

## Para 201- You & the Law

### Chapter 7- Consumer Credit

Wednesday-Oct. 7, 2009

#### I. Basic forms of consumer credit:

- A. non-installment credit (30-day credit): travel & entertainment cards; accounts with local businesses
- B. installment credit (closed-end credit): scheduled to be repaid in 4 or more monthly installments: car loans; personal loans
- C. revolving (open-ended) credit: bank credit cards like VISA, Mastercard, Discover, Wal-Mart, Target

\*\* See page 3 for each of these & basic operation of each

#### II. Finance Charge-compensates lender/retailer for lost interest

- A. shop for credit; some states regulate how much finance charges you can agree to pay
- B. Truth in Lending Act (TILA): federal law requiring all creditors to provide information that will help you decide whether to pay in cash or finance purchase
  - (1) amount being financed
  - (2) monthly payment
  - (3) # of monthly payments
  - (4) APR-annual percentage rate: annual rate that relates the total finance charge to: amount of credit you receive and length of time you have to repay

--TILA also regulates credit advertising

--See example of car purchase on top of p. 5

--Comparing interest rates over same term is easy---more complicated when interest rates vary and length of loan varies

--So---don't merely compare APR's: find which arrangement yields lowest monthly payment: see example on p. 6

--Interest you pay on car loans, credit cards, student loans & other debts is not deductible on your income tax return

#### III. Choosing a Credit Card:

- A. Under TILA, every solicitation for credit card must contain disclosure statement
  - creditors must quote APR & tell you balance calculation method used to figure finance charge

--even if APR's are identical, much depends on how you use the card and how company calculates unpaid balance for assessing finance charges

- B. Most common system for figuring account's balance is to (1) apply the APR to the average daily balance in your account over the billing period  
--see references to (2) adjusted balance method; (3) previous balance method

--see example on bottom of p. 7 & top of p. 8

--credit cards may offer grace period for prepayments which is the time between the end of the billing cycle and the date you must pay entire bill to avoid paying finance charge (usually 20 to 25 days)(for purchases)

-- for cash advances, you pay finance charges from the date of the advance and cash advance fee too

- C. APR on credit card will not stay the same if there is variable-rate provision  
--creditors must disclose this to you & how rate is determined  
--see example on top of p. 9

- D. Annual fees: most retail cards don't have; some bank & financial institutions have

- E. Transaction fees for cash advances, late fees or fees for exceeding credit limit  
--see example on bottom of p. 9

- F. Bad credit record or no credit record:

(1) apply for secured credit card : secured by savings account you have with bank

(2) line of credit typically limited to 90% of savings account

(3) compare : rates paid on savings account, APR charged, and annual fees

#### IV. Protections for Consumers

- A. TILA requires creditors to disclose info but doesn't tell you which is fair/unfair/  
better deal

- B. check with Wall Street journal-shopping guides to credit cards

--log on to : [www.cardtrak.com](http://www.cardtrak.com)

--go to Federal Reserve Board web-site for published rates:[www.federalreserve.gov](http://www.federalreserve.gov)

- C. What if card issuer charges higher rate than allowed by state law ?

--under federal law, national banks may "export" their finance charge rates on credit cards, i.e. South Dakota has no rate ceiling on bank cards

--if you believe rate being charged violates state law, contact state Attorney General – Office of Consumer Protection

--see pages 12 & 13 regarding protecting credit cards and your rights

- destroy/shred any unused pre-approved credit applications
- written or telephone inquiries must be made within 60 days of statement date to guarantee your rights under the federal Fair Credit Billing Act
- identity theft problems: see number for Federal Trade Comm'n's Identity Theft Hotline
- www.ftc.gov

#### V. Protections for Consumers Who Lease Products

- A. Federal Consumer Leasing Act: applies to any lease of consumer goods for more than 4 months
  - requires lessor to disclose info before you sign lease
  - see p. 14 for important items regarding car lease

#### VI. Determining Creditworthiness: creditors will look at :

- A. ability to repay: stability of job/income sources; your basic expenses
- B. credit history: timeliness of bill-paying; balances on credit cards; bankruptcy filings or judgments against you
- C. stability: length at current address; length of current/former employment
- D. assets: car, home etc may be useful collateral for loan (savings accounts, stocks)
- E. Equal Credit Opportunity Act (ECOA): creditors may not use certain factors to discriminate against you in a credit deal: age; race; color; national origin; sex; marital status; religion; receipt of public aid; or exercise of rights under federal consumer protection laws

- (1) age: usually have to be 18 to 21, depending on state law, to sign contracts
- (2) public assistance: may not be denied credit just because you receive Social Security, AFDC
- (3) sex/gender: creditor may not take any adverse action because of your gender or because you are divorced, widowed, separated, etc
- (4) marital status: credit bureaus must report information in both your names if account is joint
  - different in community property states

(5) change in marital status: creditor can determine how creditworthy you are if your income has decreased

- F. Denial of credit application: creditor must notify you within 30 days after you have completed application
- notice must be written and list reasons for denying credit
  - name and address of credit report bureau relied on
  - under ECOA you can sue for actual damages and punitive damages up to \$10,000 if you have been discriminated against

#### VII. Credit Insurance:

- A. credit life insurance pays off balance owed if you die
- B. credit accident & health insurance make monthly payments on covered debt over the period of time you can't work because of accident or illness
- C. basic requirements:
- if credit insurance is required, premiums must be included in APR disclosed to you
  - cost of credit insurance must be disclosed in writing
  - you must choose credit insurance by some action (checking box "yes")
- D. Is credit insurance necessary ? No—it's your choice and you should make sure loan documents reflect your decision

#### VIII. Credit Records:

- A. To establish credit record—see p. 20
- (1) open savings & checking accounts
  - (2) apply for retail department store card and use it
  - (3) obtain secured credit card
  - (4) have someone creditworthy co-sign loan with you
- B. Creditors must look at credit history for both parties on joint accounts
- C. Credit bureau: credit reporting agency which maintains computer files on your financial payment histories, public record data
- Experian; Equifax; Credit Information Services; TransUnion Credit Information Co.
  - governed by Fair Credit Reporting Act (FCRA)
  - credit reports may be consulted when you apply for insurance, employment

D. How to check your credit record:

- (1) FCRA allows you to review your file at any time; some bureaus charge \$8.50 for individual report; some offer one report free each year upon request
- (2) See FTC's web-site on obtaining free, annual credit reports:  
[www.ftc.gov/freereports](http://www.ftc.gov/freereports)

E. Credit bureaus collect & transmit 4 types of info mainly:

- (1) identification & employment data
- (2) payment histories
- (3) credit-related inquiries
- (4) public record info: bankruptcies, foreclosures, tax liens

F. Maintain accurate credit record: challenge inaccuracies & completeness

--see contact info on p. 23

--if info still disputed, you can submit your side in a statement of up to 100 words and bureau must include

G. Negative info maintained on your credit record for 7 years unless certain conditions present—i.e. you apply for a loan of \$50,000 or more; you apply for a job paying at least \$20,000 per year

--records of bankruptcies kept on record for 10 years

H. Beware of credit-repair companies: high charges for actions you can easily accomplish yourself