Module 1.3
Study Guide

HUD Housing Counselors Training

U.S. Department of Housing
and Urban Development

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Module 1.3 Financial Management/ Managing Assets

Module Introduction

Module Introduction

As clients learn how to manage money, they will need guidance from housing counselors to recognize their options for safeguarding and building their assets. In this module, you'll learn about different types of accounts and account features at financial institutions, such as banks or credit unions.

Next, you'll learn to emphasize the importance of short-term savings and retirement savings. Lastly, you'll learn to identify options for clients to take advantage of opportunities to increase income through tax credits.

Before we begin, let's take a look at the module learning objectives.

Lesson Objectives

By the end of this module, you'll be able to:

1. Comprehend key attributes of different banking accounts available at a bank or credit union, including fee structure and access to funds.
2. Explain the importance of establishing an emergency fund and short-term saving funds for large purchases.
3. Explain the importance of saving for retirement and the benefits of tax-incentivized accounts.
4. Identify the tax credits for which clients may be eligible and how to apply for them.

With these in mind, let's begin.

Shadow a Housing Counselor

An experienced housing counselor, Jake, will have you observe sessions he runs.

You will examine key concepts that the counselor teaches clients and how the counselor applies the concepts to specific client situations.

You will also practice applying the concepts yourself by completing knowledge checks.

Before you get started in your new role, let's go over some key concepts.

A Housing Counselor, Jake

Asset Building

Four Steps of Asset Building

During client sessions today, you and Jake will encourage clients to take four steps toward building assets:

1. Choose the Right Bank or Credit Union Account
2. Build Savings for Emergencies and Large Purchases
3. Invest for Retirement
4. Take Advantage of Tax Credits

Banks and Credit Union Accounts

Account Fees and Features

One way to optimize assets is to use bank or credit union accounts that have fee and access structures that match one's needs.

Service Fees

Account Maintenance/Service Fee: Fee charged by a financial institution for account maintenance. Though typically a monthly fee, it can be charged annually. Frequently, fees can be waived under certain circumstances. For example, banks may waive fees when a client's direct deposit exceeds $500, minimum daily balance exceeds $1,500, or average balance exceeds $5,000.

Wire Transfer Fee: Fee charged when a client sends a payment to another account electronically through electronic funds transfer (EFT).

Check Purchasing Fee: Fee charged when a client purchases checks. Typically, it is charged per box of checks.

Money Orders and Cashier's Check Fee: Fee charged when a client obtains a money order or cashier's check. It can be a flat fee or a percentage of the payment amount.

Negligence Fees

Overdraft Fee: Fee charged when an account does not have enough money to cover a purchase and the financial institution loans money to complete the payment. This creates a negative loan to repay, and interest will be charged on the balance.

Overdraft Protection Transfer Fee: Fee charged when an account with overdraft protection does not have enough money to cover a purchase and funds are transferred from another linked account to cover it.

Stop Payment Fee: Fee charged to stop payment on a check before the check is cashed. Clients may not want a check to be cashed when they are suspicious of a scam, have lost a check, or have realized that there are insufficient funds in their account.

Non-sufficient Funds/Returned Item Fee: A non-sufficient funds fee, or NSF fee, also referred to as a returned item fee, is charged if there is not enough money in an account to cover a check payment or other purchase. In addition to a fee, the returned item (or bounced check) may result in additional charges from the creditor.

ATM Transactions Limit/Check-Writing Limit Fee: Fee charged if a consumer exceeds an allotted number of ATM transactions or writes more than the allotted number of checks in a month.

Fund Access Features

Branch Location Access: A physical location of a financial institution, where an account holder can deposit or withdraw money in person.

ATM Availability: Automated Teller Machine, a computerized system to withdraw cash or make deposits without physically entering a financial institution. Clients who use an ATM outside their financial network risk surcharge fees from their own financial institution as well as from the outside ATM network. However, some banks may waive either or both of these fees.

Online Banking and Bill Pay: Service that allows customers to conduct banking activities on the Internet, such as funds transfer or account review. Most banks with physical branch locations offer some products through online banking. Other banks are online-only, without physical branch locations, and offer all traditional services online. *Bill Pay* is a widely used online service that allows customers to pay bills via electronic check or a check sent directly from the bank.

Mobile Banking: Allows clients to utilize banking services with mobile technology. Services often offered in mobile banking include a view of up-to-date transactions, fund transfers, or remote check deposits.

Telephone Customer Services: Assistance provided by the financial institution over the phone to help customers with banking complications.

Account Fees and Features—Omar

Your trainer today will be Jake, who is an experienced housing counselor.

Your first client session today is with Omar. You and Jake will guide Omar in selecting an account that meets his banking needs without charging unnecessary fees.

Take a moment to review the notes in Omar's file, which Jake wrote up in a previous session:

File Notes: Omar

- He had $400 in overdraft fees and $100 in bank fees this past year.
- He wants to know how much money is in his account at all times so he doesn't overdraft his account.
- He needs to send money to his family in Mexico monthly.
- He will set up direct deposit for his paychecks.

A Client, Omar

Now let's join the session you're observing.

JAKE. In order to protect and build your assets and meet your banking needs, we recommend you select an account that offers the following fee structures and features:

Mobile Banking: This feature will allow you to know how much money is in your account at all times so you don't continue to overdraft your account.

Free Wire Transfer: This will permit you to send money to your family in Mexico without additional charges.

Service Fee Waiver with Direct Deposit: Once you set up direct deposit, this feature will allow you to avoid unnecessary maintenance or service fees.

This chart shows three accounts.

Comparison Chart

	Bank 1—Checking	Bank 2—Checking	Credit Union—Share Draft
Account Maintenance Fee/Service Fee	$12/month Free with Direct Deposit	$8/month Free with Direct Deposit or $1,000 daily minimum	Free
Check Purchasing Fees	$10/box of 100	Free	Free
Money Orders/ Cashier's Checks	Free	$8/each	$5/each
Wire Transfers	Free	$5/each	$7/each
Overdraft Protection Transfer Fees	$35/transaction	$25/transaction	$15/transaction
Stop Payment Fees	$35	$30	$25
NSF/Returned Item Fees	$35	$35	$30
Online Banking/Bill Pay	$5	Free	Free
Mobile Banking	Yes—Free	No	Yes—Free
Customer Service—24/7 via Telephone	Yes	Yes	Yes
Minimum Opening Deposit	$100	$500	$0
Link Accounts Available	Yes	Yes	Yes
Interest Earning	No	Yes—0.01%/year	No
Branches	Yes	Yes	One Location only
ATMs	No fee for Bank 1 ATM, $2 withdrawal fee for non-Bank 1 ATM	No fee for Bank 2 ATM, $1.50 Withdrawal fee for non-Bank 2 ATM	Fee waived

JAKE. We recommend you choose an account similar to the Credit Union Share Draft account. It meets your banking needs and will have limited additional fees. If you would like to explore additional options, we recommend using the Consumer Financial Protection Bureau's online Bank Account and Services Consumer Tool.

Before meeting the next client, let's take a moment for a knowledge check.

Knowledge Check 1

Select the correct term for the following definition:

Fee charged to invalidate a check before it is cashed.

A. Overdraft Fee
B. Stop Payment Fee
C. NSF Fee
D. Service Fee

Knowledge Check 2

Select the correct term for the following definition:

Fee charged by a financial institution for account maintenance.

A. Overdraft Fee
B. Stop Payment Fee
C. NSF Fee
D. Service Fee

Knowledge Check 3

Select the correct term for the following definition:

Fee charged when an account does not have enough money to cover a purchase *and* the financial institution loans money to complete the payment.

A. Overdraft Fee
B. Stop Payment Fee
C. NSF Fee
D. Service Fee

Knowledge Check 4

Select the correct term for the following definition:

Fee charged if there is not enough money in an account to cover a check payment or other purchase.

A. Overdraft Fee
B. Stop Payment Fee
C. NSF Fee
D. Service Fee

Account Fees and Features—Patrice

Now that you're familiar with the key attributes of different banking accounts available at a bank or credit union, you can assist in advising the next client.

Your client's name is Patrice. You can learn more about her in the file notes:

File Notes: Patrice

- She is a waitress.
- She receives a paper paycheck and tips in cash.
- She has a mobile device but does not have a computer.
- She cannot pay her monthly bills in cash and does not have a bank account. So, she uses a check-cashing service then purchases money orders to pay her bills.

A Client, Patrice

Answer the following knowledge checks to help Patrice find the best account. The best account will be one that gives her the services she needs with the lowest amount of fees.

Knowledge Check 5

Which account feature would be the *least* beneficial to Patrice?

A. Mobile Banking
B. Free Checks
C. Free Wire Transfers
D. Low Monthly Service Fee

Knowledge Check 6

Examine the bank comparison chart and consider Patrice's banking needs. Then select one of the following accounts to recommend to Patrice.

Comparison Chart

	Bank 1—Checking	Bank 2—Checking	Credit Union—Share Draft
Account Maintenance Fee/Service Fee	$12/month Free with Direct Deposit	$8/month Free with Direct Deposit or $1,000 daily minimum	Free
Check Purchasing Fees	$10/box of 100	Free	Free
Money Orders/Cashier's Checks	Free	$8/each	$5/each
Wire Transfers	Free	$5/each	$7/each
Overdraft Protection Transfer Fees	$35/transaction	$25/transaction	$15/transaction
Stop Payment Fees	$35	$30	$25
NSF/Returned Item Fees	$35	$35	$30
Online Banking/Bill Pay	$5	Free	Free
Mobile Banking	Yes—Free	No	Yes—Free
Customer Service—24/7 via Telephone	Yes	Yes	Yes
Minimum Opening Deposit	$100	$500	$0
Link Accounts Available	Yes	Yes	Yes
Interest Earning	No	Yes—0.01%/year	No
Branches	Yes	Yes	One Location only
ATMs	No fee for Bank 1 ATM, $2 withdrawal fee for non-Bank 1 ATM	No fee for Bank 2 ATM, $1.50 Withdrawal fee for non-Bank 2 ATM	Fee waived

Building Savings for Emergencies and Large Purchases

Saving for Emergencies and Large Purchases

In your next client sessions, you have the opportunity to help several clients build assets by saving for emergencies and large purchases. Here are the topics of focus:

1. Emphasize the importance of establishing an emergency fund and describe the types of accounts to use for emergency savings.
2. Highlight the value of establishing a short-term savings fund for large purchases and the best accounts to use for this type of saving.

Importance of Emergency Funds—James

Together with the housing counselor trainer, you will help your next client prepare for emergencies.

Your client's name is James. You can learn more about him in the file notes:

File Notes: James

- He has four children.
- He is employed.
- He just purchased a new car.
- He wants to buy a house next year.
- He has no money in savings.
- He pays all of his bills on time.

A Client, James

Now let's join the client session you're observing.

Jake. James, as you prepare to buy a house, you may consider establishing an emergency fund.

Emergencies are unpredictable, but you can prepare for their financial consequences by establishing an emergency fund.

An emergency fund will reduce the risk of financial instability and delays in purchasing a home for your family. Medical bills and home appliance replacements are emergencies that often affect other clients.

Medical Bills

Families often have medical emergencies that result in expensive medical bills. These bills become even more expensive if paid on credit rather than from a pre-established emergency fund.

For example, let's imagine a family pays the deductible and out-of-pocket expenses for a surgery on credit. The balance is initially $3,000. If their credit account has an interest rate of 20% and they pay only the minimum payment each month (2% of the balance), it will take over 37 years to pay off the balance and will cost over $11,000 in interest.

Home Appliance Replacements

Home appliances can break unexpectedly and need to be replaced or repaired immediately. For example, if a home furnace breaks during the winter, a family could have to pay up to $9,000 to replace it.

If the family does not have an emergency fund to draw from and pays this balance with credit, it could take over 44 years to pay off and cost over $24,000 in interest. These figures are calculated based on the assumption that the family pays only the minimum payment each month (2% of the balance) and receives an interest rate of 18%.

Emergency Fund Accounts

Jake. Do you have any questions about emergency funds, James?

James. How much should I save in my emergency fund?

Jake. A good rule of thumb is 3 to 6 months' worth of regular life expenses. It can be a daunting task to build up to this amount, so just start small and contribute regularly. Remember, these funds will be essential during unexpected unemployment or after emergencies with financial repercussions. When it is necessary to use the funds, start to build the savings again immediately.

James. Where should I put my emergency savings?

Jake. Choose an account with the following attributes:

Liquid

A liquid account is one from which money can be retrieved quickly without taxes or penalties. It is best not to invest this money because there would be a cost incurred for any withdrawal from the investment. The idea is to be able to access the money as soon as the emergency occurs.

Direct Deposit or Automatic Transfer Available

With this feature you can automatically put a portion of your paycheck into the account each pay period or simply schedule regular deposits to savings before being tempted to use the money on something else.

Limited Accessibility

It is best if your emergency savings are not in your checking account. This will prevent you from spending the money on expenses unrelated to emergencies.

Examples of ideal emergency saving accounts include:

- Interest-bearing savings accounts
- Money market accounts

Large Purchase Savings—James

It is important not to spend your emergency savings on large purchases or periodic expenses that you *can* plan on, such as:

- Birthday presents.
- Children's school expenses (e.g., school supplies, clothing, field trips).
- A family computer.

To avoid misuse of your emergency funds, you can set up a short-term savings fund for large purchases.

Large Purchase Savings Account Features

When selecting an account for your large purchase savings account, choose one that has these features:

Limited Accessibility

If your account has limited accessibility, you will be required to have a specific plan for when you will use money. This can remove the temptation to spend the money on unplanned or impulse purchases. Placing the funds in an account separate from the commonly used checking account is one way to create limited accessibility.

Good Returns

Placing your funds in an account that has good returns will help you reach your savings goal faster.

Examples of accounts that would be ideal for short-term large purchase savings include:

- High-Interest Savings Account
- Money Market
- CD

Large Purchase Savings Accounts—Jill

In the next client session, you will help Jill reach an understanding of the same concepts regarding emergency and short-term large purchase savings that you just reviewed with James.

This will be Jill's first meeting with a housing counselor. There are a few notes in her file from when she called to set up an appointment:

File Notes: Jill

- She has a seven-year-old daughter.
- She is a single parent.
- She lives with her parents and would like to get her own home as soon as possible.
- She has heard rumors that her company will be laying off 10% of the staff this year. She fears she will lose her job.

A Client, Jill

Now let's join the client session you're observing.

Jake. Jill, we want to give you a bit of guidance for establishing an emergency fund.

If you prepare for unemployment or other emergencies by establishing an emergency fund, you will be more financially prepared in the future to purchase a home.

Answer the following knowledge checks to help Jill understand emergency funds and short-term saving funds for large purchases.

Knowledge Check 7

Which statement should Jake *avoid* sharing with Jill based on what you know about emergency funds?

A. Emergency funds can be used to cover living expenses while Jill looks for a new job, if she is laid off.
B. Emergency funds placed in a liquid account can be retrieved when needed without taxes or penalties.
C. Emergency funds will be available to use to purchase an electronic game for her daughter when Jill finds a great sale.
D. It is ultimately cheaper to pay for emergency expenses from an emergency fund rather than on credit.

Knowledge Check 8

Which is the most appropriate use of Jill's emergency funds?

A. Contributing to a mutual fund
B. Upgrading a refrigerator
C. Establishing a retirement fund
D. Repairing the transmission on a car

Knowledge Check 9

Place a letter before each item indicating that it is an expense best paid for with Jill's (A) emergency fund or (B) short-term large purchase fund.

___ 1. School Trips

___ 2. Birthday Gifts

___ 3. Living Expenses (During Unemployment)

___ 4. Medical Bill

___ 5. Electronics

___ 6. Car Repair

Investing for Retirement

Investing for Retirement

In addition to emergency savings and large purchase savings, the housing counselor trainer encourages clients to wisely invest for retirement.

Here are the topics of focus:

- Explain the importance of saving for retirement.
- Highlight the benefits of tax-incentivized accounts.

Investing for Retirement—Andre

You will be advising Andre in the next client session.

Take a minute to review the notes in his file:

File Notes: Andre

- He is 23 years old.
- He recently began his first full-time job with benefits.
- His company offered him a retirement package that would match 50 cents for every dollar he contributed to the retirement fund up to a maximum amount per year (essentially free money).
- He would not have to pay taxes on his own contributions or his employer's matched contributions until he withdraws them in retirement.
- He turned down the offer to open up a retirement fund through his company because he needs the money.

A Client, Andre

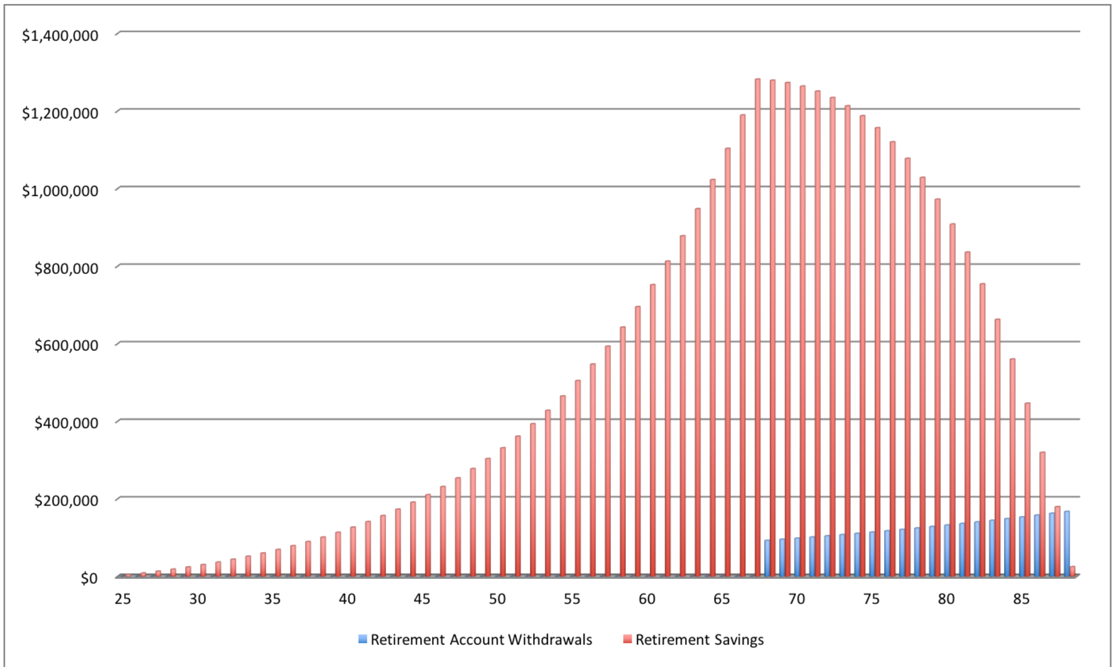
Now let's join the client session you're observing.

Importance of Retirement Planning—Andre

Jake. Andre, today we want to discuss the importance of investing now for retirement. Let's take a look at two charts.

Retirement Savings Example

If a single person with a starting salary begins saving 10% of her income annually at age 25, she will have enough money for retirement. Here's an example of how she can do it.



Retirement Savings Example	
Starting Salary	$40,000
Starting contribution	$100
Annual income increase	2%
Income replacement at retirement	65%
Retirement age	68
Inflation rate	3%
Pre- and post-retirement investment return	7%
Amount saved at age of retirement	$1.28 million
Number of years of retirement savings withdrawals	21
Not factored in: Social Security income and employer match contributions	

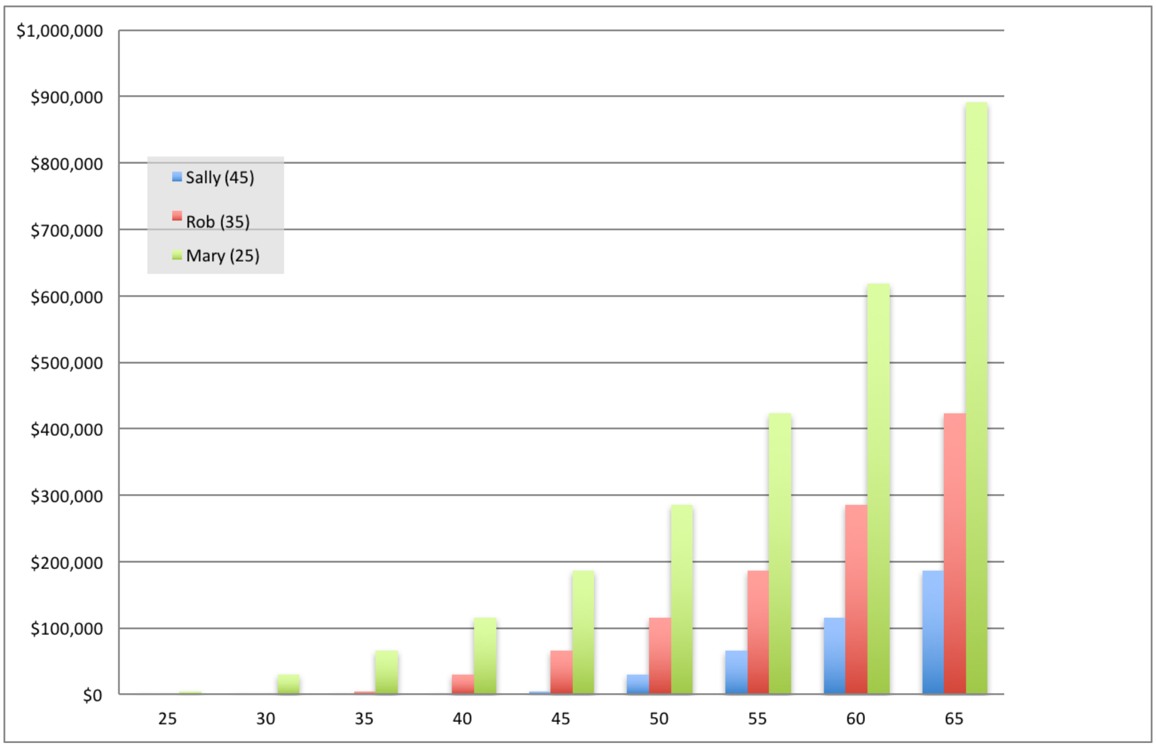
The Value of Investing Early for Retirement

Mary, Rob, and Sally earn the same salary and contribute the same amount to their retirement funds, but each starts saving at a different age.

By retirement age, Mary, who starts saving at age 25, saves a significantly larger amount than both Rob, who starts saving at 35, and Sally, who starts saving at 45.

Mary has close to $900,000 by retirement age, Rob has just over $400,000, and Sally has just under $200,000.

Housing counselors can use online retirement calculators and visuals to show the value of investing early for retirement.



Assumptions: about Mary, Rob, and Sally	
Annual Income	$40,000
Annual Contribution	10% of income
Expected Return on Investment	7%
Retirement Age	66
Beginning Balance	$0

Retirement Planning FAQs

Jake. Andre, after this discussion about investing now for your retirement, do you have any more questions that we can answer for you?

Andre. Can I contribute to a retirement fund if I leave my company and become self-employed?

Jake. Usually those who begin retirement funds in a company can transfer their retirement funds into a rollover account when they leave the company. Those who have always been self-employed have options for opening retirement accounts as well. For more information, consider meeting with a retirement specialist or certified financial planner.

Andre. Are there any tax benefits?

Jake. Yes. A major reason for contributing to a retirement fund is the tax benefits. Benefits vary depending on the plan. Types of tax benefits include tax deductions, tax-free growth on earnings, and non-refundable tax credits. For more information, consider meeting with a retirement specialist or certified financial planner.

Andre. If I need the money in my retirement fund before I retire, can I borrow against it?

Jake. It is strongly advised not to take this route due to the resulting opportunity cost and financial cost. You can find out more about retirement planning with the CFPB Planning for Retirement Consumer Tool.

Jake discourages Andre from borrowing from his retirement fund because he will not earn investment returns on the borrowed funds until he pays them back. Additionally, Andre does not pay taxes on his retirement contributions, but he will pay taxes on his loan payments because they will be deducted from his paycheck after taxes. Both of these factors will negatively impact his retirement fund growth.

Retirement Planning—Alexis

Alexis is the next client of the day. Here are important details her from her file:

File Notes: Alexis

- She is 40 years old.
- She has been working aggressively for several years to pay off $20,000 of old credit card debt and is now debt free.
- She would like to purchase a condo within the next year.
- She spent her savings to repay her credit card debt, but now she wants to start saving for homeownership.
- She does not have a retirement fund, but she plans to contribute to one after she buys her condo.

A Client, Alexis

You want Alexis to consider the benefits of allocating some money to her retirement fund while she is saving for the down payment on her condo. You'll find the explanation in the following knowledge check.

Knowledge Check 10

Which feature of a retirement account has the potential to negatively impact Alexis's retirement fund growth?

A. Her company might "match" a portion of the retirement funds that she contributes.
B. She could benefit from certain tax incentives.
C. She could borrow against the retirement investment if she has an immediate need for cash.
D. Her investment could grow more if she begins investing earlier.

Income Tax Credits

In addition to the tax benefits that clients can usually enjoy when they utilize a retirement plan, they often are unknowingly eligible for tax credits.

A tax credit reduces the total amount a taxpayer owes. Often tax credits are refundable if the deduction exceeds the amount of tax owed. No matter how clients submit taxes, we can consider their eligibility for several different tax credits.

Before you discuss tax credits with clients, take a minute to review these three credits for which housing counseling clients are often eligible.

Earned Income Tax Credit (EITC)

Low- to moderate-income individuals and families with earned income may be eligible for this tax credit. Earned income includes wages, salaries, tips, and other employee pay. It also includes net earnings from self-employment for individuals who own or operate a business or farm. The specific amount of the tax credit is based on a recipient's income, marital status, and number of children.

Educational

Clients who are in a post-secondary educational program, or who are supporting children in a post-secondary program, may qualify for an educational credit.

Child and Dependent Care

Those who are working, or are actively looking for work, may be eligible for this credit if they are paying a service to take care of a dependent (child or adult). Also, a client may claim additional tax credits for any qualifying child under the age of 17.

Income Tax Credits—Richard

Your next session is with Richard. It is Richard's first session with a housing counselor, and he has specifically asked for help identifying tax credits for which he is eligible. Answer the following knowledge checks to practice how to advise him.

Knowledge Check 11

Which of the following information would be relevant to ask Richard in the session to determine if he is eligible for any of the tax credits outlined in this module?

A. Where does he live?
B. How is he submitting his taxes?
C. Does he spend money on childcare?
D. What is his credit limit?

Income Tax Credits—Carlos

Great job advising Richard. Let's move on to the next client, Carlos.

Here are the notes from his file

File notes—Carlos

- He has two children under the age of three that attend daycare.
- He makes minimum wage at his job.
- He has not taken any courses beyond high school.

Jake. Carlos, while reviewing your tax forms from last year, we noticed that you did not claim any tax credits. We'd like to help you gain assets by identifying qualifying tax credits this year.

A Client, Carlos

Knowledge Check 12

For which tax credit is Carlos *ineligible*?

A. Earned Income Tax Credit (EITC)
B. Child and Dependent Care Credit
C. Educational Credit

Summary

In this module, you learned to:

1. Comprehend key attributes of different banking accounts available at a bank or credit union, including fee structure and access to funds.
2. Explain the importance of establishing an emergency fund and short-term saving funds for large purchases.
3. Explain the importance of saving for retirement and the benefits of tax-incentivized accounts.
4. Identify the tax credits for which clients may be eligible and how to apply for them. Appendix

Appendix

Knowledge Check Answer Key

1. **(B) Stop Payment Fee**

   Stop payment fees are fees charged to stop payment on a check before the check is cashed. Clients may not want a check to be cashed when they are suspicious of a scam, have lost a check, or have realized that there are insufficient funds in their account.

   Incorrect answers: (A) Overdraft Fee, (C) NSF Fee, and (D) Service Fee

2. **(D) Service Fee**

   Account Maintenance/Service Fees are fees charged by a financial institution for account maintenance. Though typically a monthly fee, it can be charged annually. Frequently, fees can be waived under certain circumstances. For example, banks may waive fees when a client's direct deposit exceeds $500, minimum daily balance exceeds $1,500, or average balance exceeds $5,000.

   Incorrect Answers: (A) Overdraft Fee, (B) Stop Payment Fee, and (C) NSF Fee

3. **(A) Overdraft Fee**

   Overdraft fees are fees charged when an account does not have enough money to cover a purchase *and* the financial institution loans money to complete the payment. This creates a negative loan to repay and interest will be charged on the balance.

   Incorrect Answers: (B) Stop Payment Fee, (C) NSF Fee, and (D) Service Fee

4. **(C) NSF Fee**

   Non-sufficient funds/returned item fees are fees charged if there is not enough money in an account to cover a check payment or other purchase. In addition to a fee, the *returned item* (or *bounced check*) may result in additional charges from the creditor.

   Incorrect Answers: (A) Overdraft Fee, (B) Stop Payment Fee, and (D) Service Fee

5. **(C) Free Wire Transfers**

   None of the notes in Patrice's file indicate that she will need to frequently use wire transfers. Wire transfers are a fast and secure method of transferring money. Common examples of wire transfer uses include sending money to family overseas or transferring money to open a new account.

Incorrect answers: (A) Mobile Banking—Since Patrice does not have access to a computer, she will need to view her account information using mobile banking. She needs to select an account that offers mobile banking for free; (B) Free Checks—Since Patrice has to pay all of her bills with checks, she needs to select an account that offers her free checks; and (D) Low Monthly Service Fee—Since Patrice receives paper checks and cash tips, she will not be able to set up direct deposit to get the service fee waived. So she will want to look for a bank that offers her a low monthly service fee.

6. **Credit Union Share Draft Account**

   The Credit Union Share Draft does not require a monthly service fee, offers free checks, and has mobile banking features. If Patrice selects this account, she meets all of her banking needs without being charged additional fees.

   Incorrect answers:

   Bank 1, Checking—If Patrice selects this account, she will be charged $12 a month in service fees and $10 for every box of checks that she needs. The best account will be the one that offers all of the services she needs and charges the least amount of fees for those services.

   Bank 2, Checking—If Patrice selects this account, she will be charged $8 a month in service fees and will not have access to mobile banking. The best account will be the one that offers all of the services she needs and charges the least amount of fees for those services.

7. **(C) Emergency funds will be available to use to purchase an electronic game for her daughter when Jill finds a great sale.**

   Savings for any large expenses should be used *if and only if* an essential expense that cannot be anticipated arises.

   Incorrect answers: (A) Emergency funds can be used to cover living expenses while Jill looks for a new job, if she is laid off—This reason supports the importance of establishing an emergency fund. A good rule of thumb is to build up 3 to 6 months' worth of regular life expenses in the fund. This fund will be essential during unexpected unemployment or after emergencies with financial repercussions; (B) Emergency funds placed in a liquid account can be retrieved when needed without taxes or penalties—This reason supports the importance of establishing an emergency fund. A liquid account is one from which money can be retrieved quickly and without taxes or penalties. Clients should not invest emergency funds, because there could be a cost incurred for withdrawing the investment. The idea is to be able to access the money as soon as the emergency occurs; and (D) It is ultimately cheaper to pay for emergency expenses from an emergency fund rather than on credit—ßThis reason supports the importance of establishing an emergency fund. If Jill is laid off and pays for living expenses on credit instead of from an emergency fund, the amount of the expense could ultimately cost double the original amount or more.

8. **(D) Repairing the transmission on a car**

   Though some car maintenance should be expected, emergencies that need immediate attention may arise, especially in situations that may affect a client's ability to commute to work.

   Incorrect answers: (A) Contributing to a mutual fund; (B) Upgrading a refrigerator; and (C) Establishing a retirement fund—There are many large purchases or account contributions that she *can* anticipate. If she prepares for these purchases by establishing a fund for them, she will be less likely to use her emergency funds for these predictable purchases.

9. **Correct matched items:**

(A) Emergency Fund	**(B) Large Purchase Fund**
3. Living Expenses (During Unemployment): Living expenses following job loss can be covered temporarily with emergency funds.	1. School Trips: This is an expense that can be anticipated in advance and saved for in a short-term large purchase account.
4. Medical Bill: Medical expenses are often unpredictable and can be covered with emergency funds.	2. Birthday Gifts: These are expenses that can be anticipated in advance and saved for in a short-term large purchase account.
6. Car Repair: Car repairs are often hard to predict and can be covered with emergency funds.	5. Electronic: This is an expense that can be anticipated or delayed, thus an ideal expense to save for in a short-term large purchase account.

10. **(C) She could borrow against the retirement investment if she has an immediate need for cash.**

    Borrowing against a retirement fund is is discouraged because the borrowed funds do not earn investment returns and the repayment will cost more than the original contributions due to taxes.

    Incorrect answers: (A) Her company might "match" a portion of the retirement funds that she contributes—Future contributions could be matched by her employer if it offers this benefit, (B) She could benefit from certain tax incentives—Most retirement fund contributions have tax benefits, and (D) Her investment could grow more if she begins investing earlier—This is generally a good reason to invest in early to a retirement fund. However, it is important to know that while retirement funds are often invested in stocks and bonds with positive returns, this is not guaranteed.

11. **(C) Does he spend any money on childcare?**

    This determines the eligibility of clients for the "Child and Dependent Care" tax credit. Those who are working, or are actively looking for work, may be eligible for this credit if they are paying a service to take care of a dependent (child or adult). Also, a client may claim additional tax credits for any qualifying child under the age of 17.

    Incorrect answers: (A) Where does he live?, (B) How is he submitting his taxes?, and (D) What is his credit limit?—None of this information determines the eligibility of clients for tax credits.

12. **(C) Education Credit**

    Only clients who are in a post-secondary educational program, or who are supporting children in a post-secondary program, may qualify for an educational credit. Carlos does not appear to meet either of these criteria.

    Incorrect answers: (A) Earned Income Tax Credit (EITC)—Individuals or families with low to moderate income levels may be eligible for this tax credit. The specific amount of the tax credit is based on a recipient's income, marital status, and number of children. Since Carlos works at minimum wage, he may be eligible for the EITC. (B) Child and Dependent Care Credit—Those who are working, or are actively looking for work may be eligible for this credit if they are paying a service to take care of a dependent (child or adult). Also, a client may claim additional tax credits for any qualifying child under the age of 17. Since Carlos has children in day care, he may be eligible for this tax credit.

Resources

CFPB Bank Account and Services Consumer Tool

www.consumerfinance.gov/consumer-tools/bank-accounts/

CFPB Planning for Retirement Consumer Tool

www.consumerfinance.gov/consumer-tools/retirement/

IRS Withholding Calculator

www.irs.gov/Individuals/IRS-Withholding-Calculator