

# The AFC® Learning System

MODULE 2: Educate Client on Personal Finance





## COMPETENCY: Educate a Client about Personal Financial Planning Tools



Purpose of personal financial statements and educate client on financial planning and record keeping



### Purpose of Personal Financial Statements

Understand financial health

Track progress over time

Navigate financial challenges

Visualize financial journey

Identify patterns and build an action plan



#### Purpose of Personal Financial Statements

#### **Cash Flow Statement**

- Where you've been
- Lists income and expenses
- Yields surplus or deficit
- Used to create spending plan/budget

#### **Net Worth Statement**

- Where you currently are
- Lists assets and liabilities
- Yields net worth ratio
- Used to track financial health over time

#### **Spending Plan/Budget**

- Where you're going
- Plans income and expenses
- Yields surplus or deficit
- Used to plan next goal



### Educate Client on Financial Planning, Record Keeping



Why keep financial records?

- Saves time when gathering information
- Reduces stress
- Provides clear data
- Protects financial interests
- Helps family members and beneficiaries in event of death



### Educate Client on Financial Planning, Record Keeping

### **Credit/Loan Applications**

- Provide income history
- Show payment reliability
- Document assets



### Educate Client on Financial Planning, Record Keeping

### **Tax Preparation**

- Document income sources
- Trace deductive expenses
- Support tax claims
- Maintain audit trail



### Educate Client on Financial Planning, Record Keeping

### **Estate Planning**

- Update wills and trusts
- List assets for beneficiaries
- Document important accounts
- Maintain emergency access



### Educate Client on Financial Planning, Record Keeping

### Insurance Documentation

- Track policy information
- Document valuable assets
- Support claims process
- Review coverage needs



#### Educate Client on Financial Planning, Record Keeping



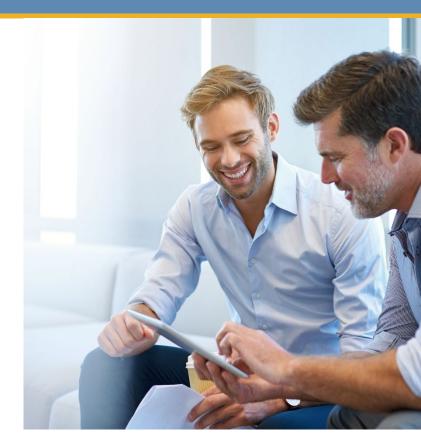
What are some issues when physical records are a client's primary method of retaining financial data and documentation?

- Control and privacy
- Requires physical space and manual updates
- Should be organized: cabinets, folders, binders, etc.



### Digital Records Including Financial Apps

- Automates transactions
- Tracks spending and updates records
- Reduces manual entry
- Security and cost concerns
- Tracking with spreadsheets and templates
- Backups: computer, external hard drive, and cloud storage





Educate client on employment and other income and educate client on income assistance



#### Sources of Income



When gathering current sources of income, what sources should be considered?

- a) Earned income sources only, even if self-employed
- All earned income plus unearned income, except income from government financial assistance sources
- c) All earned and unearned income sources
- d) Earned income sources only, except if self-employed

Answer: c.

Income (earned and unearned) = Total money received monthly



#### **Employment and Other Income**

#### **Unearned income**

- Interest
- Dividends
- Rental income
- Social Security
- Pensions
- Unemployment benefits

#### **Earned income**

- Salary/wages
- Commissions
- Bonus
- Tips
- Self-employment earnings



#### **Employment and Other Income**

#### **Full-time**

- Record keeping as a W-2 employee
- Employer withholds taxes
- Often employer-sponsored health insurance
- Typically employer provided PTO

#### Part-time

- Record keeping as a W-2 employee
- Employer withholds taxes
- Rarely provided health insurance
- Limited to no PTO

#### Self-employed

- Record keeping can be complex
- Self-managed quarterly tax payments
- Must purchase health insurance individually
- Unpaid PTO



### Educate Client on Key Government Financial Assistance Programs

Program	Area of Service
Supplemental Nutrition Assistance Program (SNAP)	Food
Temporary Assistance for Needy Families (TANF)	Cash assistance
Medicaid	Healthcare
Housing Choice Voucher Program	Housing
Low Income Home Energy Assistance Program (LIHEAP)	Home energy assistance
Women, Infant, and Children (WIC)	Nutrition



Assist client to develop a cash flow statement, a spending plan (budget), analysis and ratios, and to manage spending plan and close gaps



#### Assist Client to Develop a Cash Flow Statement



What is a purpose of developing a cash flow statement?

- a) Help determine if living within your means
- b) Use to develop a net worth statement
- c) Learn details of total debts and total equity
- d) To learn cash-based accounting that tracks bills soon to be paid

Answer: a.

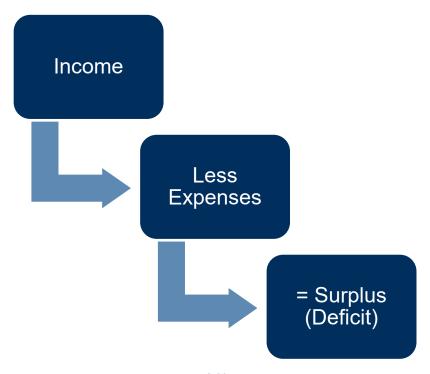
Use to develop a spending plan/budget

Learn details of income and expenses

Cash-based accounting only records transactions that have occurred



### Assist Client to Develop a Cash Flow Statement





#### Assist Client to Develop a Cash Flow Statement



Which is correct about the difference between gross pay and net pay?

- a) Gross pay is take-home pay while net pay is disposable income.
- b) Gross pay is all income while net pay is income after tax-advantaged savings contributions are taken out.
- c) Gross pay is take-home pay, and net pay is the surplus (or deficit).
- d) Gross pay is pay before taxes or deductions, and net pay is after these.

Answer: d.

Net pay is also called take-home pay or disposable income.



#### Assist Client to Develop a Cash Flow Statement

- Example:
- Family of four
- Two working adults
- Note the investment income

Income	Monthly Income Client One	Monthly Income Client Two
Salary/wages	\$4,167	\$1,667
Investment	\$667	
Total		\$6,501



#### Fixed, Variable, and Periodic Expenses



Which lists examples of variable expenses?

- a) Vehicle registration, real estate taxes, homeowners insurance, vacation
- b) Food, medical bills, childcare, clothing
- c) Loan payments, savings contributions, internet bill, housing expense
- d) Credit card debt, mortgage debt, vehicle debt

Answer: b.

Vehicle registration, etc. are periodic expenses (non-monthly).

Loan payments, etc. are fixed expenses.

Debts are not expenses (required payments on debts are expenses).



#### Further Categorizing Spending Beyond Fixed, Variable, and Periodic

#### **Discretionary Expense**

- Costs not necessary for survival
- Deeply personal: enhance quality of life
- Could reduce or eliminate if necessary

#### **Essential Expense**

- Basic living standard depends on this cost
- Reducing or failing to pay: significant negative consequences



#### Assist Client to Develop a Cash Flow Statement

Monthly Amount		
Total Income	\$6,501	
Total Expenses	\$6,100	
Total Surplus (Deficit)	\$401	

- Total income Total expenses = Surplus (Deficit)
  - Surplus in this example



### Assist Client to Develop a Spending Plan/Budget



What are some of the benefits of developing a spending plan, also called a budget?

- Helps determine where to allocate discretionary money
- Consider how to apply any spending difference(s)
- Make informed adjustments



### Assist Client to Develop a Spending Plan/Budget

Calendar

Align income and expenses to prevent cash flow issues

Envelope

 Divide cash into physical or digital categories to control spending

Percentage-based

Allocate income by percentages to balance spending

Pay Yourself First

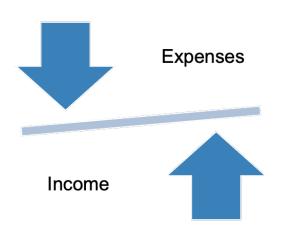
 Direct a portion of income to savings before longterm goals

Zero-based

Ensure all money has a purpose and eliminate mindless spending



### Assist Client to Develop a Spending Plan/Budget



### Help prioritize

- List expenses
  - Identify needs versus wants
- Categorize
  - Can/can't live without
  - Culture influences needs versus wants
- Make choices
  - Reduce expenses
  - Increase income
  - Try new budgeting methods
  - Balance needs/wants





### Assist Client to Develop a Spending Plan/Budget

- Uses of budgets
- Cash flow tracking
- Income identification
- Expense categorization
- Considerations
- Align budget with values
- Adjust when things change



### Assist Client to Develop a Spending Plan/Budget

Variable Expense	Projected Amount	Actual Amount	Difference
Gas	\$160	\$130	\$30
Car maintenance	\$50	\$0	\$50
Groceries	\$400	\$400	\$0
Dining out	\$150	\$150	\$0
Medication	\$40	\$40	\$0
Entertainment	\$100	\$100	\$0
Clothing	\$75	\$0	\$75
Cable/Internet	\$80	\$80	\$0
Utilities	\$125	\$150	(\$25)
Personal care	\$50	\$150	(\$100)



#### Assist Client to Manage Spending Plan & Close Gaps



Ari, a client, cut a number of expenses and found a way to increase income a little. What else could Ari consider that may help close some gaps?

- a) Review the timing of expenses
- b) Reclassify some essential expenses as discretionary
- c) Eliminate all periodic expenses
- d) Open a new credit card

Answer: a.



Explain purpose of net worth statement and assist client to develop net worth statement



#### Explain the Purpose of Net Worth Statement

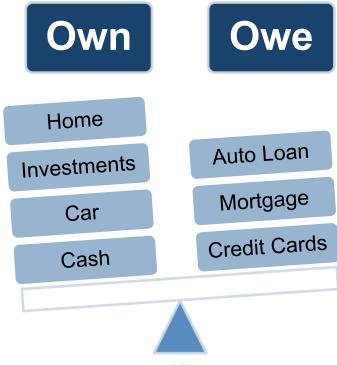


What are some ways to express the purpose of the net worth statement, also called a balance sheet?

- Snapshot of financial health
- Compares what client owns (assets) to what they owe (liabilities)
- Available cash and liquid assets
- Size of debt burden
- Major assets and their values



### Explain the Purpose of Net Worth Statement





### Value of Tracking Net Worth Over Time (Trends)



Tracking trends in net worth can serve what purpose?

- a) Informational: Net worth statement used by lenders who want to see improvement
- Motivational: See the benefit to net worth of paying off personal, student, or mortgage debt
- c) Budgetary: See the benefit of reducing expenses or increasing income

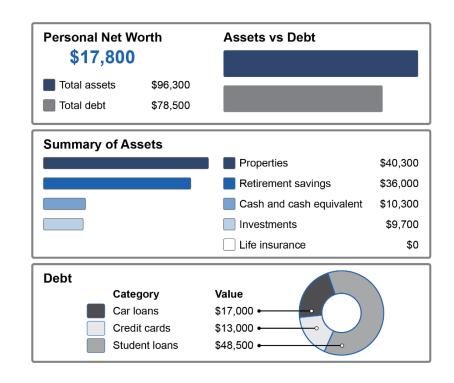
Answer: b.

Lenders do not have access to net worth statement.

Neither expenses nor income are on a net worth statement.



Assist Client to Develop Net Worth Statement





#### Net Worth Statement: Assets

Assets	You	Spouse
Cash (checking, savings)	\$3,400	\$3,400
Health savings account	\$3,500	
Investments (stocks, bonds)	\$3,200	\$2,000
Retirement accounts (401(k))	\$18,000	\$18,000
Vehicles	\$11,500	\$14,000
Electronics	\$2,500	
Furnishings	\$7,000	
Collectibles and jewelry	\$1,500	\$3,800
529 College savings account		\$4,500
Total assets	\$50,600	\$45,700
Total assets, combined	<b>\$96</b> ,	300



#### Net Worth Statement (continued)

	You	Spouse
Total assets, combined	\$96	,300
Liabilities		
Credit card balances	\$13,000	
Auto Ioan	\$17,000	
Student loans	\$32,000	\$16,500
Total liabilities	\$62,000	\$16,500
Total liabilities, combined	\$78	,500
Net worth (total assets minus total liabilities)	\$17	,800



#### Assist Client to Develop Net Worth Statement

#### Assets (Own)

- Liquid assets
- Tangible assets
- Investments, current value

#### **Liabilities (Owe)**

- Short-term debts
- Long-term debts

#### Assets – Liabilities = Net Worth (Insolvent)

- From the example:
- Total assets = \$96,300
- Total debt = \$78,500
- Personal net worth:\$96,300 \$78,500 =\$17,800



#### **Assist Client in Interpreting Net Worth**

## Insolvent Owing more than one owns

#### Solvent

 Assets cover liabilities



Assess client comfort level using financial ratios and assist client to analyze financial ratios



#### Assess Client Comfort with Using Financial Ratios



How might a financial counselor determine a client's comfort level with financial ratios?

- Scaling questions: "On a scale from one-to-five, how do you feel when I talk about financial ratios, such as debt-to-income?"
- Open-ended questions:
  - "Have you worked with financial ratios before?"
  - "Are there any you are currently tracking?"
  - "What is your general comfort level using financial ratios?"



#### Alternatives to Using Financial Ratios

#### **Debt-to-Income (DTI)**

- Consider: Percent of income going to debt
- Ask: "Did I avoid new debt?"

#### **Liquidity Ratio**

- Consider: Months of expense savings can cover
- Ask: "How long can I live on my savings if I lose my job?"

#### **Savings Ratio**

- Consider: Percent of income saved each month
- Ask: "Did I add to my savings?"



#### Debt-to-Income (DTI) Ratio



Debt-to-Income (DTI) Ratio = 
$$\frac{\text{Annual Debt Payments}}{\text{Annual Gross Income}}$$

What is the DTI for the example client?

Monthly income, combined: \$6,501, about \$78,000 annual

Monthly debt payments: \$485 student loan + \$150 credit card + \$165 vehicle =

\$800/month, or \$9,600 annual

Debt-to-Income (DTI) Ratio = 
$$\frac{$9,600}{$78,000}$$
 = 0.12 = 12%



#### **Liquidity Ratio**



$$Liquidity Ratio = \frac{Liquid Assets}{Monthly Expenses}$$

What is the liquidity ratio for the example client?

Liquid assets (from net worth statement): \$6,800 checking and savings + \$3,500 health savings account = \$10,300

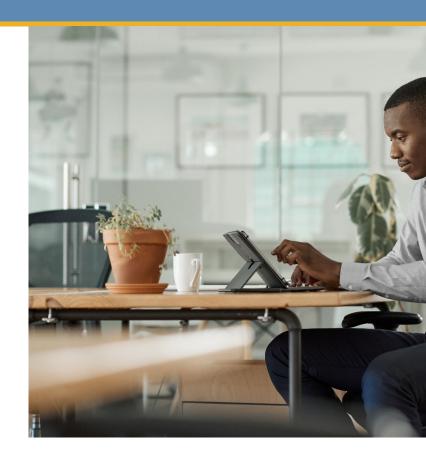
Monthly expenses (from spending plan): \$6,100 per month

Liquidity Ratio = 
$$\frac{$10,300}{$6,100}$$
 = 1.69 months of expenses



#### Assist Client to Analyze Financial Ratios

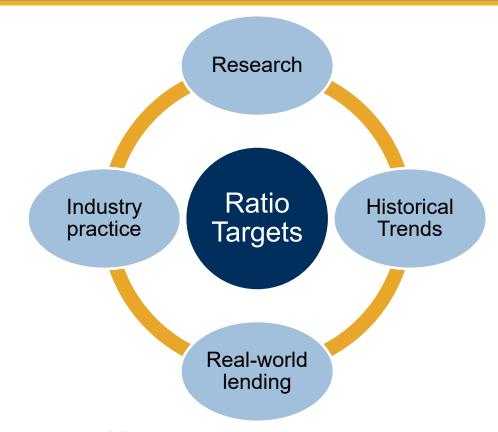
- Expenses
- Convert to same scale
- Average for variable
- Break periodic down in monthly amounts





#### Assist Client to Analyze Financial Ratios

- Ratio targets = guidelines
- Generally sustainable
- Work for some over time
- Different experts recommend different ranges
- Personal circumstances justify different targets
- Targets not pass/fail





# COMPETENCY: Assist Client to Manage Money, Taxes, and Employment



Educate client about banks, credit unions, saving methods, electronic money management, and emergency fund. Brainstorm savings and borrowing for the unbanked.



#### Key Similarities Between Banks and Credit Unions



What types of accounts and services do both banks and credit unions offer?

- Deposit accounts
- Loans
- Credit cards
- Direct deposit
- ATM access
- ACH payments and automated and electronic bill pay



#### Key Differences Between Banks and Credit Unions

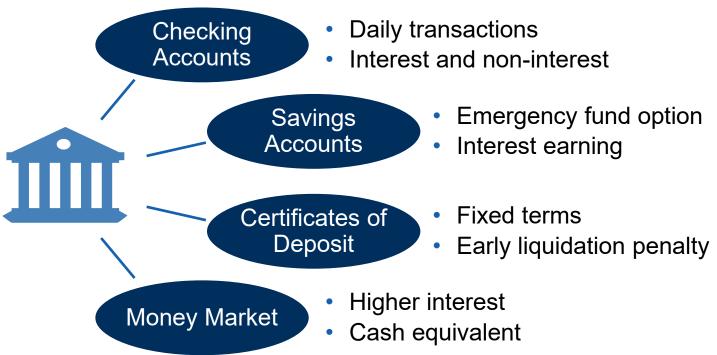


What are some ways that banks and credit unions differ from each other?

- Ownership structure and profit model
- Eligibility requirements
- Physical presence
- Branch availability
- Products offered
- Business-specific products



#### Types of Bank Accounts





#### **Ownership Categories**

### Ownership Category

- Legal classification
- Determines account owner
- Affects deposit insurance limits
- Determines access rights

#### Joint Ownership

- Legal arrangement
- Include two or more individuals
- Equal rights to access
- Survivorship typically applies

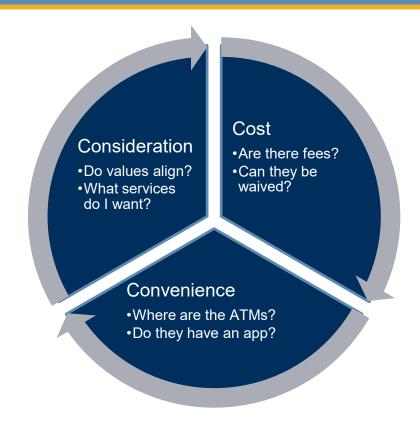


#### **Deposit Insurance**

Banks: FDIC	Credit Unions: NCUA		
FDIC	NCUA		
Federal Deposit Insurance Corporation standard coverage \$250,000	National Credit Union Administration standard coverage \$250,000		
Coverage based on ownership categories			



Educate Client on Choosing a Bank





#### Savings Methods and Money Management

Automate savings: Schedule transfers on payday.

Success = growth month-over-month

Save More Tomorrow: Gradually increase your savings rate.

Success = percentage of income saved increases

Pay Yourself First: Treat savings like a bill.

Success = savings goals met



#### **Electronic Financial Services Tool Features**

24/7/365 account access

Immediate transaction tracking

Automated bill payments

Instant fund transfers

Mobile check deposits

Real-time balance alerts



#### Electronic Funds Transfer (EFT)



What is EFT and where can the funds be transferred?

- Electronic movement of money between bank accounts (vs. using physical checks or cash)
- Can transfer funds within the same financial institution or between different institutions



#### **Electronic Bill Pay**

- Single login to view and manage all scheduled bill payments in one place
- Typically offered for free by most banks
- Some institutions charge monthly fee





#### Traditional Bank Products and Fees: What Leads to Fees?

Account minimum requirements

Out-of-network ATM usage

Overdraft and overdraft protection

Automated funds transfer agreements



#### Traditional Bank Products and Fees



What are some things that clients can do to help avoid bank fees?

- Maintain the minimum monthly balance
- Use in-network ATMs
- Plan cash withdrawals
- Sign up for e-statement
- Report lost card promptly
- Request fee waivers





#### **Need for Emergency Savings**

- Why have emergency savings?
  - Financial protection
  - Stress reduction
  - Job flexibility
- Common scenarios
  - Medical bills
  - Car repairs
  - Home repairs
  - Job loss



#### **Need for Emergency Savings**



What are some ways to help clients build up their emergency savings?

- Set a target
- Start small
- Automate savings
- Use "found money"
- Use monthly savings formula: Target amount divided by months to goal



#### How to Manage Emergency Savings

- Keep accessible
- Define "emergency"
- Regularly review
- Replenish promptly if used
- Ideal account types
  - Money market
  - Savings account





#### Brainstorm Savings and Borrowing for the Unbanked

- Unbanked: no one in household has bank account
- Interview to determine why
- Key unmet banking needs
  - Access to a debit card
  - Electronic funds access, e.g., for employer direct deposit
  - Quick access to cash



#### Strategies for the Unbanked or Underbanked



What are some ways that the unbanked or underbanked might be able to save, borrow, or get access to funds quickly at low cost?

- Prepaid debit cards and payroll debit cards
- Community Development Financial Institutions (CDFIs)
- Rotating savings circles (tandas, susus, lending circles)
- Second chance checking accounts
- Credit builder loans and secured credit cards



Educate client on basic tax concepts, income tax returns and filings, tax refund goals, withholding, tax preparation services, and filing on time



#### **Educate Client on Basic Tax Concepts**

#### Federal Income Tax

- Funds national programs
- Funds defense
- Funds operations

#### State Income Tax

- Supports state-level services
- Supports state-level programs

#### Sales Tax

- Supports local government operations
- Funds infrastructure

#### Property Tax

- Funds schools
- Funds emergency services



#### **Educate Client on Basic Tax Concepts**

#### **Regressive Taxes**

- Rate decreases as income rises.
- Larger relative burden on lower earners
- Simplifies tax collection via uniform rates

10% Sales Tax				
Annual Income	\$50,000	\$120,000		
Taxable goods and services at 10%:	\$32,500	\$48,000		
Sales tax paid:	\$3,250	\$4,800		
Tax Impact (Sales tax paid as % of annual income)	6.5%	4.0%		



#### **Educate Client on Basic Tax Concepts**

#### **Progressive Taxes**

- Rate increases as income rises
- Larger relative burden on higher earners
- Burden based on ability to pay

Higher Income	
37%	
22%	
12%	
10%	
Lower Income	



#### Marginal versus Effective Tax Rates and Tax Brackets



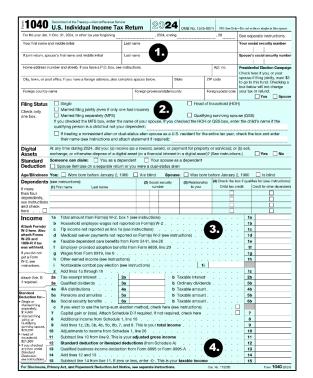
Alex gets \$65,000 per year in taxable income. Assume these tax brackets: 10% for the \$0 to \$12,000 bracket, 12% for the \$12,000 to \$49,000 tax bracket, and 22% for the \$49,000 to \$104,000 tax bracket. What is Alex's effective tax rate?

- 10% tax on first \$12,000 income: \$1,200
- 12% tax to next block (\$49,000 \$12,000 = \$37,000). \$37,000 x 12% = \$4,440
- 22% tax on rest of income (\$65,000 \$49,000 = \$16,000). \$16,000 x 22% = \$3,520
- \$1,200 + \$4,440 + \$3,520 = \$9,160
- Effective Tax Rate =  $\frac{\text{Total Tax Paid}}{\text{Total Taxable Income}} = \frac{\$9,160}{\$65,000} = 14.1\%$



#### Educate Client on Interpreting Tax Return Documents

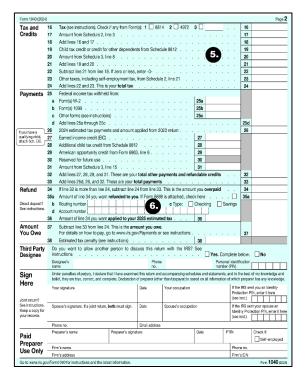
- Personal information
- Filing status
- Income
- Taxable income





#### Educate Client on Interpreting Tax Return Documents

- Tax and credit
- Refund or liability





#### W-2 Purpose:

Document prior year's income

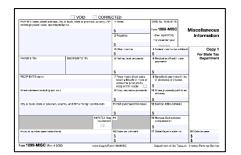
#### When to File:

by January 31 (provided by employer)

#### 1099 Purpose:

Document prior year's income

When to File: by January 31 (provided by income source)



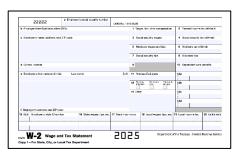
W-4 Purpose: Calculate tax

withholdings

When to File: When starting a new job



Jan Feb Mar Apr May Jun Jul Aug Sept Oct Nov Dec



#### 1040 Purpose:

Your main tax return submitted to the IRS annually

When to File: by April 15

	Dac. St. 5004, or other tox pear beginning	, 2024, w			
Your first raine and					See separate instructions.
	Your first name and middle initial		Lachane		
Rjaid retant, gowwe's first name and middle initial Ladinaine					Specier's social security number
Home address (number and abset), it you have a P.O. box, see instructions. Apr. no.			Agr. no.	Presidential Bection Company Check here if you, or your	
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#### Tax Deductions and Credits

Tax Credits
Dollar-forDollar
Reduction

- Earned income tax credit (EITC) for low to moderate-income
- Child tax credit for those with qualifying children
- Lifetime learning credit for education expenses beyond first four years

Tax
Deductions
Reduce
Taxable
Income

- Standard deduction: Fixed based on filing status
- Itemized deductions: Mortgage interest, charitable donations...
- Above-the-line deductions: Student loan interest, selfemployed expenses



#### Refundable versus Nonrefundable Tax Credits

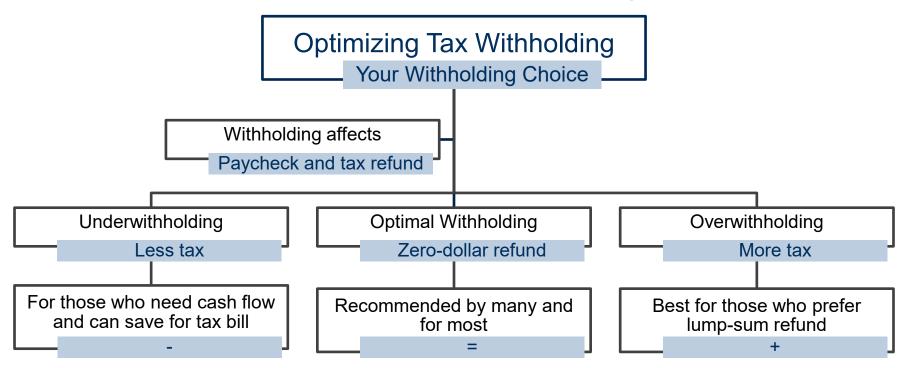


What differentiates a refundable from a nonrefundable tax credit? Examples of each type?

- Refundable: Can get refund even if tax liability is reduced to zero
  - Remaining credit amount paid as a refund
  - Examples: EITC, Child Tax Credit, Premium Tax Credit
- Nonrefundable: Could reduce to zero but not below (remaining credit lost)
  - Examples: Child and Dependent Care Credit, Lifetime Learning Credit

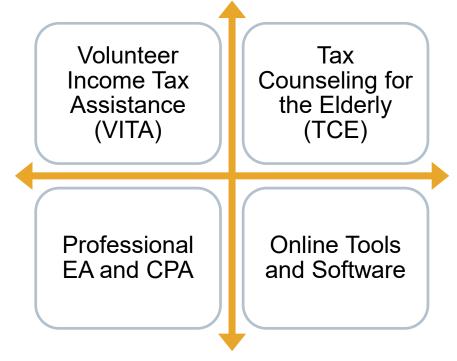


Assist Client with Tax Refund Goals and Withholding





#### **Tax Preparation Services**



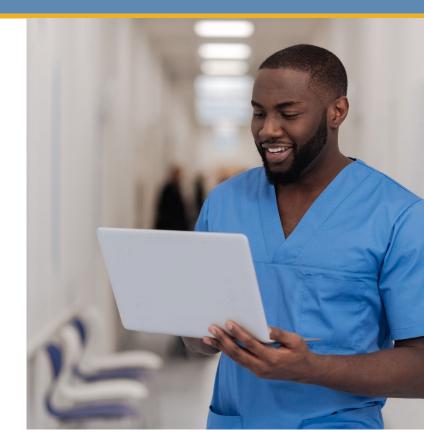


Assist client with sources of employment and contract income, pay statements, employment benefits/evaluating job offers, and possible unemployment



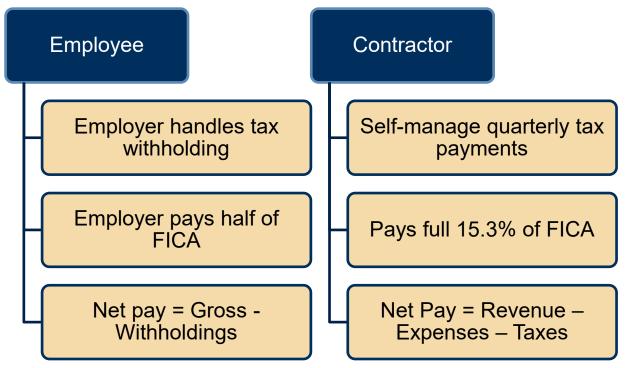
## Identifying Sources of Income and Considerations

- Primary sources
  - W-2 employment, self-employment, commissions
- Regular secondary
  - Rental property, investments, pensions, alimony
- Irregular sources
  - Tax refunds, gifts, side jobs, seasonal work



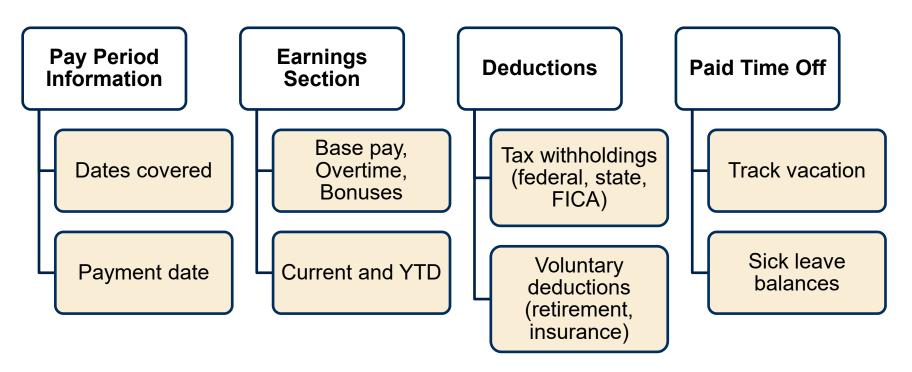


#### Identifying Sources of Income and Considerations





#### **Interpreting Pay Statements**





#### **Understanding Total Compensation**



How can a total compensation assessment or valuation worksheet help client's see the full monetary value of their employment benefits? What are two basic categories of compensation on such a worksheet?

- A valuation worksheet can help highlight the total value of employment
- Visible Compensation: Salary/wage, bonuses
- Hidden Value: Employer-paid benefits



#### Assist Client in Understanding Employment Benefits

#### **Required Benefits**

- COBRA (20+ employees)
- FMLA (50+ employees)
- Overtime pay (non-exempt employees)
- Unemployment insurance
- Workers' compensation

#### **Optional Benefits**

- Health, dental, vision insurance
- Retirement plans
- Paid time off (vacation, sick leave)
- Life and disability insurance
- Employee assistance programs





#### Comparing Compensation Packages: Side-By-Side Analysis

- Create spreadsheet with monetized values of all benefits
- Calculate fair market value (FMV) of fringe benefits
- Consider timing of benefits eligibility



#### Comparing Compensation Packages: Relocation Considerations



When a client will relocate to a different city, what are some of the relocation considerations they may need help with?

- Cost-of-living differences
- Housing and transportation costs
- Family considerations (spouse employment, schools)
- Consider and calculate equivalent salary



#### Preparing for Possible Unemployment: Job Search Strategy

- Maintain healthcare
  - COBRA vs. Marketplace
  - Special enrollment period
- Psychological aspects
  - Maintain routine
  - Maintain confidence

- Resources
  - State offices
  - Professional associations
  - Local workforce centers
- Long-term planning
  - Develop skills
  - Career redirection



#### **Unemployment Resources and Considerations**

#### **Unemployment Insurance Basics**

- Replaces approximately 40-60% of wages
- Typically available for up to 26 weeks
- State-administered with federal funding



#### **Eligibility**

- Minimum work & earnings requirements
- Job loss through no fault of your own
- Ongoing work search requirements
- Impact of severance payments (varies by state)



# **COMPETENCY: Educate Client about Credit and Debt**



Educate client about uses of credit, criteria to obtain credit, credit reports, and scores, and how to build, rebuild, or maintain a strong credit report



#### Pros of Credit Use

- Convenience
- Build positive credit history
- Options in emergencies
- Build net worth by funding education, business ventures, or major purchases (home)
- Improve future borrowing terms







#### Cons of Credit Use

- Higher interest rates
- Difficulty getting approved for housing
- Higher insurance premiums
- Some required security deposits for utilities
- Limited access to financial products



#### Five Cs of Credit

Capacity: Ability to repay, based on income, expenses, and debt

Capital: Size of down payment

Character: Credit history and reliability in repaying

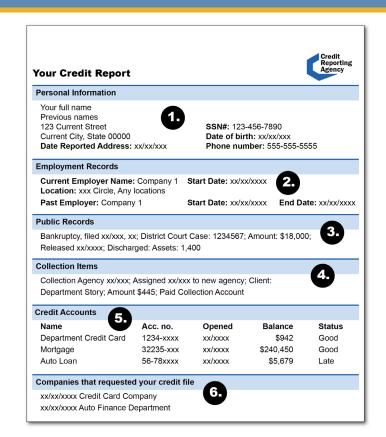
Collateral: Assets pledged

Conditions: Requirements or terms that must be met



## What's Included in Your Credit Report

- 1. Name, addresses, SSN
- 2. Employment history
- Bankruptcies, tax liens, judgments, child support
- 4. Debts in collections
- 5. Accounts
- 6. Inquiries





#### Getting and Monitoring Credit Reports: Free Access Options

- Annualcreditreport.com
  - Review reports from big three bureaus
- Additional reports FREE when
  - Denied credit
  - Seeking employment
  - Suspect identity theft



#### **Monitoring Considerations**



Each of the big three credit bureaus have credit monitoring products. What are some things about these to ensure clients are aware of?

- Beware of costly subscription services
- Credit freezes offer better protection than monitoring



#### Disputing Errors and Repairing Credit

#### **Disputing Process**

- Submit claims online, by mail, or phone
- Bureaus have 30 days
- Include documentation
- Also contact creditor directly

#### **Credit Repair Warning**

- Beware of "quick fix" promises
- Accurate information cannot legally be removed
- Improvement takes time



#### Building, Maintaining, and Rebuilding Credit



Establish credit file

Use starter products, become an authorized user

Leverage alternative data reporting

#### Rebuild

Overcome negative history

Address negative items, establish new positive history, practice utilization management

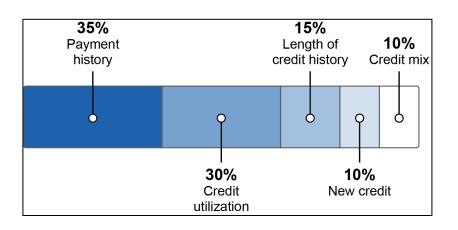
#### Maintain

Protect what's already built

Practice on-time payments, keep utilization low, preserve old accounts, limit new applications



#### **Credit Score Components**



- Payment history Record of on-time payments
- Credit utilization Amount of available credit being used
- Length of credit history Age of oldest account and average age of all accounts
- Credit mix Diversity of credit types
- New credit Recently opened



#### **Setting Credit Goals**

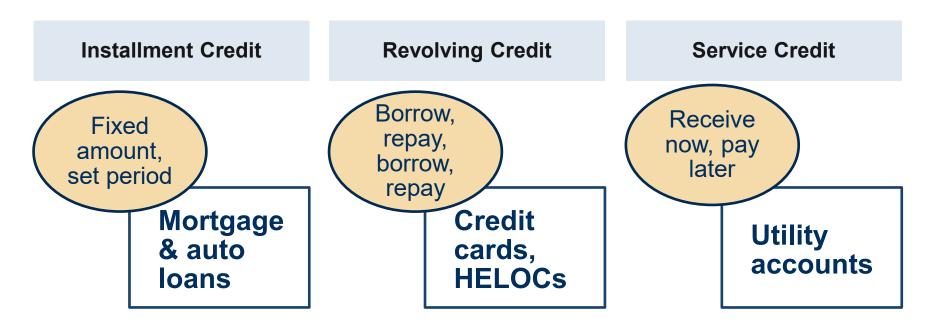
Payment History	Pay at least minimum payment by due date
Utilization	Reduce to under 30% (ideally 10%)
Negative Items	Resolve collections
Accounts	Think twice before closing old accounts



Educate client about types of credit, interest, fees, installment loans, credit lines, credit cards, short-term financing, and education funding



#### **Credit Types**





#### Secured versus Unsecured Credit

Secured Credit	Unsecured Credit
Backed by collateral	Based solely on creditworthiness
Asset can be claimed if borrower defaults	No collateral required
Typically lower interest rates	Generally higher interest rates
Examples: mortgages, auto loans, secured cards	Examples: most credit cards, personal loans



#### **Interest Rate Types**



What are three basic types of interest rates that credit products may offer?

- Fixed rates (never change)
- Variable rates (tied to index)
- Promotional rates (temporary, then increase)



#### Types of Interest

Туре	How It Works
Add-on interest	Total calculated up front on full principal
Simple interest	Calculated on balance
Periodic interest	Based on principal, rate, and time period



#### **Common Credit Fees**

#### **Loan Fees**

- Application fee
- Origination fee (0.5-1% of loan amount)
- Processing fee
- Credit report fee
- Prepayment penalties
- Late payment penalties

#### **Credit Card Fees**

- Annual fee
- Balance transfer fee
- Cash advance fee
- Foreign transaction fee
- Late payment fee
- Over-the-limit fee



#### **Loan Amortization**

Fixed payments with changing principal/interest ratio

Early payments: more goes to interest

Later payments: more goes to principal

Extra principal payments save significant interest



#### Personal Lines of Credit

Flexible borrowing up to credit limit

Pay interest only on what you use

Variable payments based on balance

Higher interest rates than installment loans

Risks of prolonged debt with minimum payments



#### **Credit Card Terms**

APR	Annual Percentage Rate (yearly interest)
Grace Period	21 - 25 days to pay without interest
Credit Limit	Maximum borrowing amount
Minimum Payment	Smallest required payment
Statement Balance	Total owed at end of billing cycle



#### **Credit Card Best Practices**

- Pay balance in full each month
- Keep utilization below 30% (ideally 10%)
- Check statements regularly for unauthorized charges
- Understand impact of closing cards on credit history
- Report lost/stolen cards immediately



#### **Student Loan Options**

#### **Federal Student Loans**

- Fixed interest rates
- Multiple repayment options, including repayment based on income
- Deferment/forbearance options
- Forgiveness possibilities
- No credit check (except PLUS)

#### **Private Student Loans**

- Fixed or variable rates
- Few repayment options
- Limited hardship options
- No forgiveness programs
- Credit check required



#### Federal Loan Types



Match the type of federal student loan to its characteristic.

- 1. Direct subsidized
- Direct unsubsidized
- 3. PLUS loans
- 4. Direct consolidation loans

- a. For parents and graduate students
- b. Interest accrues during school
- c. Results in single fixed-rate loan
- d. Government pays interest during school

Answer: 1: d, 2: b, 3: a, 4: c



#### Eligibility for Student Loan Forgiveness

- Income-driven repayment plans
  - IBR, PAYE, REPAYE, SAVE Plan: % of discretionary income
  - Forgiveness after 20-25 years of qualifying payments
  - Forgiveness may be taxable
- Example: Public Service Loan Forgiveness (PSLF)
  - While full-time at qualifying government or nonprofit organization,
     120 qualifying monthly payments (10 years)
  - Full forgiveness of entire remaining balance, tax-free



Assist client to evaluate level or cost of indebtedness, strategies to reduce debt, debt management scams, consequences of default, advanced stages of debt collection, and bankruptcy basics



#### Evaluate Level or Cost of Indebtedness

Warning signs of overindebtedness:

Credit cards for necessities Making only minimum payments

Borrowing from one source to pay another

Collection calls/notices

Not knowing total amount owed



#### Impact of Debt on Overall Well-being

#### **Financial**

- Cost of debt with interest over time
- Effect on cash flow and emergency savings

#### **Psychological**

- Relationship conflicts
- Sleep disruption
- Anxiety

# Limits to Future Opportunity

- Housing limitations
- Employment challenges (credit checks)



#### Assist in Identifying Strategies to Reduce Debt

#### High Priority

- Court judgments
- Criminal justice debt
- Auto loans

# Medium Priority

- Mortgage
- Property tax

# Lower Priority

- Medical debt
- Credit cards
- Personal loans



#### **Educate Client about Debt Management Options**

#### **Debt Management Plans**

- Repayment through credit counseling agencies
- Lower interest, single monthly payment
- Best for: Can pay, need structure
- High fees

#### **Debt Settlement**

- Negotiating to pay less than owed
- Best for: Significant financial hardship
- Tax due on forgiven debt

#### **Debt Consolidation**

- Combine multiple debts into one loan
- Best for: Good credit, want simplification
- Does not address spending habits



#### Snowball or Avalanche Methods (Power Pay)



In both the snowball and avalanche methods

- a) the highest-interest debts are prioritized.
- b) the smallest debts are prioritized.
- c) the same total amount is paid to debts until all are paid.
- d) once one debt is paid off, the total paid can go down.

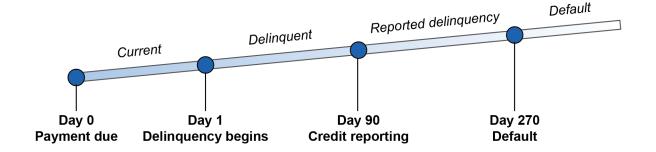
Answer: c.

**Avalanche: Highest-interest debts first** 

**Snowball: Smallest debts first** 



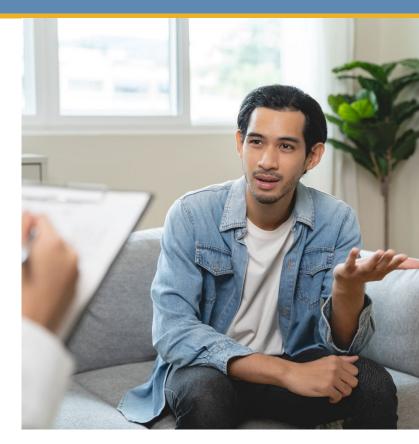
#### **Discuss Consequences of Default**





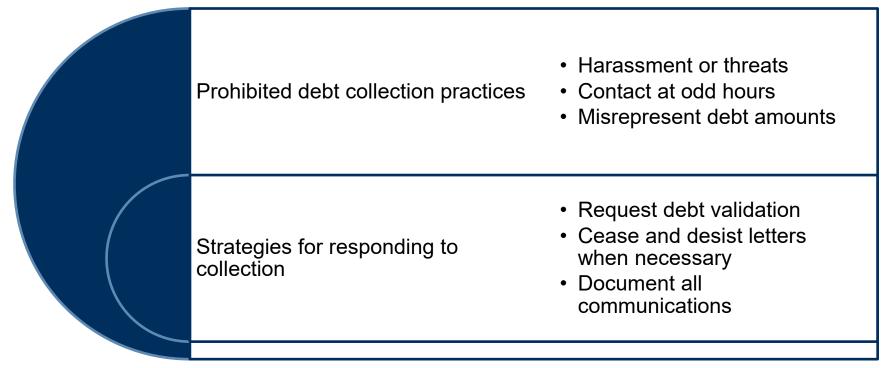
#### **Discuss Consequences of Default**

- Financial impact
- Late fees, penalty interest rates
- Collections
- Credit report impact and credit score harm
- Negative information for 7 years
- Legal impact
- Potential lawsuits, judgments
- Wage garnishment, liens, asset seizure





#### Advanced Stages of Debt Collection: Fair-Debt Collections Practices Act





#### **Educate Client about Bankruptcy Basics**

- Chapter 7 (Liquidation): 3–6 month process, sell non-exempt assets
- Chapter 13 (Reorganization): 3–5 year repayment plan, keep assets
- Automatic stay prevents
  - Foreclosures, repossessions, utility shutoffs
  - Collection actions, lawsuits
- Bankruptcy damages credit history
  - Chapter 7: 10 years; Chapter 13: 7 years
  - Seek alternatives: negotiations, consolidation...



#### Non-Dischargeable Debts



Bankruptcy cannot eliminate all debts. What are some examples of non-dischargeable debts?

- · Child support, alimony
- Court restitution orders and criminal fines
- Some tax liabilities
- Any debts incurred after filing
- Most federal and private student loans



Educate client on types and methods of identity theft, how to minimize identity theft risks, cybersecurity, and recovering from identity theft



#### Types and Methods of Identity Theft

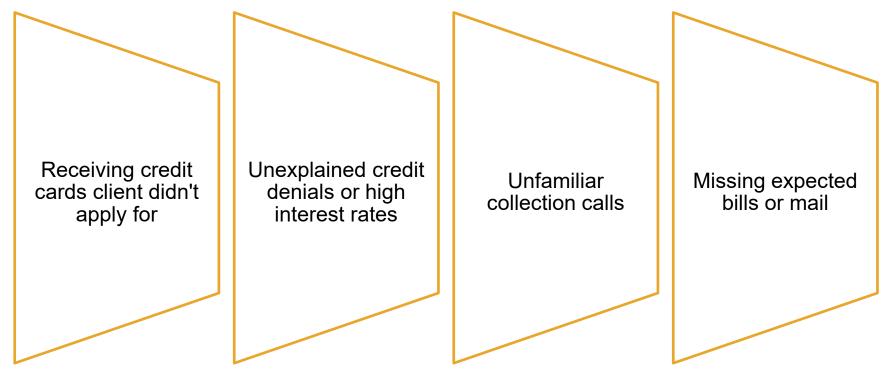


What are some ways that someone could commit fraud by making unauthorized use of someone's personal information?

- Stolen wallets, mail, or documents
- Fake change-of-address forms
- Computer hacking (e.g., data breach)
- Phishing emails and calls



#### Warning Signs of Identity Theft





#### Personally Identifiable Information (PII)



PII is information that can uniquely identify an individual. What are some examples?

- SSN, DOB, home address, legal name
- Financial account numbers, driver's license
- Medical records, biometrics, login credentials





#### **Protecting PII**

- Physical
  - Keep documents locked
  - Shred before disposal
- Digital
  - Strong passwords
  - Two-factor authentication
  - Review privacy settings
- Software updates and antivirus protection
- Limit personal information sharing



#### **Cybersecurity Best Practices**

Suspicious?

Don't click

Hover over URLs

Verify Sender

Be skeptical

Too-good-to-be-true? Likely not true

Watch for high pressure

Research apps before downloading



#### Measures Against Identity Theft: Free Methods

#### **Credit Freeze (Strongest Protection)**

- Blocks sharing credit history with potential creditors
- Contact all three bureaus separately
- Temporarily thaw or unfreeze for legitimate applications

#### **Fraud Alert (Alternative Protection)**

- Creditors must verify identity before issuing credit
- Initial alerts last one year
- Extended alerts last seven years
- Less restrictive than freezes, also less effective



#### **Credit Lock (Commercial Product)**



When a client visits a credit bureau website, they may notice credit lock products. What should clients know about these products?

- Like freeze, but fewer legal protections
- Often includes fees or subscriptions



#### Prevention Strategies: FBI recommendations

- Shred documents with identifying information
- Never share credit card numbers over phone
- Ignore unsolicited emails requesting personal information
- Review statements monthly and report suspicious charges
- Reconcile bank accounts regularly
- Request annual credit report and check for irregularities



#### **Emotional Impact of Identity Theft**



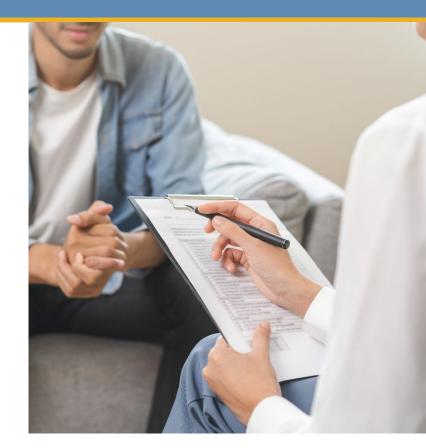
The identity theft process can take time and persistence and require multiple dispute letters. How can a counselor help clients with the emotional toll?

- Acknowledge emotional trauma beyond financial impact
- Prioritize immediate security steps while balancing long-term recovery
- Provide clear documentation guidance for reporting and resolution
- Empower clients with specific action steps
- Stay updated on identity protection resources



#### **Identity Theft Recovery**

- File official report at identitytheft.gov
  - Access personalized recovery plan
  - Get pre-filled letters for creditors and bureaus
- Contact credit bureau fraud departments
- Close compromised accounts
- File police report (creates official record)
- Document all communications





# **COMPETENCY: Educate Client about Major Acquisitions**



Assist client in assessing purchase feasibility, acquisition options, research and price negotiation, warranties and service contracts, and consumer complaint process



#### Assist Client in Assessing Purchase Feasibility



- It's the client's money
- Impulse buying
- Feasibility
  - Price (best deal, negotiate)
  - Income after expenses
  - Funding source
  - Cost of funds (cash opportunity cost, credit)



#### Consider Feasibility in Relation to Client Goals and Values

- Pros and cons of options
- Example: Car needed for value of mobility or wider range of jobs
  - Explore other ways to meet need, e.g., public transport
  - Explore variations: down payment, new versus used, buy versus lease
- If against client's stated goals or values, discrepancy and consequences



#### Cost-Per-Use Calculations

- Best for
  - Break or wear out fast
  - Rarely used
  - Expensive
  - A la carte vs membership
- E.g., \$1,300 treadmill, gym drop-in rate of \$18, or \$60 per month membership

Cost-per-Use =
 Cost
 Number of Lifetime Uses

• Cost-per-Use Treadmill=  $\frac{$1,300}{156 \text{ Uses}} = \sim$  \$8.33 per use

• Cost-per-Use Gym = \$60 4 Uses per Month = \$15/class



#### Decision Matrix: The Client...

- Prioritize factors that differ by option
- 2. % weight factor (sum = 100%)
- 3. Rates on scale of 1 to 10, 10 best
- 4. Weight × rate
- Add ratings

Factor	Weight (W)	Mattress A Rating (R)	A: W×R	Mattress B Rating (R)	B: W×R
Price	40%	5	2.0	8	3.2
Firmness	20%	9	1.8	5	1.0
Cushioning	15%	8	1.2	4	0.6
Cooling effect	10%	9	0.9	1	0.1
Trial, warranty	<u>10%</u>	7	0.7	3	<u>0.3</u>
Total	100%	N/A	6.6	N/A	5.2



#### Consequences of Purchases that Fail to Align with Goals

#### Credit card for \$3,000 family reunion

- Repay \$275/month for 1 year at 18% APR
  - \$300 in interest, \$3,300 total
  - Much more interest if pay minimum
- Same problem when next trip comes up

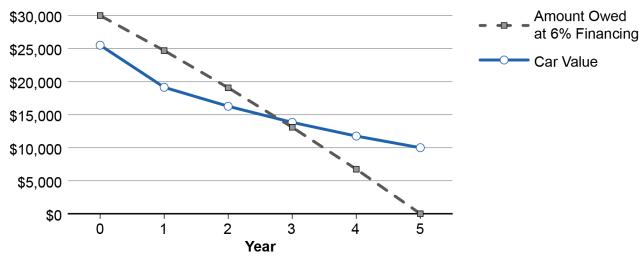
#### Save for \$3,000 family reunion

- Save \$250/month for 1 year = \$3,000
  - \$25 more in budget per month
  - Earn interest
- If value is "get a good deal" this aligns
- But
  - Could spend money on something else
  - Need patience



#### Rolling Negative Equity into New Purchase

- New car value: \$25,500
- Loan with taxes and fees rolled in: \$30,000
- "Pay off old loan" deals
  - Negative equity
  - Widens value vs. owed gap





#### Acquisition Options: Washer/Dryer for \$1,749.98

#### Save to own

- Save \$150/month for 12 months
  - Pay for laundromat 1 yr
  - Earn interest
  - Total: \$2,225
- Wait a year
- Price change risk

#### Get on credit

- Pay \$190/month for 10 months
  - Interest: \$147
  - Total: \$1,897
- Get now
- Risk: charge other things on card

#### Rent-to-own

- \$0.01 down and
   \$37.84 per week
   (\$163.99 + tax per month for 2 years)
  - \$2,185.78 in interest
  - Total: \$3,936 + tax
- Get now

#### Laundromat

- \$40 per month
- No end to payments
- Inconvenience



#### Purchase Vehicle New or Used, or Lease

#### **Used**

- Lower in price
- Higher in maintenance, repair
- Interest rates usually higher than for new car

#### Finance new

- Finance just price or also taxes, fees?
- Trade-in
- Down payment can reduce interest paid, loan duration
  - Opportunity cost

#### Lease

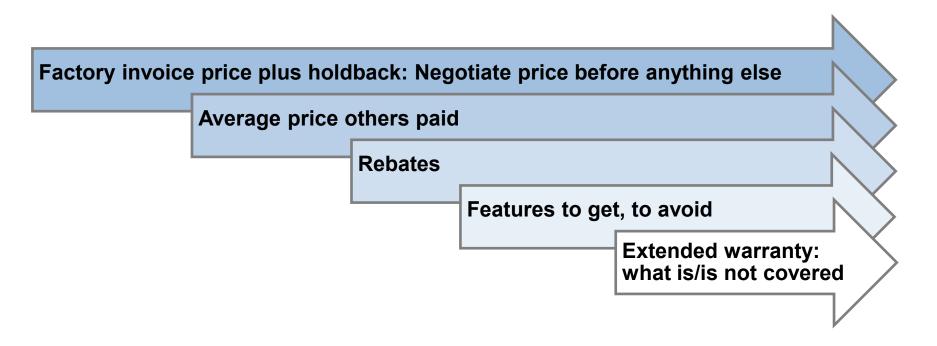
- Use to get more expensive vehicle?
- Depreciation amount plus rent charge
- Beware later fees:
  - Open end
  - Early termination
  - Excessive wear, use



#### Pre-Purchase Research and Price Negotiation



#### Negotiating Leverage for Vehicle Purchase







#### **Price Negotiation and Tactics**

- Personal walk away limit
- If there is a true market shortage (versus claimed urgency), know this in advance and prepare
- Promises in writing
- Read contract
  - Understand?
  - Areas left blank?



#### **Price Negotiation and Tactics**

- 1. Determine affordable down payment, monthly payment
- 2. Research, test drives
- 3. Price that is best among offers
- 4. Dealer financing quote
- 5. Outside financing quotes
- 6. Read contract
- 7. Inspect, take possession



#### **Discuss Warranties and Service Contracts**



#### Differentiate the following:

- Express versus implied warranty
- Full versus limited warranty
- Manufacturer's warranty versus service contract (extended warranty)
- Express: Clear assurance, sales promise, full warranty, etc.
- Implied: Related to state consumer protections
- Full: Free repair or replacement with exceptions, exclusions
- Limited: Same as full but less covered
- Manufacturer's: Warranty duration (for vehicle also in miles)
- Service: 3<sup>rd</sup> party contract for specified services; assess value



#### **Educate Client About Consumer Complaint Process**

Know rights: not suitable, doesn't work Contact seller or go to sales location

Manufacturer: polite letter to the point

Better
Business
Bureau or
state agencies



Assist client with rent or buy decision, affordable rent, housing markets, rental agreements, and rental rights and responsibilities related to eviction



#### Assist Client with Rent or Buy Decision

#### Renting

- No equity, rent can go up between terms
- Mobility
- Low maintenance
- If buying unaffordable, best option
- Application fee, security deposit, first/last month's rent
- Landlord pays taxes

#### **Buying**

- · Build equity, pay off
- Principal + interest fixed, but taxes, insurance, maintenance can go up
- Like to improve, decorate
- Down payment, mortgage application fees, closing costs



#### Assist Client in Determining Affordable Rent

- Neighborhood dependent
- HUD suggests no more than 30% of gross pay in rent, landlords may use up to 50% of gross pay
- Client affordability: Use net pay
  - If high % of net pay, how to balance budget
- Client goals and values
- Hot housing market: know criteria, can make offer quickly





#### Rental Agreements: Landlord Rights

- Rent due to end of term even if one or more renters move out
  - If ending lease early, helping find a new renter to assume lease may limit liability if lease allows
- Lease may specify
  - All adults be on lease
  - Can't sublet



#### Limitations on Landlord Rights



Landlords have limits on their rights. What are some examples (note that these may differ by state)?

- Cannot
  - Seize property
  - Require client to void court rights
  - Charge excessive fees
  - Charge for landlord's normal expenses



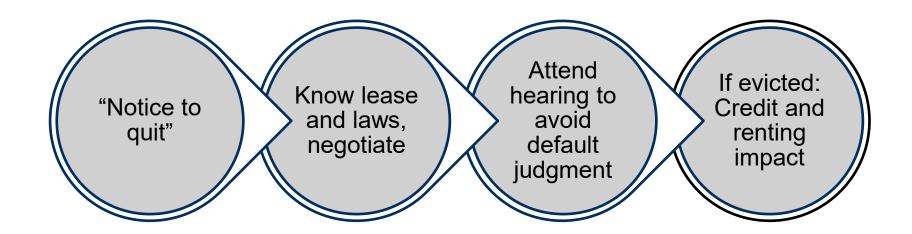
# Importance of Rental Agreements: Tenant Rights

- Right to written lease
  - Lease terms negotiable
- Security/pet deposits: request walk through
- Habitability, timely repairs
  - Renter pays for own damage
- Can't be locked out without eviction court order





#### Rental Eviction Rights and Responsibilities





# **Educate Client on Buying and Selling a Home**

Assist client to determine homeownership feasibility, on the home buying process, refinancing a mortgage, the home selling process, and options when a mortgage becomes unaffordable



#### Assist Client to Determine Homeownership Feasibility

- First-time homebuyer classes
- PITI
  - Principal + Interest: Together, they are fixed for term
  - Taxes (property) + Insurance (homeowners): Can change
- Homeowner's association (HOA) fees
- Maintenance and repair costs
- Budget especially important for home buyers
- Credit score impacts cost of loan, type of loan offered





#### Home Buying Example

- Client couple: \$6,500 in gross income per month
- They decide they can afford \$1,800 per month in housing expenses
- Non-housing debt payments per month
  - \$165 car payment
  - \$150 credit card
  - \$485 student loan
  - \$800 per month total
- \$1,800 + \$800 = \$2,600 total debt payments



#### Housing Ratios and Calculations with Example

Front-end 28% limit; back-end 36% limit: rule of thumb for conventional

• Front-End Ratio = 
$$\frac{\text{PITI + HOA}}{\text{Monthly Gross Income}} = \frac{\$1,800}{\$6,500} = 27.7\%$$

 Affordable Housing Expense = Gross Monthly Income × 28% = \$6,500 × 0.28 = \$1,820

• Back-End Ratio = 
$$\frac{\text{Total Debt Payments}}{\text{Monthly Gross Income}} = \frac{\$2,600}{\$6,500} = 40\%$$



#### **Assess Client Down Payment Savings**

- 20% down, but as low as 5%, and FHA 3.5%
- Account for closing costs
- Down payment assistance programs
- If less than 20%, need private mortgage insurance (PMI)
  - PMI effectively increases interest rate
  - Get to 20%: pay mortgage and/or home value appreciates
  - Apply in writing to get PMI removed (may need appraisal)



#### Assist the Client to Set Home Buying SMART Goals

- Attainable?
  - Check housing expenses, ratios, down payment, and credit score
  - Was client turned down for a mortgage?
  - Help set attainable goals, e.g., longer time frame
- Help determine action plan tasks
  - Improving credit scores and saving
  - Increasing income, decreasing expenses
  - One year out: pre-qualified, real estate agent, making offers



#### Steps in Home Buying Process

#### Financially ready

Determine affordability, do research, get pre-qualified.

- Save for down payment and closing, work on credit score
- Get pre-qualified or pre-approved

#### Search for homes

Start search and make an offer (earnest money).

- Find agent (recommended in seller's market)
- Note: Earnest money forfeit if cancel and not covered by contingency clause

#### Negotiate

Negotiate purchase and sale agreement, get financing.

- Get home inspection and appraisal. Seller may make counteroffer
- Apply for loan and get loan estimate (LE), negotiate repairs, and finalize agreement

#### Prepare and close

Apply for homeowners insurance, get confirmation. Close.



#### Real Estate Agents and Other Parties

Real estate agent

Buyer's agent and seller's/listing agent

Real estate attorney

• Licensed in state; required in some states

Mortgage loan officer

Represents bank or credit union

Mortgage broker

Comparison shopping, good rates, terms

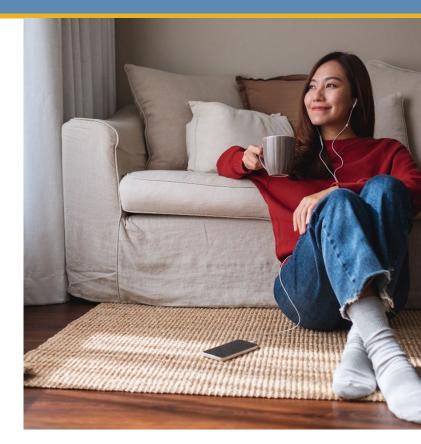
Title search company

Search public land records for other claims



#### Mortgage Types

- Conventional
  - Bank, credit union, or savings & loan
- Government-backed
  - Brokered
  - 0.5% to 1.0% lower rate
  - If qualify, lower requirements





#### Fixed versus Variable Mortgages

#### **Fixed**

More certainty for budget

15-, 20-, 30-year terms

Prepayment privilege

#### **ARM**

Sell/refinance sooner

Teaser rate, then real rate: index + fixed margin

Adjustment interval, periodic cap



#### Government-Backed Mortgages: VA



Which is true of a Department of Veterans Affairs mortgage?

- a) Must be active duty, veteran, or unmarried surviving spouse
- b) A 10% down payment is required
- c) Minimum FICO: 700+
- d) VA funding fee is charged monthly: 1.25 to 3.3%

Answer: a.

No down payment

FICO: 580+

VA funding fee (no monthly fee): 1.25 to 3.3%



#### Government-Backed Mortgages: USDA and FHA

#### **FHA**

- Minimum down payment: 3.5%
- FICO: 580+
- FHA sets maximum amount of loan
- MIP
  - 1 to 2.5% fee and/or up to 1.05%/month
  - Refinance to remove

#### **USDA**

- Eligible rural areas
- No down payment
- No FICO requirement but must show willingness and ability to handle debt
- Guarantee fee
  - 1% of loan amount + 0.35%/month



#### **Predatory Lenders and Scams**

- Homebuyer education is primary defense
- Client can walk away before signing
- Red flags:
  - Steer toward high interest rate or fees
  - Refinance loan flipping (pay more fees but no real benefit)
  - Not concerned with ability to pay
  - Prompt to lie



#### **Alternative Mortgages**

Balloon

Large lump sum at end

Interest-only

· Delay principal payments

Graduated payment

Payments gradually increase

Growing equity

Payments increase to pay more equity



#### Ways to Get Lower Interest Rates



What are some ways that clients can get lower interest rates for a mortgage?

- Improve credit score
- Wait for rates to be lower or refinance when they are
- Shorter term (but higher payment)
- Government-backed
- Pay points

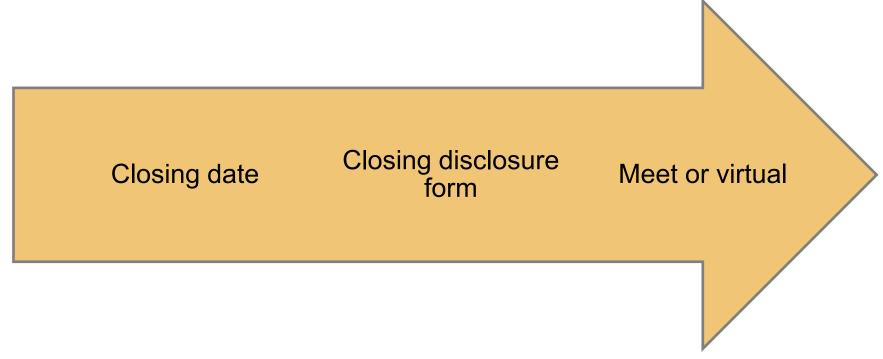


#### Amortization Schedule: 4% 30-Year Fixed Example

Month	Interest	Principal	P+I	Balance
0				\$200,000.00
1	\$666.67	\$288.16	\$954.83	\$199,711.84
2	\$665.71	\$289.12	\$954.83	\$199,422.71
359	\$6.33	\$948.50	\$954.83	\$951.66
360	\$3.17	\$951.66	\$954.83	\$0



#### **Closing Process**





#### **Closing Costs**

- Points: 1 point = 1% of loan, typically lowers interest rate by 0.25%, lender limits how many
- Loan origination fee
- · Loan application fee
- Title search fee
- Title insurance
- Appraisal fees





#### Refinancing

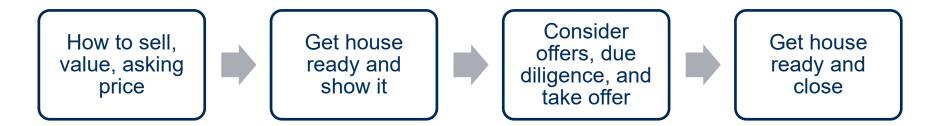


Refinancing involves getting a new mortgage for the same home. What are some reasons clients may want to refinance?

- Cash out: Reduces equity, takes longer to break even
- Lower interest rate: Save more than closing costs?
- Different loan term
- Different loan type



#### **Educate Client on Home Selling Process**





#### **Educate Client on Home Selling Process**



Ronaldo wants to sell his home himself since he saw there are lots of apps that could help. During the interview, he also mentions that if he uses the proceeds of the sale to get a new home, he won't have any tax implications. What should the counselor explain?

- Not getting a real estate agent: Significantly more work if FSBO.
- Income from any home sale has tax implications, but there is a capital gains exclusion: \$250,000 for single, \$500,000 for joint filers



#### Options when a Mortgage Becomes Unaffordable: First Steps

- Increase income or cut expenses
- Use emergency funds or credit (shortterm)
- Get help from a housing counselor
  - HUD-approved (for HUD loans)
  - Nonprofit housing orgs
  - Financial counselor for referrals





#### Options when a Mortgage Becomes Unaffordable: Additional Options

- Mortgage servicer negotiation
  - Forbearance
  - Restructuring
  - Redeem the loan
- Sell: Normal sale, short sale
- Deed in lieu
- Foreclosure



Educate client about consumer rights acts and client rights and assist client with consumer advocate resources



#### **Consumer Rights Acts**



Why is it important for clients to have a basic understanding of consumer rights acts?

Know their rights and when they are being violated





#### **Equal Credit Opportunity Act**

- Prohibits creditors from discriminating based on
  - Sex, marital status, race, national origin, religion, age, or public benefit assistance status
- Examples
  - Arbitrarily refusing credit
  - Discouraging borrowers from applying
  - Offer different terms to different customers based on qualities of applicant listed above



#### Truth in Lending Act

- Clearly disclose terms and costs
  - Schumer box
- Plain English
- Right of rescission
  - Cancel refinance or HELOC

Interest Rates and Interest Charges			
Annual Percentage Rate (APR) for Purchases	0% Introductory APR on all purchases for six months.*  After that, the Standard Rate APR will range from 8.99% to 18.99%, based on your creditworthiness.		
APR for Balance Transfers	0% introductory APR for twelve months.** After that, the Standard Rate APR will range from 8.99% to 18.99%, based on your creditworthiness		
APR for Cash Advances	0% introductory APR for six months After that, the Standard Rate APR will range from 8.99% to 18.99%, based on your creditworthiness		



#### U.S. Consumer Rights Acts

#### **Fair Credit Reporting Act**

- Privacy and accuracy protections for credit reports
- Limit bankruptcy on record to 10 years, other negative information 7 years
- Free copy if denied credit, unemployed, or identity theft victim
- Challenge errors

#### **Fair Credit Billing Act**

- Protection from billing errors on credit card accounts
- Dispute in writing within 60 days
- Withhold only disputed portion



#### Fair Debt Collections Practices Act



This act limits actions of third-party debt collectors only. What are some things that are prohibited?

- Tell a third party that person in collections owes money
- Contact at work if not allowed to take calls
- Contact at "inconvenient" times
- Lie (e.g., nonexistent lawsuit), threaten, harass, insult
- Collect wrong amount
- Contact at all if "cease and desist" letter sent



#### **FACT Act**

- Fair and Accurate Credit Transactions (FACT) Act
- Entitles consumers to reports from each of three major credit bureaus
  - www.annualcreditreport.com
- Identity theft protections
  - Only last 5 digits of credit card on receipts
  - Agencies required to work with victims
  - Must notify if suspect identity theft



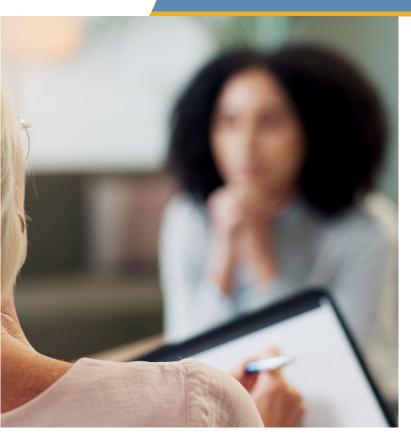
#### Credit CARD Act



The Credit Card Accountability Responsibility and Disclosure (Credit CARD) Act helps provide fair and transparent practices. What protections does it have for younger consumers?

- Limiting access to those under 21 (younger must have verifiable income or a co-signer)
- Issuers and universities must disclose how marketing and distributing to college students





#### Fair Housing Act

- Prohibits discrimination by landlords, real estate companies, or other direct providers of housing from discrimination related to:
  - Race, color, religion, sex, national origin, familial status, or disability



#### Assist Client with Consumer Advocate Resources

- Provide contact information for agency
- Federal Trade Commission (FTC)
- Consumer Financial Protection Bureau (CFPB)
- Attorney referrals