



The AFC[®] Learning System

**MODULE 2: Educate
Client on Personal
Finance**



COMPETENCY:
**Educate a Client about Personal
Financial Statements, Ratios,
and Spending Plans**

Educate Client on Financial Planning Tool Purpose

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 Gathering Current Sources of Income

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
- b) 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

Educate Client to Make Cash Flow and Spending Plans

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

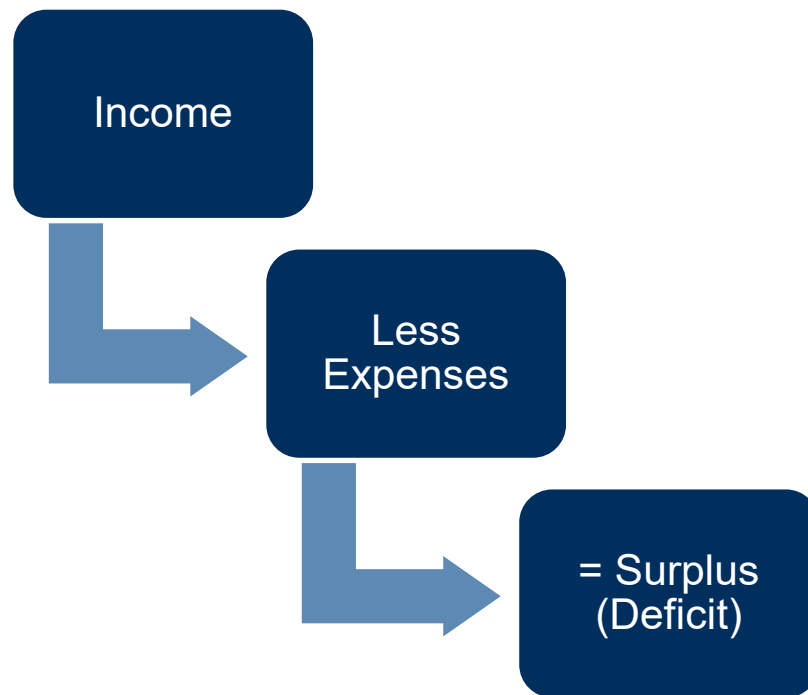
Answer: a.

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

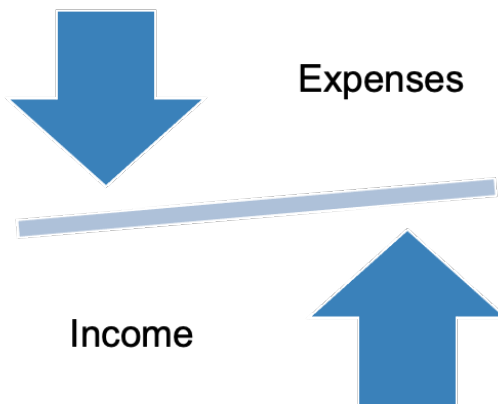
Pay Yourself First

- Direct a portion of income to savings before long-term 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.

Educate Client about Net Worth Statement

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

Explain the Purpose of Net Worth Statement

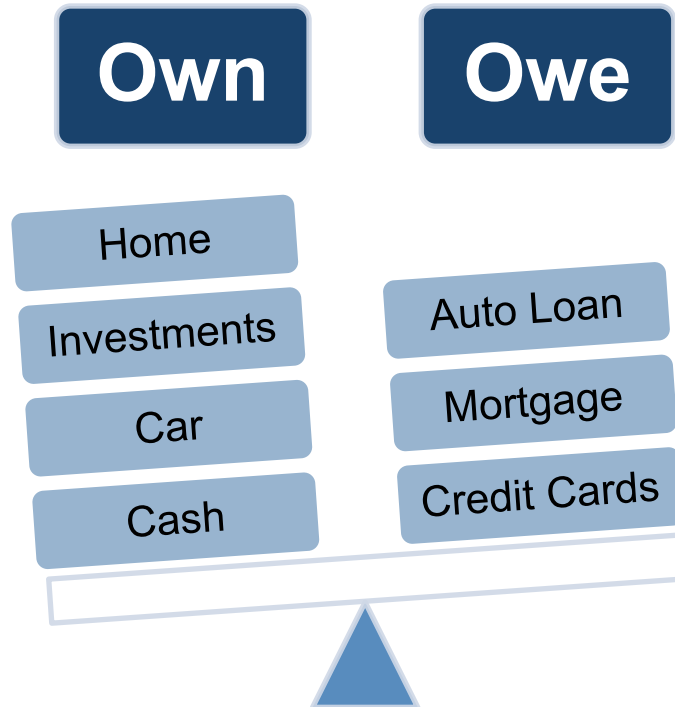


What are some ways to express the purpose of the net worth statement, also called a balance sheet?

- 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

Educate Client about Net Worth Statement

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
- b) 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

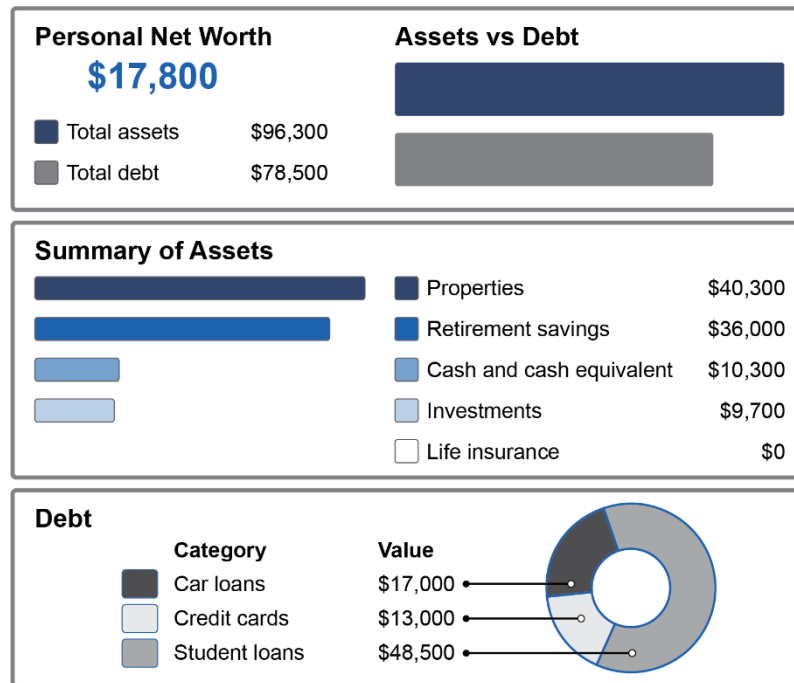
Answer: b.

Lenders do not have access to net worth statement.

Neither expenses nor income are on a net worth statement.

Educate Client about 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	\$96,300	

Net Worth Statement (continued)

	You	Spouse
Total assets, combined	\$96,300	
Liabilities		
Credit card balances	\$13,000	
Auto loan	\$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

Educate Client about Personal Financial Ratios

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



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

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

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

Liquidity Ratio



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

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

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

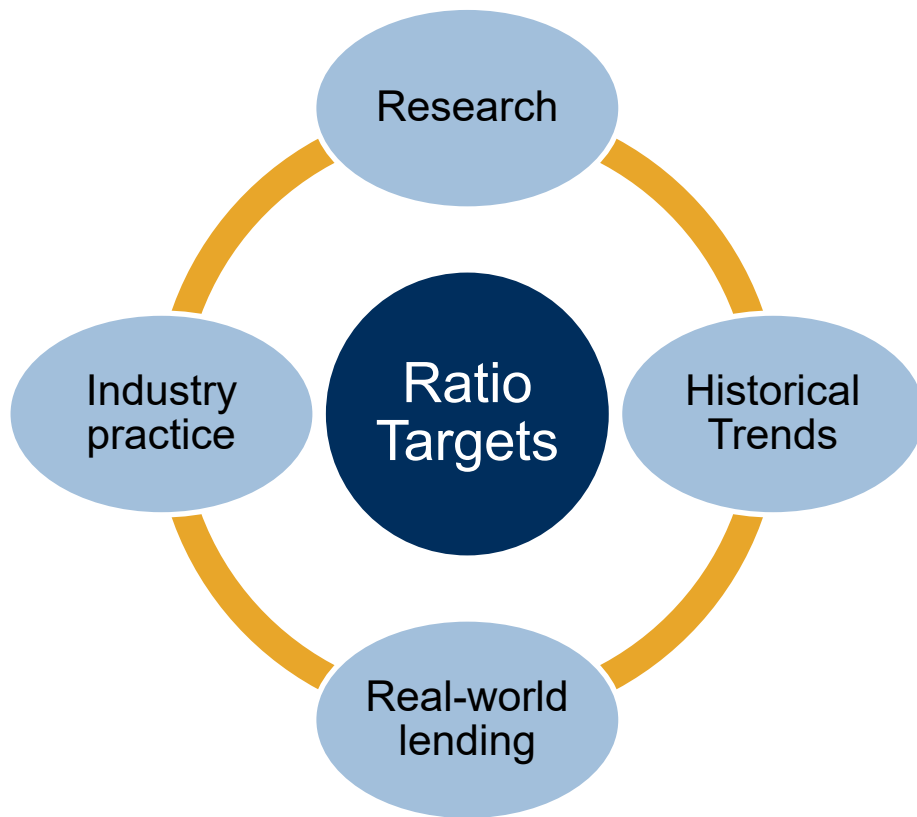
Assist Client to Analyze Financial Ratios

- 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 Financial Services

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

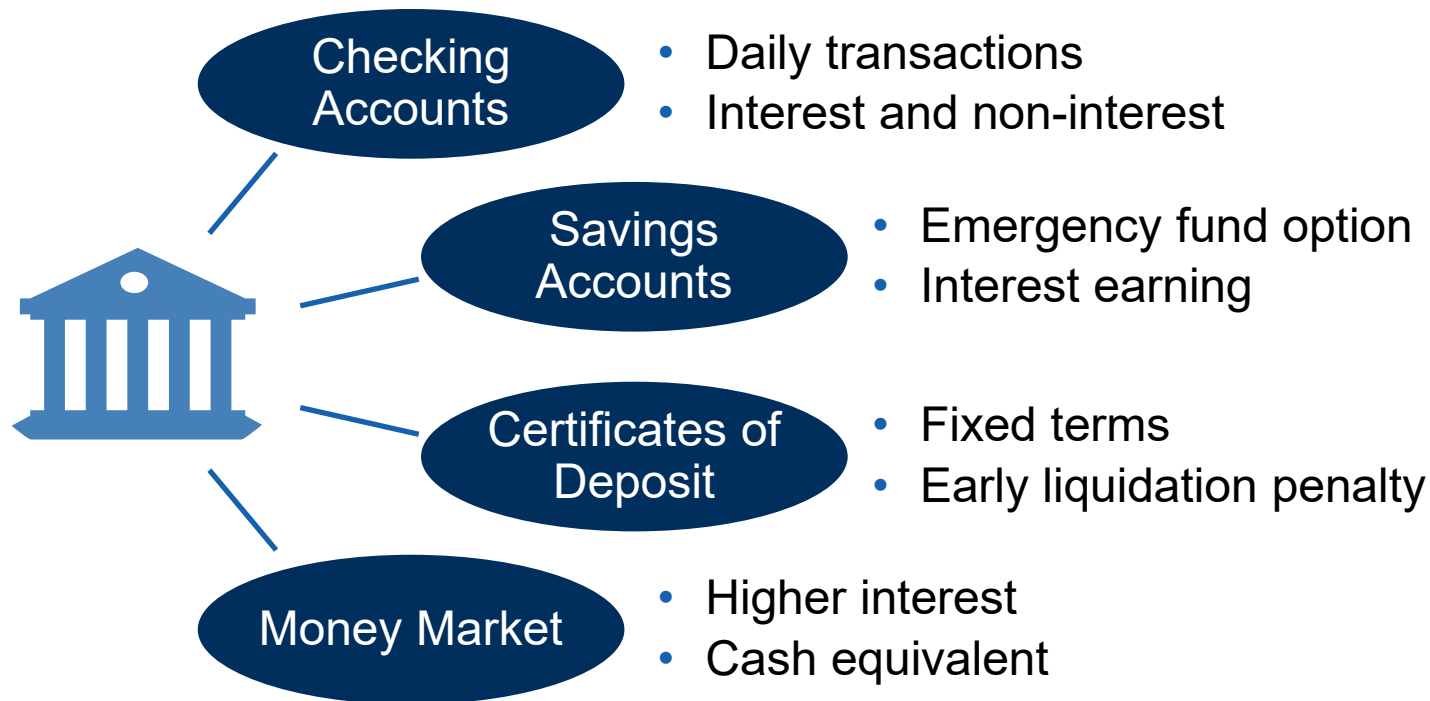
Key Differences Between Banks and Credit Unions



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

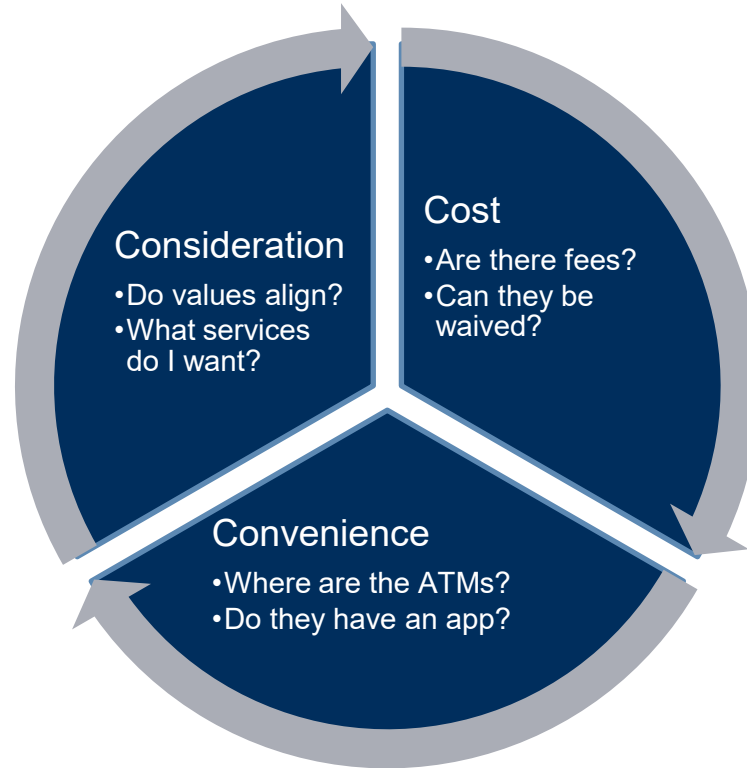
Joint Ownership

- 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

Familiarize Client about Basic Tax Management

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

Familiarize Client about Basic Tax Management

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%

Familiarize Client about Basic Tax Management

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

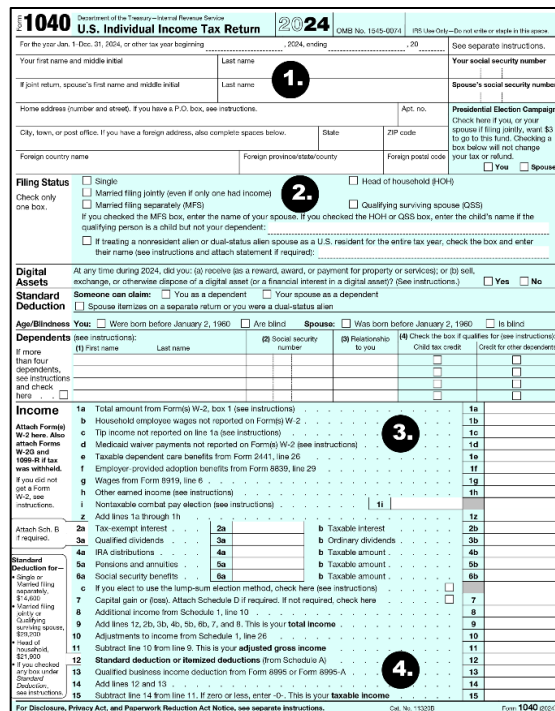


Alex gets \$65,000 per year in taxable income. Assume these tax brackets: 10% for the \$0 to \$12,000 bracket, 12% for the \$12,000 to \$49,000 tax bracket, and 22% for the \$49,000 to \$104,000 tax bracket. What is Alex's effective tax rate?

- 10% tax on first \$12,000 income: \$1,200
- 12% tax to next block (\$49,000 – \$12,000 = \$37,000). $\$37,000 \times 12\% = \$4,440$
- 22% tax on rest of income (\$65,000 – \$49,000 = \$16,000). $\$16,000 \times 22\% = \$3,520$
- $\$1,200 + \$4,440 + \$3,520 = \$9,160$
- 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



1040 Department of the Treasury, Internal Revenue Service **2024**OMB No. 1545-0047 (201) Use Only—Do not write or staple in this space.

For the year Jan. 1-Dec. 31, 2024, or other tax year beginning 2024, ending 2029 See separate instructions.

Your first name and middle initial Last name **1.** Your social security number

If joint return, spouse's first name and middle initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Presidential Election Campaign (Check here if you, or your spouse if filing jointly, want \$3 to go to the fund. Checking a box below will not change your tax or refund.)

City, town, or post office. If you have a foreign address, also complete spaces below. State ZIP code Foreign country name Foreign province/state/county Foreign postal code ☐ Yes ☐ Spouse

Filing Status ☐ Single ☐ Married filing jointly (even if only one had income) ☐ Head of household (HOH) ☐ Married filing separately (MFS) ☐ Qualifying surviving spouse (QSS) **2.**

If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent.

☐ If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required).

Digital Assets At any time during 2024, did you: (a) receive (as a reward, award, or payment for property or services), or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) ☐ Yes ☐ No

Someone can claim: ☐ You as a dependent ☐ Your spouse as a dependent ☐ Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: ☐ Were born before January 2, 1960 ☐ Are blind ☐ Spouse: ☐ Was born before January 2, 1960 ☐ Is blind

Dependents (see instructions): If more than four dependents, see instructions and check box. ☐ (b) First name Last name (c) Social security number (d) Relationship to you (e) Check the box if qualifies for (see instructions): Credit for other dependents

Income **1a** Total amount from Form(s) W-2, box 1 (see instructions) **1b** Household employee wages not reported on Form(s) W-2 **1c** Tip income not reported on line 1a (see instructions) **1d** Medicaid waiver payments not reported on Form(s) W-2 (see instructions) **1e** Taxable dependent care benefits from Form 2441, line 26 **1f** Employer-provided adoption benefits from Form 8839, line 29 **1g** Wages from Form 9919, line 6 **1h** Other earned income (see instructions) **1i** Nontaxable combat pay election (see instructions) **1j**

Attach Form(s) **2a** Tax-exempt interest **2b** Taxable interest **2c** Qualified dividends **2d** Ordinary dividends **2e** IRA distributions **2f** Taxable amount **2g** Pensions and annuities **2h** Taxable amount **2i** Social security benefits **2j** Taxable amount

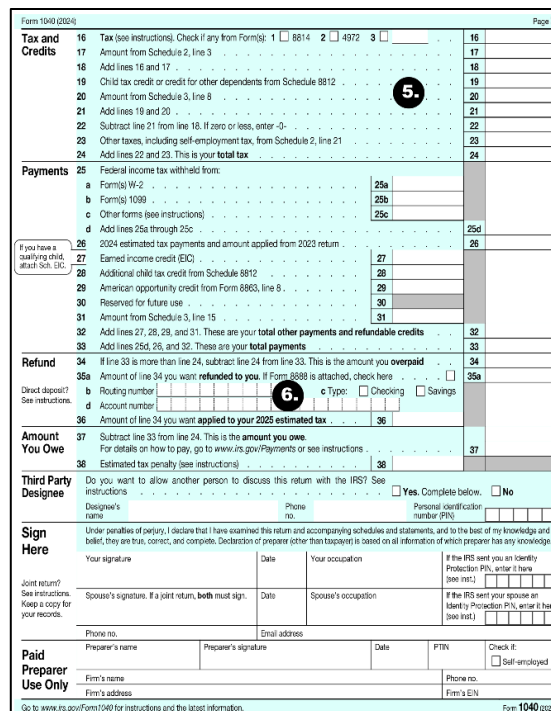
Standard Deduction **3.** **4.**

Standard Deduction **4.**

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 15322B Form 1040 (2024)

Educate Client on Interpreting Tax Return Documents

- Tax and credit
- Refund or liability



Form 1040 (2024) Page 2

Tax and Credits

16 Tax (see instructions). Check if any from Form(s) 1 ☐ 8614 2 ☐ 4972 3 ☐ 16

17 Amount from Schedule 2, line 3 17

18 Add lines 16 and 17 18

19 Child tax credit or credit for other dependents from Schedule 8812 19

20 Amount from Schedule 3, line 8 20

21 Add lines 19 and 20 21

22 Subtract line 21 from line 18. If zero or less, enter -0- 22

23 Other taxes, including self-employment tax, from Schedule 2, line 21 23

24 Add lines 22 and 23. This is your **total tax** 24

Payments

25 Federal income tax withheld from:

a Form(s) W-2 25a

b Form(s) 1099 25b

c Other forms (see instructions) 25c

d Add lines 25a through 25c 25d

26 2024 estimated tax payments and amount applied from 2023 return 26

27 Earned income credit (EIC) 27

28 Additional child tax credit from Schedule 8812 28

29 American opportunity credit from Form 8863, line 8 29

30 Reserved for future use 30

31 Amount from Schedule 3, line 15 31

32 Add lines 27, 28, 29, and 31. These are your **total other payments and refundable credits** 32

33 Add lines 25d, 26, and 32. These are your **total payments** 33

Refund

34 If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you **overpaid** 34

35a Amount of line 34 you want **refunded to you**. If Form 8888 is attached, check here 35a

35b Routing number 35b

35c Type: ☐ Checking ☐ Savings 35c

35d Account number 35d

36 Amount of line 34 you want **applied to your 2025 estimated tax** 36

Amount You Owe

37 Subtract line 33 from line 24. This is the **amount you owe**. For details on how to pay, go to www.irs.gov/payments or see instructions. 37

38 Estimated tax penalty (see instructions) 38

Third Party Designee

Do you want to allow another person to discuss this return with the IRS? See instructions ☐ Yes. Complete below. ☐ No

Designee's name _____ Phone no. _____ Personal identification number (PIN) _____

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature _____ Date _____ Your occupation _____

Spouse's signature, if a joint return, **both** must sign. _____ Date _____ Spouse's occupation _____

Joint return? See instructions. Keep a copy for your records. ☐ Yes ☐ No

Preparer's name _____ Preparer's signature _____ Date _____ PTIN _____ Check it: ☐ Self-employed ☐ Firm

Firm's name _____ Phone no. _____

Firm's address _____ Firm's EIN _____

Go to www.irs.gov/Form1040 for instructions and the latest information. Form 1040 (2024)

Familiarize Client about Basic Tax Management

W-2 Purpose:

Document prior year's income

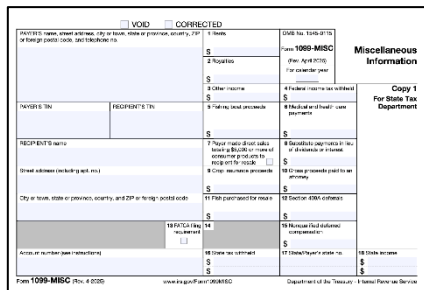
When to File:

by January 31
(provided by employer)

1099 Purpose:

Document prior year's income

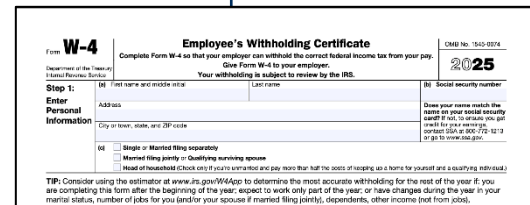
When to File: by January 31 (provided by income source)



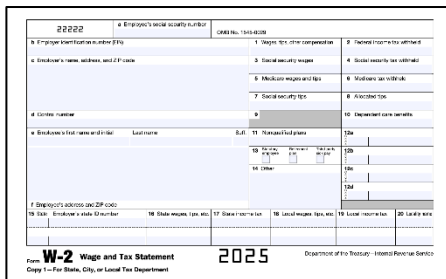
W-4 Purpose:

Calculate tax withholdings

When to File: When starting a new job



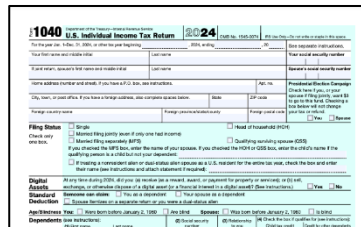
Jan Feb Mar Apr May Jun Jul Aug Sept Oct Nov Dec



1040 Purpose:

Your main tax return submitted to the IRS annually

When to File: by April 15



Tax Deductions and Credits

Tax Credits Dollar-for- Dollar 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, self-employed expenses

Refundable versus Nonrefundable Tax Credits

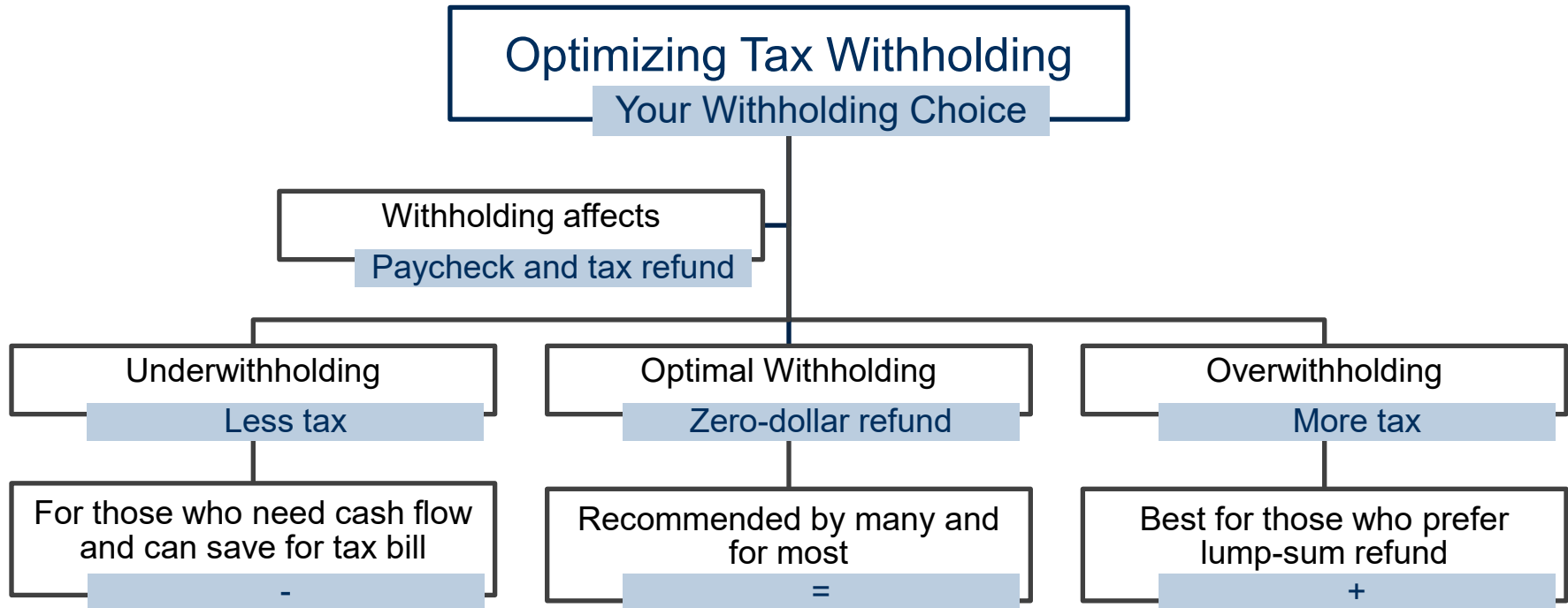


What differentiates a refundable from a nonrefundable tax credit?
Examples of each type?

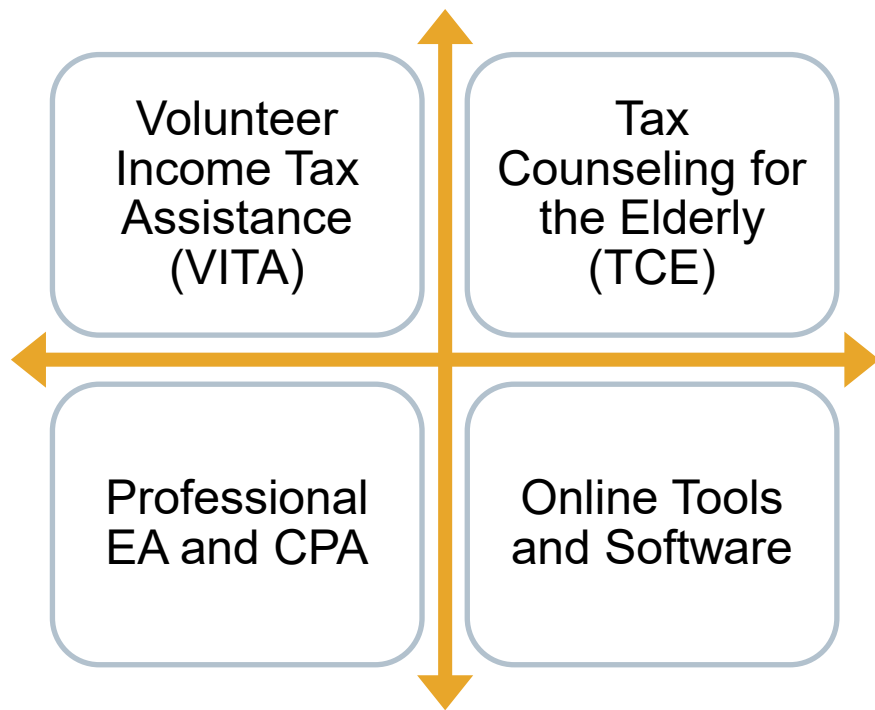
- Refundable: Can get refund even if tax liability is reduced to zero
 - Remaining credit amount paid as a refund
 - Examples: EITC, Child Tax Credit, Premium Tax Credit
- Nonrefundable: Could reduce to zero but not below (remaining credit lost)
 - Examples: Child and Dependent Care Credit, Lifetime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

Familiarize Client about Basic Tax Management

Assist Client with Tax Refund Goals and Withholding



Tax Preparation Services



Discuss Employment Considerations with Client

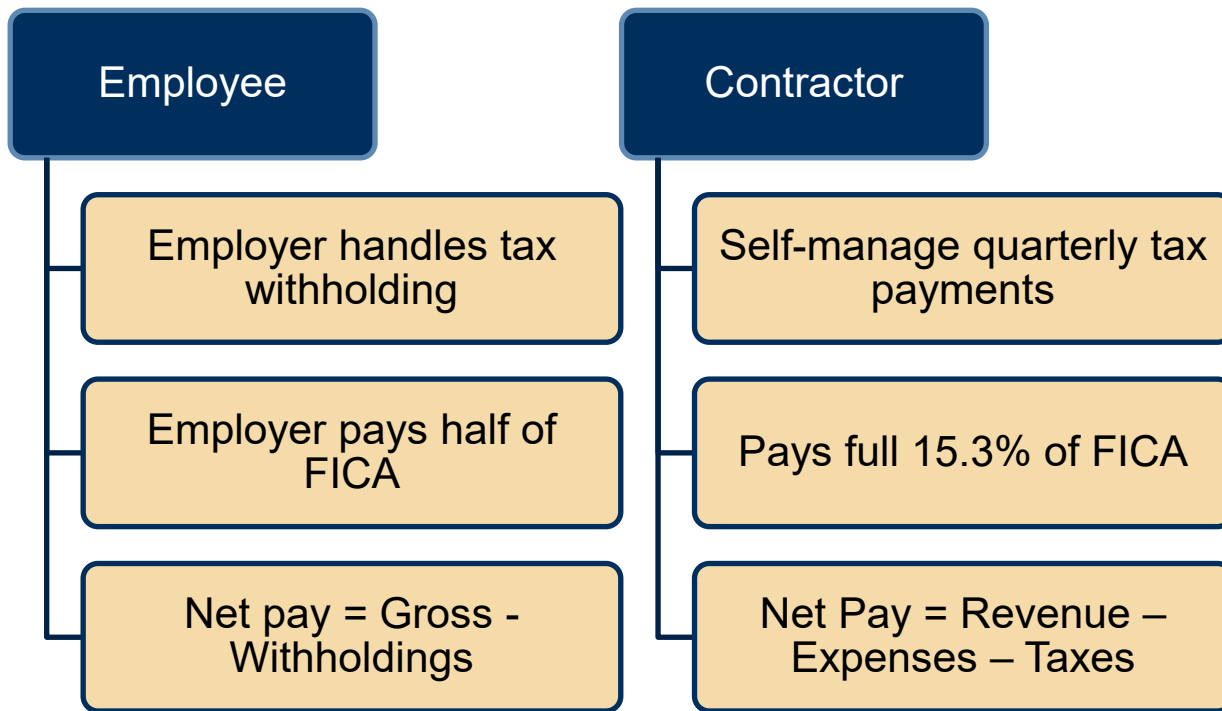
Assist client with sources of employment and contract income, pay statements, employment benefits/evaluating job offers, and possible unemployment

Identifying Sources of Income and Considerations

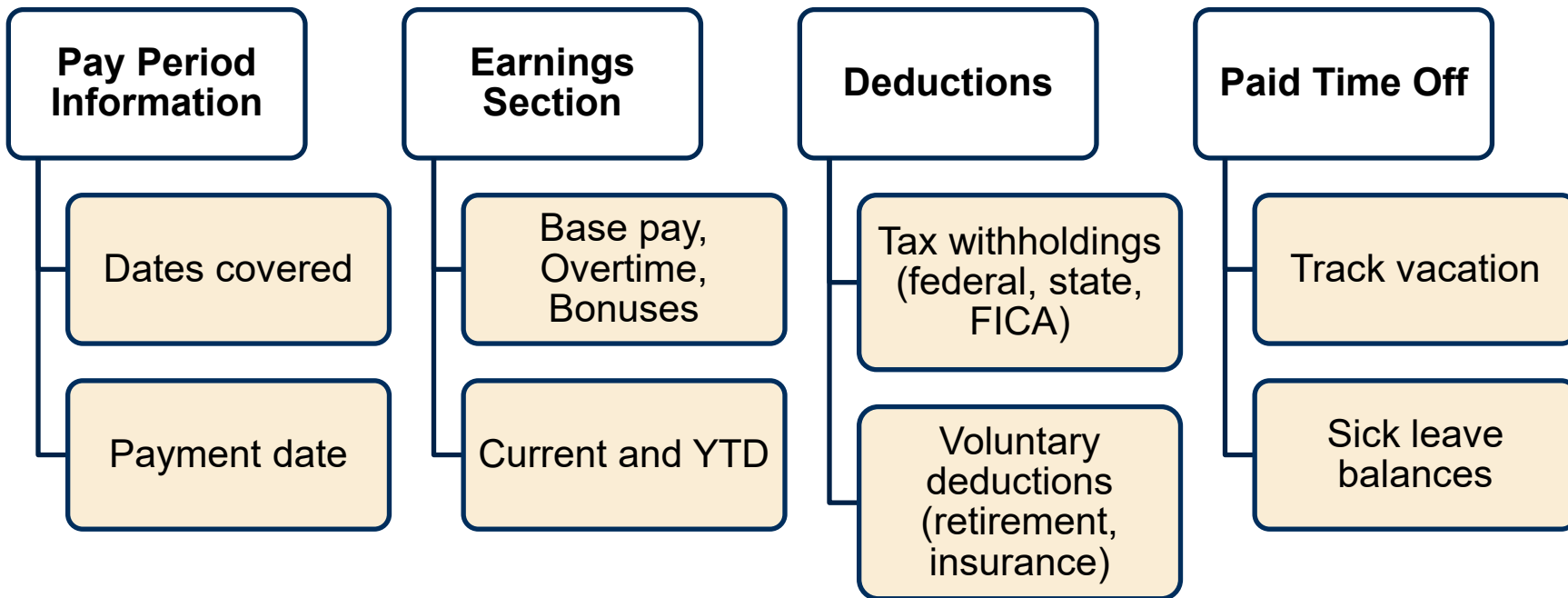
- Primary sources
 - W-2 employment, self-employment, commissions
- Regular secondary
 - Rental property, investments, pensions, alimony
- Irregular sources
 - Tax refunds, gifts, side jobs, seasonal work



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 on Credit, Credit Reports & Scores

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
3. Bankruptcies, tax liens, judgments, child support
4. Debts in collections
5. Accounts
6. Inquiries



Your Credit Report

Personal Information

Your full name
 Previous names
 123 Current Street
 Current City, State 00000
 Date Reported Address: xx/xx/xxx

1. SSN#: 123-456-7890
 Date of birth: xx/xx/xxx
 Phone number: 555-555-5555

Employment Records

2. Current Employer Name: Company 1 Start Date: xx/xx/xxxx
 Location: xxx Circle, Any locations
 Past Employer: Company 1 Start Date: xx/xx/xxxx End Date: xx/xx/xxxx

Public Records

3. Bankruptcy, filed xx/xxx, xx; District Court Case: 1234567; Amount: \$18,000;
 Released xx/xxxx; Discharged: Assets: 1,400

Collection Items

4. Collection Agency xx/xxx; Assigned xx/xxx to new agency; Client:
 Department Story; Amount \$445; Paid Collection Account

Credit Accounts

Name	Acc. no.	Opened	Balance	Status
Department Credit Card	1234-xxxx	xx/xxxx	\$942	Good
Mortgage	32235-xxx	xx/xxxx	\$240,450	Good
Auto Loan	56-78xxxx	xx/xxxx	\$5,679	Late

5.

Companies that requested your credit file

6. xx/xx/xxxx Credit Card Company
 xx/xx/xxxx Auto Finance Department

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

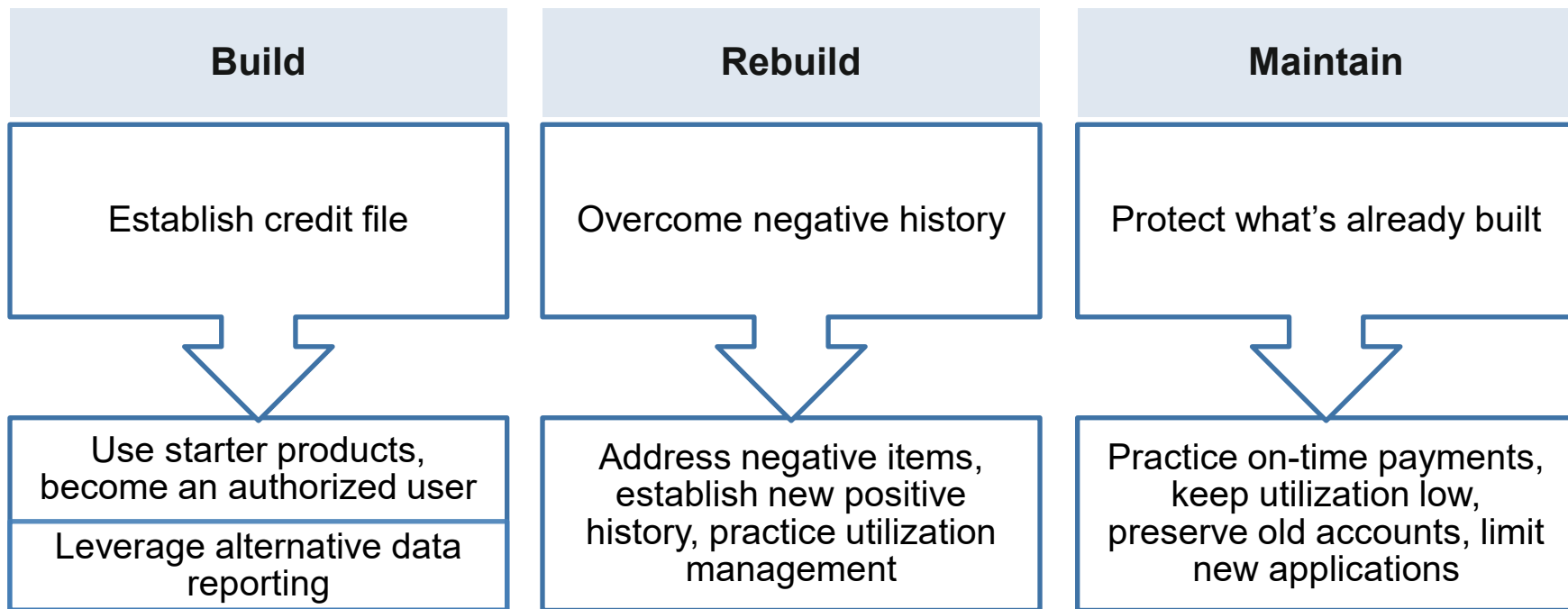
Disputing Process

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

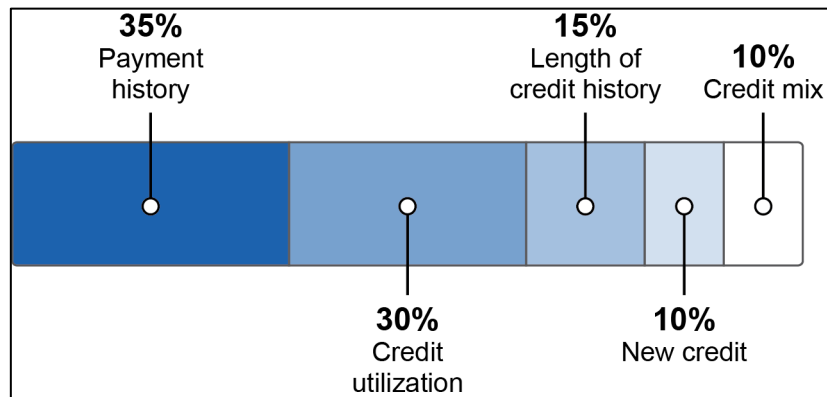
Credit Repair Warning

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

Building, Maintaining, and Rebuilding Credit



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

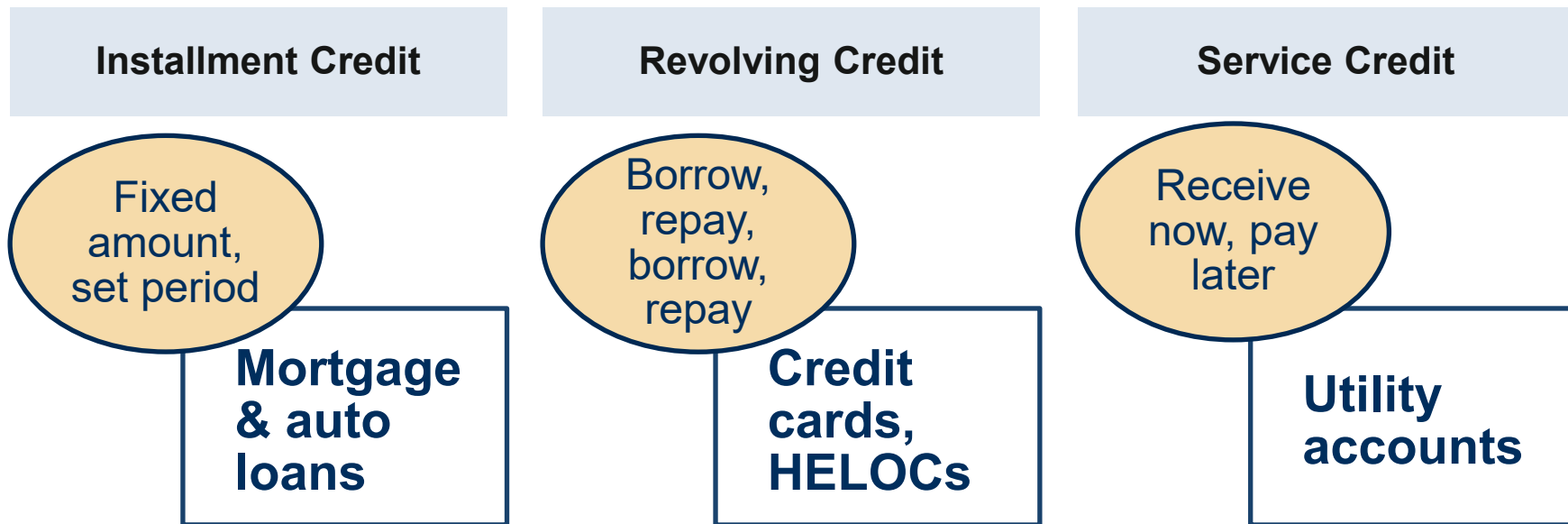
Setting Credit Goals

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 Credit Products

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

Type	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 |  | a. For parents and graduate students |
| 2. Direct unsubsidized |  | b. Interest accrues during school |
| 3. PLUS loans |  | c. Results in single fixed-rate loan |
| 4. Direct consolidation loans |  | 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

Educate Client on Debt Management

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

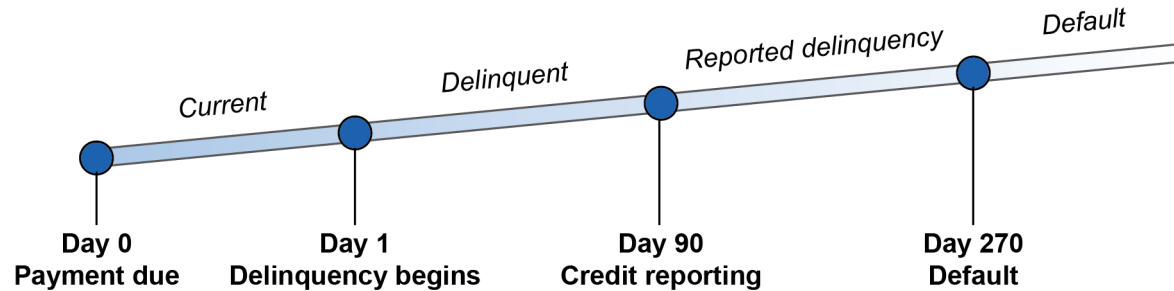
- a) the highest-interest debts are prioritized.
- b) the smallest debts are prioritized.
- c) the same total amount is paid to debts until all are paid.
- d) once one debt is paid off, the total paid can go down.

Answer: c.

Avalanche: Highest-interest debts first

Snowball: Smallest debts first

Discuss Consequences of Default

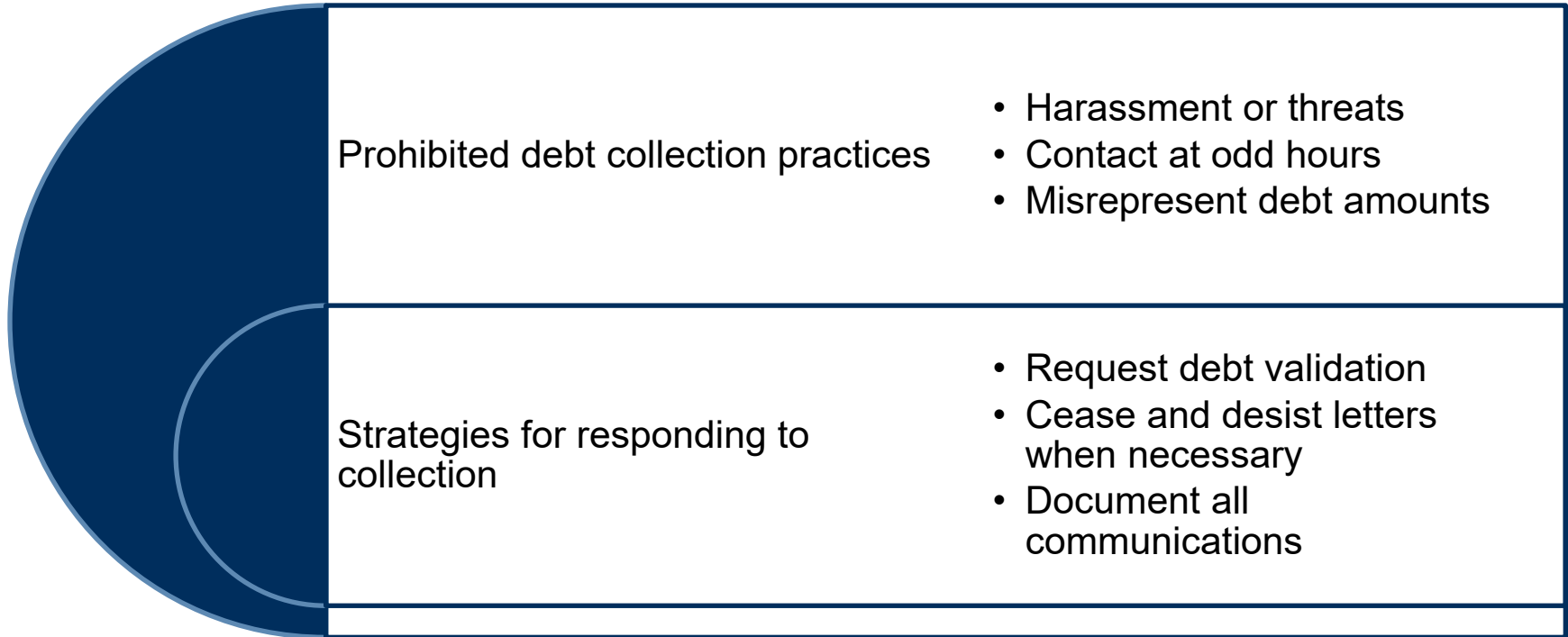


Discuss Consequences of Default

- 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 about Identity Theft

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

Receiving credit cards client didn't apply for

Unexplained credit denials or high interest rates

Unfamiliar collection calls

Missing expected bills or mail

Personally Identifiable Information (PII)



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

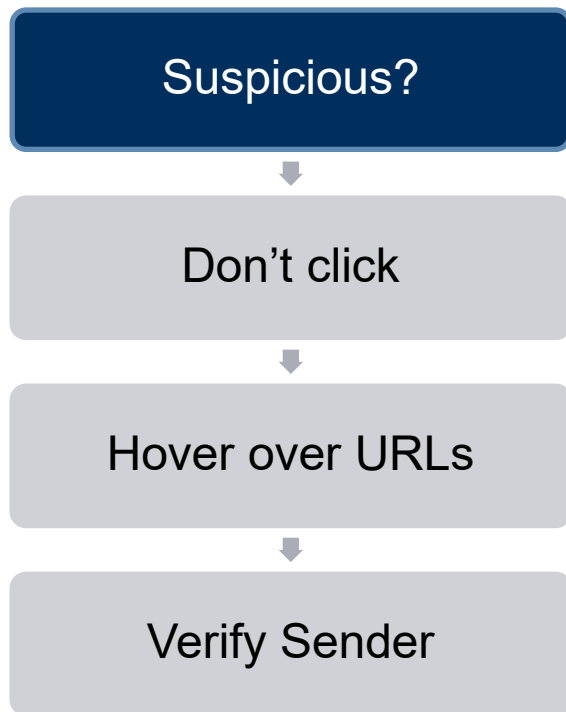
- SSN, DOB, home address, legal name
- Financial account numbers, driver's license
- Medical records, biometrics, login credentials



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



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

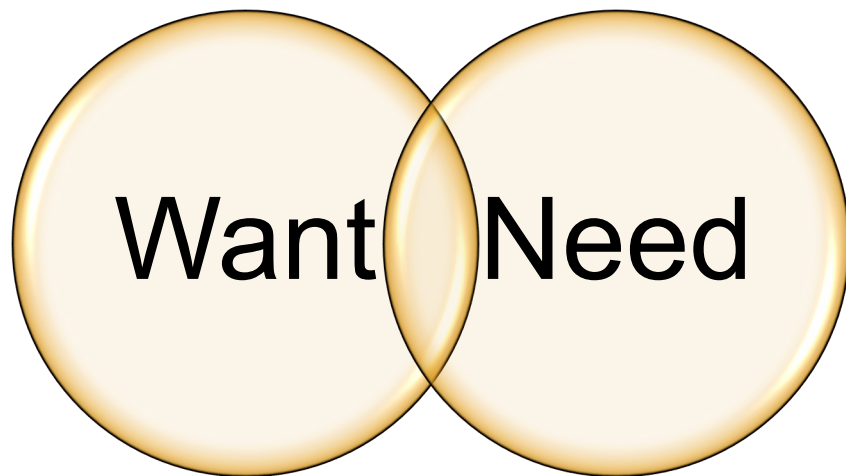


COMPETENCY: Educate Client about Major Acquisitions

Educate Client on Major Household Purchases

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
- $$\text{Cost-per-Use} = \frac{\text{Cost}}{\text{Number of Lifetime Uses}}$$
- $$\text{Cost-per-Use Treadmill} = \frac{\$1,300}{156 \text{ Uses}} = \sim \$8.33 \text{ per use}$$
- $$\text{Cost-per-Use Gym} = \frac{\$60}{4 \text{ Uses per Month}} = \$15/\text{class}$$

Decision Matrix: The Client...

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

Factor	Weight (W)	Mattress A Rating (R)	A: W \times R	Mattress B Rating (R)	B: W \times 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	<u>0.7</u>	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

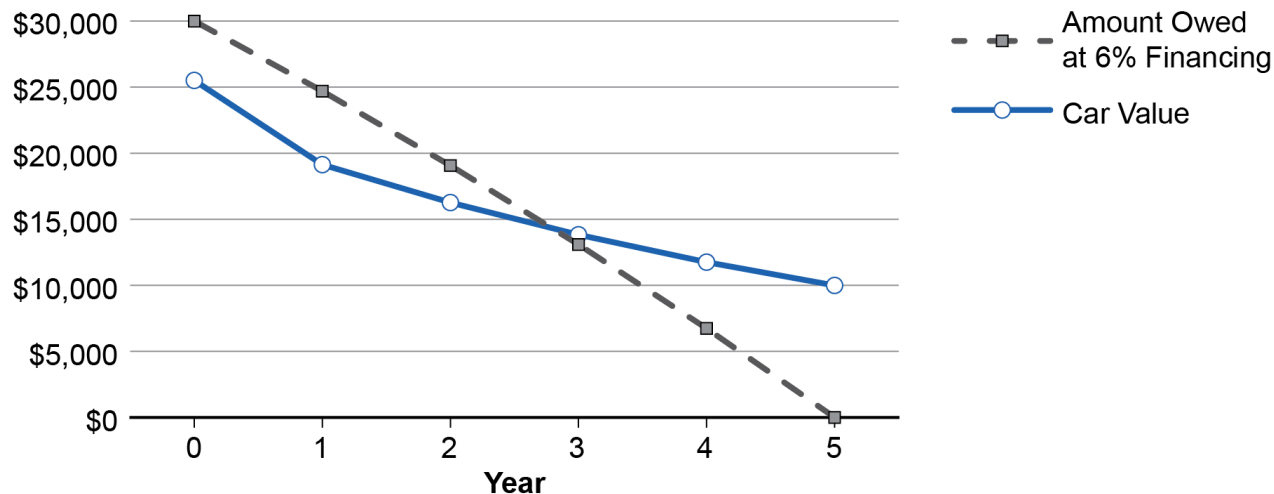
- Repay \$275/month for 1 year at 18% APR
 - \$300 in interest, \$3,300 total
 - Much more interest if pay minimum
- Same problem when next trip comes up

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	Get on credit	Rent-to-own	Laundromat
<ul style="list-style-type: none">• Save \$150/month for 12 months<ul style="list-style-type: none">– Pay for laundromat 1 yr– Earn interest– Total: \$2,225• Wait a year• Price change risk	<ul style="list-style-type: none">• Pay \$190/month for 10 months<ul style="list-style-type: none">– Interest: \$147– Total: \$1,897• Get now• Risk: charge other things on card	<ul style="list-style-type: none">• \$0.01 down and \$37.84 per week (\$163.99 + tax per month for 2 years)<ul style="list-style-type: none">– \$2,185.78 in interest– Total: \$3,936 + tax• Get now	<ul style="list-style-type: none">• \$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

- Good for any purchase, but especially if can negotiate
- Know limits and what is a good deal in advance
- Seek lowest price in market
- Grade of product, features
- Products to avoid
- Wants versus needs
- Cancellation, refund, warranty?

Negotiating Leverage for Vehicle Purchase

Factory invoice price plus holdback: Negotiate price before anything else

Average price others paid

Rebates

Features to get, to avoid

**Extended warranty:
what is/is not covered**



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: 3rd party contract for specified services; assess value

Educate Client on Major Household Purchases

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

Educate Client about Renting a Home

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)?

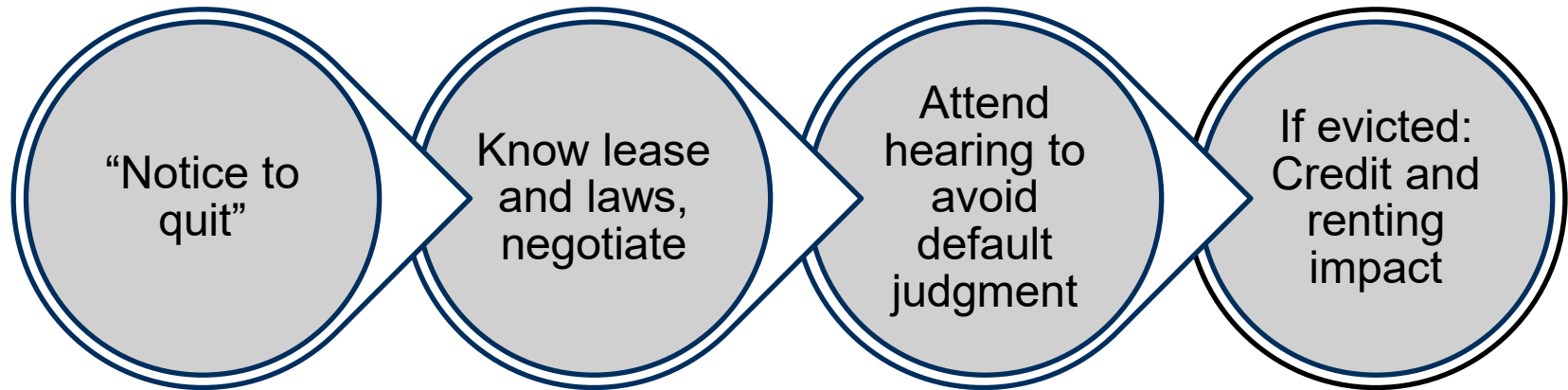
- Cannot
 - Seize property
 - Require client to void court rights
 - Charge excessive fees
 - Charge for landlord's normal expenses

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

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

- 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?

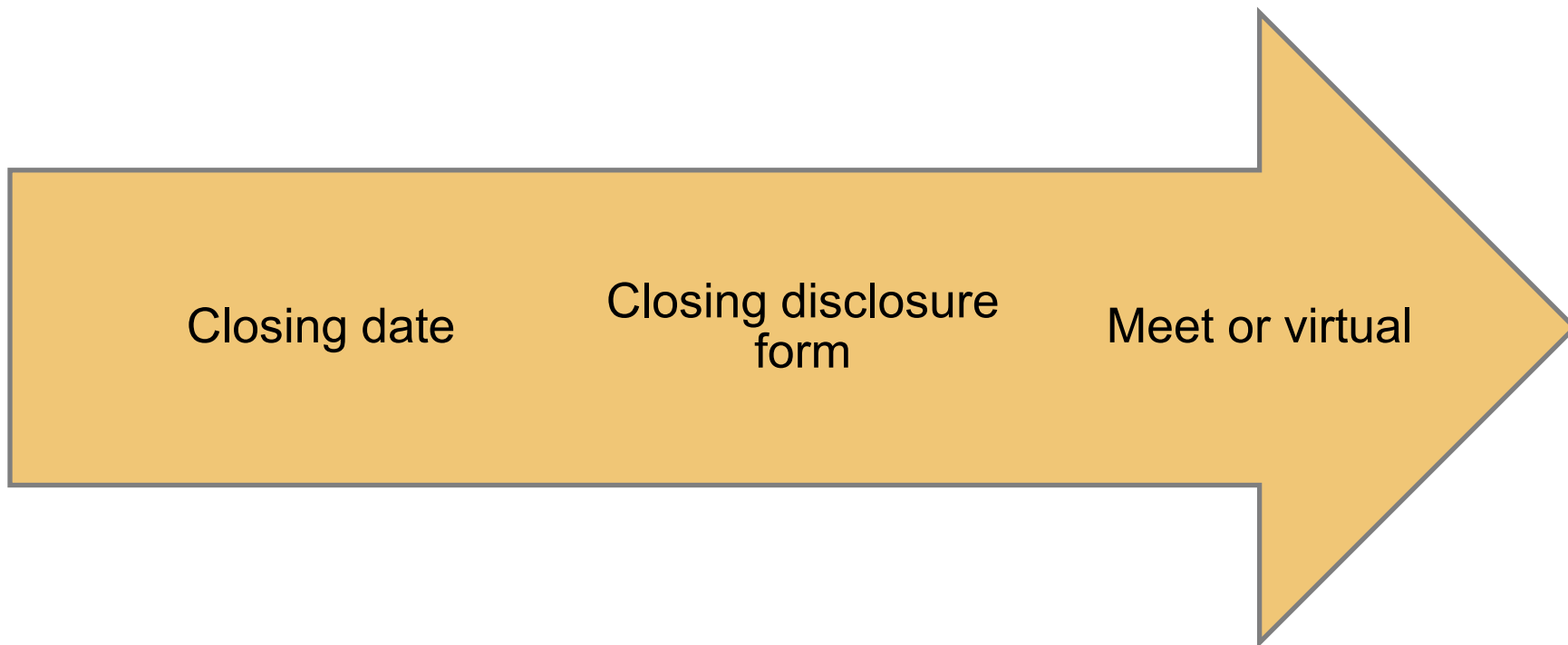
- Improve credit score
- Wait for rates to be lower or refinance when they are
- Shorter term (but higher payment)
- Government-backed
- Pay points

Educate Client on Buying/Selling Home

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



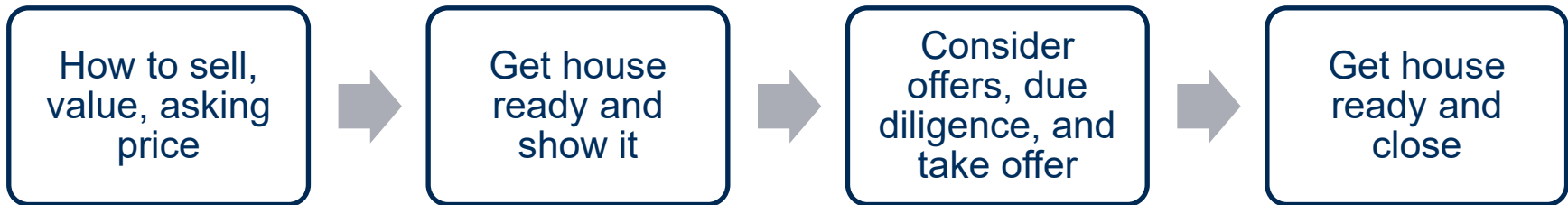
Refinancing



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

Educate Client about Consumer Rights

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