NAME: ______________________________________ CLASS PERIOD: ___________

Consumer Credit Protection

Credit problems can be an important source of financial difficulty for young adults getting their first taste of financial independence after high school. In 2008, a national survey conducted by Jump$tart Coalition found that most high school students didn't understand the risks involved in using credit cards. Few students knew the maximum they could be forced to pay if they lost their credit card or if it was stolen. Even worse, most didn't understand that the longer they took to pay off their credit card balance, the more they would pay in finance charges.

Young adults today have easy access to credit. Three-fourths of undergraduate college students in 2008 had credit cards. The average balance on these cards was $2,200. Nellie Mae, an organization that makes loans to college students, says that, in addition to credit card debt, many students will have $20,000 in student loans to pay off when they leave college.

As the above information suggests, young adults sometimes make bad choices about spending. They are sometimes inclined to live beyond their means and run up big debts. Excessive credit card debt is a common problem. So are high monthly payments on car loans, high monthly payments for rent, and an inability to save money. For young couples, financial problems are often a troublesome factor contributing to break-ups and divorce.

Financial problems, however, are not reserved for the young. People of all ages can face financial problems. An unexpected illness, the loss of a job, a divorce, or the loss of child care—these and other difficulties can tip a household into financial trouble.

Employers, unions, credit unions and banks may employ staff members who can provide free budget and credit advice. Several non-profit credit-counseling agencies also provide assistance to people who are having difficulty managing their finances. These agencies may be available for face-to-face, telephone, and online counseling.

Not all agencies are the same. If you have occasion to work with a credit-counseling agency, be sure to ask about the counselors' qualifications. Are they accredited or certified by the National Foundation for Consumer Credit (NFCC), Accredited Financial Counselors (AFC), or Certified Financial Planners (CFP)? What services are offered and what are the fees? Make sure the agency will do a full budget review before enrolling you in a debt-management plan. Do you pay anything before you are helped? Are there ongoing monthly fees? Does the agency provide educational materials? Are these materials available on the Internet?

Credit-counseling agencies sometimes work with creditors to create repayment plans that are manageable for their clients. In these cases, all of the client's debt is consolidated into a lump sum, and the client pays one monthly payment on that sum to the counseling agency. The agency ensures that payments will be made to the creditors in a timely manner. Sometimes an agency is able to negotiate reduced interest rates and the elimination of fees. These cost savings allow clients to repay their debt more quickly. Before you enter into a debt-repayment plan ask the following questions: How is your payment determined? How does your debt repayment work? How will you know your creditors are receiving payments? Can the agency get your creditors to reduce interest rates, eliminate interest and finance charges, or waive fees? Are there alternatives to the debt-repayment plan? What happens if you can't keep up with the agreed-upon plan?

Remember: In a credit transaction, both sides expect to benefit. Borrowers expect to use credit to purchase something of value to them today and/or in the future. Lenders expect to be repaid, with interest. If parties to these transactions consistently cheated and lied, the cost of credit would be very high, and few could afford it. The vast majority of credit transactions are ones in which all parties obtain the benefits they sought.

But the world is not a perfect place. Sometimes borrowers make mistakes or are dishonest with lenders. Sometimes lenders make mistakes or are dishonest with borrowers.

Several state and federal laws are designed to protect consumers of credit from dishonest business practices. State credit-protection laws vary, of course, from state to state. You might want to contact your state bureau that handles such matters to learn more. The federal government has several laws regulating consumer credit. These include the Truth in Lending Act, the Fair Credit Reporting Act, the Equal Credit Opportunity Act, the Fair Credit Billing Act, the Fair Debt Collection Practices Act, the Electronic Funds Transfer Act, and the Fair and Accurate Credit Transactions Act.

Federal Consumer Credit Protection

- The **Truth in Lending Act** requires that lenders disclose the cost of credit in simple terms. The lender must state the percentage costs of borrowing in terms of the annual percentage rate (APR), which takes into account all the costs of financing. The lender must also disclose the total finance charges for the loan. The Truth in Lending Act also protects against unauthorized use of credit cards. If your credit card is lost or stolen, you are liable for no more than $50 in charges made by someone else. If you have promptly notified the card issuer of the loss or theft, you cannot be held responsible for any charges after your notification. The Truth in Lending Act also requires that if a business advertises one credit feature (such as how many months to pay, or the amount of the monthly payment), it must mention all other credit terms.

- The **Fair Credit Reporting Act** governs the activities of credit bureaus and creditors. Among other things, the Fair Credit Reporting Act requires creditors to furnish accurate and complete information regarding your credit history. If you are refused credit, you have a right to see your credit report file from the bureau that submitted the negative information on which the refusal was based. The **Fair and Accurate Credit Transactions Act**, an amendment to the Fair Credit Reporting Act, requires that each of the three credit bureaus provide you with a free copy of your credit report each year, upon your request. The three credit reporting agencies, in partnership with the Federal Trade Commission, have established a website that consumers can use to obtain their free credit reports: www.annualcreditreport.com. The Fair Credit Reporting Act requires credit bureaus to investigate if you disagree with information on your credit report. If your claim is valid, your report must be corrected. Finally, the Fair Credit Reporting Act requires that only people with a legitimate business purpose can obtain a copy of your credit report.

- The **Fair and Accurate Credit Transactions Act** also provides protection against identity theft—for example, by placing alerts on credit histories if identity theft is suspected or if a person is deployed overseas in the military. The Act also seeks to reduce identity theft by limiting account information that businesses can print on receipts at time of purchase.

- The **Equal Credit Opportunity Act** requires that all consumers will be given an equal chance to receive credit. The Equal Credit Opportunity Act states that it is illegal to discriminate against applicants for credit on the basis of sex, marital status, race, national origin, religion, age, or because the applicant receives public assistance income.

- The **Fair Credit Billing Act** requires creditors to mail your bill at least 14 days before payment is due. It also establishes procedures for correcting billing errors and fraudulent charges on your credit card accounts.

- The **Electronic Funds Transfer Act** provides protection to people who use ATMs and debit cards. The Act limits your liability if your card is lost or stolen. How quickly you report the loss determines the amount for which you are held responsible. If you report your ATM card lost or stolen within two days of discovering the loss or theft, your losses are limited to $50. (Note that "discovering the loss" can mean when you first notice the card is missing, or it can mean the time when you receive your monthly statement.) If you wait up to 60 days, you are liable for up to $500. If you wait more than 60 days, you could lose all the money taken from your account.

- The **Fair Debt Collection Practices Act** forbids collection agencies from using threats, harassment, or abuse to collect debts. This Act does not apply to creditors who are collecting their own debts.

Questions:

a. What credit problems are common among young adults?

b. What are some common causes of credit problems among people in other age groups?

c. What are some questions you should ask before entering into an agreement with a credit-counseling agency?

d. What levels of government offer consumer credit protection?

e. Why do most credit transactions benefit both the borrower and the lender?

f. Which law protects consumers from unauthorized use of credit cards?

g. Which law forbids collection agencies from using harassment to collect debts?

h. Which law requires creditors to bill you at least 14 days before payment is due?

i. Which law protects users of consumer credit against discrimination on the basis of sex or race?

j. Which law establishes a procedure that consumers may use to correct inaccuracies in their credit reports?

k. Which law allows you to receive one free credit report annually from each of the three credit-reporting agencies?

l. Which law offers consumers some protection when they use a debit card?

NAME: ______________________________________ CLASS PERIOD: ___________

Credible Credit Counselors

Part 1. Your Job

You are a credit counselor. You specialize in explaining to your clients their rights under federal law, and their responsibilities as borrowers. You offer your customers advice on possible actions they should take in regard to their credit problems. Your teacher will assign two clients to you. After reading each client's case, answer the following questions (you may wish to use Exercise 18.1 to help you answer the questions):

Questions:

a. According to federal law, what are the legal rights of your client?

b. Are your client's legal rights being violated?

c. Is your client being responsible or irresponsible?

d. What should your client do?

Part 2. The Clients

Client 1

I am 18 years old, and I just started college. My parents gave me a debit card. I lost it. I didn't use it much. I didn't know it was lost until my mother called and told me that she found all these outrageous charges on her statement. The card was used to charge stuff costing more than $5,000. Mom said she contacted the card issuer the day she found out about the outrageous charges—which was about three weeks after I must have lost the card.

Client 2

I am 23 years old and a recent graduate from a technical school. I have my first office job. I have fallen behind in making payments on my car loan. My bank has contacted a collection agency to collect the money I owe. Now, I don't answer the telephone. The collection agency calls me every hour of the day and night. I am getting some of these calls at work, and it is embarrassing to have other people see the messages left by the collection agency. Keeping this job is my best chance to pay off the car loan. Even with the job, however, it will take a few more weeks for me to start making payments again.

Client 3

I am 21 and I have a new apartment. Now I am looking for a new sofa. I was reading newspaper ads to see what financial terms I could get if I bought a new sofa. One full-page ad caught my attention. It said, "No money down, pay only $9.99 a month." I thought this sounded too good to be true, but the ad said nothing more about how much the sofa costs, how many monthly payments I would have to make, or the interest rate I would have to pay. If I buy this sofa, I am afraid I might have to face some hidden costs.

Client 4

I am 31 years old and I recently separated from my spouse. I applied for a credit card in my own name. Today I received a letter from the credit card company. It said, "We are sorry. Your application for credit has been denied." How could that be? I have always paid my bills on time. My former spouse sometimes had credit trouble, but I did not. The letter was no help at all.

Client 5

I am 22 years old. I reached into my pocket today and my wallet was gone. I don't know exactly when it disappeared. I could have lost it when I was in a crowded movie theater a couple of nights ago. I lost $75 in cash, my driver's license, and two credit cards. I am going to the Department of Motor Vehicles today to get a new driver's license. I will get around to calling the credit card people in a few days.

Client 6

We are a newly married couple. We are shopping for a car and a loan with which to buy the car. The first lender we spoke to told us that the interest rate for the loan was only 7 percent. However, in addition to the interest charged on the loan, there would be a loan fee of $200. Can lenders charge fees like that?

Client 7

I am 35 years old. I received a call last week from a cell phone company about an overdue bill on an account that wasn't mine. Someone stole my information and used it to get a cell phone. The company said sometimes hackers are able to get into your computer when you are using an unsecured WI-FI connection in an airport or restaurant. I wrote the phone company and told them that the account was not mine and that I would not pay the charges. They agreed to dismiss the charges. I also contacted the credit bureaus and told them I was a victim of identity theft. I asked them to send me a copy of my credit report and to put a fraud alert on my account so that no new accounts could be opened until I was contacted.

EXERCISE
18.3

NAME: ____ CLASS PERIOD: ____________

Legal Protection for Borrowers

Directions: Listed below are several problems. Place a check mark in the correct column to indicate which federal law addresses the problem.

Federal Legislation ➡ **Problem ⬇**	**Truth in Lending Act**	**Fair Credit Reporting Act**	**Equal Credit Opportunity Act**	**Fair Credit Billing Act**	**Electronic Funds Transfer Act**	**Fair Debt Collection Practices Act**	**Fair and Accurate Transactions Act**
1. A collection agency is making harassing telephone calls about a debt.							
2. A creditor refuses to give you credit because you receive public assistance income.							
3. Your credit card is lost or stolen; you are liable for $50 of charges made by someone else.							
4. A creditor refuses to lend to you because you are African-American.							
5. A bank refuses to tell you why you were turned down for credit.							
6. You disagree with statements made in your credit report.							
7. You are liable for $50 on your debit card if a loss or theft is reported immediately.							
8. The first bill for your car payment arrives and you realize that you have only five days to pay it.							
9. A creditor tells you that the interest rate for vacation loans is only 7% per month.							
10. You see charges on your credit card that are not yours.							