to try to open an account but was told that she needed to maintain a minimum balance of \$1,500, otherwise she would be charged a \$15.00 checking account fee every month. She pays her bills either in cash or by money order. She cashes her paycheck at a check cashing store near home because the employer's bank does not cash payroll checks. The check cashing store charges her 2.01% of the amount of her paycheck.

She also buys a money order from the post office each month to send \$50 to her cousin Jose in Texas to pay off a loan he gave her. Each money order is \$1.25.

Marta and Bobby have asked you to work with her.

What guidance would you give Cecelia? Should she open a banking account? Would it be more beneficial to get a checking account over a savings account or vice versa, or what alternatives are available to her?

ANSWER: At minimum Cecilia could open a Safe Start Account which requires a very small minimum balance of \$5 to \$25. She could arrange to have her pay deposited directly into her account which would make the money available immediately. She would also earn a small amount of interest on the account, and it would save her money because she does not have to pay the check cashing fees, and it also saves her time.

She may also want to open a checking account since she sends money at least once a month. If she has her money directly deposited into the checking account, many banks will offer free checking accounts. After the money is directly deposited, she can always move some money into her savings account if she doesn't need it for expenses.

How much does it cost Cecelia for each check she cashes at the check cashing store?

ANSWER: \$3.52 per check ($\$175 \times .0201 = \3.52)

How much does it cost her over a year (52 weeks)?

ANSWER: \$183.04 per year. She spends more than a week's pay to cash her check. She is working a full week just to pay the check cashing store. ($52 \times \$3.52$)

How much does it cost Cecelia to send 12 payments to Jose each year?

ANSWER: \$15 ($\1.25×12 months). It's like paying an extra \$1.25 each month on the loan.