

# Consumer Credit Protection

## LESSON DESCRIPTION AND BACKGROUND

This lesson provides an overview of legal protection for those who use consumer credit. It stresses federal laws designed to protect consumers in the case of certain problems arising from credit transactions. The applicable laws 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.

Lesson 18 correlates with national standards for economics and personal finance as shown in Tables 1-2 in the introductory section of the publication.

## ECONOMIC AND PERSONAL FINANCE CONCEPTS

- Consumer credit protection

## OBJECTIVES

At the end of this lesson, the student will be able to:

- Identify features of key federal legislation that help protect consumers in credit transactions.
- Analyze specific credit problems by reference to federal credit legislation.

## TIME REQUIRED

One 45-minute class period

## MATERIALS

- A transparency of **Visual 18.1**
- A copy for each student of **Exercise 18.1**, **18.2**, and **18.3** from the *Student Workbook*

## ADDITIONAL RESOURCES



To download visuals, find related lessons, correlations to state standards, interactives, and more visit <http://fffl.councilforeconed.org/9-12/lesson18>.

## PROCEDURE

1. Introduce the lesson's focus on problems that sometimes arise from consumers' uses of credit. Consumers may take on too much debt, or misunderstand the terms of their credit agreements, or be victims of fraud. In these cases, consumers may face serious personal and legal difficulties. For such difficulties, federal and state laws provide consumers with certain protections. This lesson introduces key elements of consumer credit protection.

2. Give each student a copy of **Exercise 18.1** from the *Student Workbook*. Ask the students to read the exercise and answer the questions that follow. When they have finished, discuss their answers.

- What credit problems are common among young adults? (**Many young adults don't have a satisfactory understanding of the cost of credit. Many students leave college with thousands of dollars of credit card debt and student loans that will take years to pay off. Many young adults live beyond their means.**)
- What are some common causes of credit problems among people in other age groups? (**Credit problems often arise from an unexpected illness, loss of a job, divorce, or loss of child care.**)
- What are some questions you should ask before entering into an agreement with a credit-counseling agency? (**Are the agency's counselors accredited or certified? What services does the agency offer? What are its fees? Do you pay anything before you are helped? Does the agency provide educa-**

- tional materials? Are they available on the Internet? Credit-counseling agencies work with creditors to create repayment plans that are manageable for their clients. Ask how your debt repayment will work, and how your payments will be determined. How will you know your creditors are receiving payments? Can the agency get 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?)**
- d. What levels of government offer consumer credit protection? **(State governments and the federal government offer consumer credit protection.)**
- e. Why do most credit transactions benefit both the borrower and the lender? **(Like all voluntary transactions, the vast majority of credit transactions involve mutual gains. With credit, the borrower is able to purchase something now that may have value now and/or in the future. The lender is repaid, with interest.)**
- f. Which law protects consumers from unauthorized use of credit cards? **(The Truth in Lending Act.)**
- g. Which law forbids collection agencies from using harassment to collect debts? **(The Fair Debt Collection Practices Act.)**
- h. Which law requires creditors to bill you at least 14 days before payment is due? **(The Fair Credit Billing Act.)**
- i. Which law protects users of consumer credit against discrimination on the basis of sex or race? **(The Equal Credit Opportunity Act.)**
- j. Which law establishes a procedure that consumers may use to correct inaccuracies in their credit reports? **(The Fair Credit Reporting Act.)**
- k. Which law allows you to receive one free credit report annually from each of the three credit-reporting agencies? **(The Fair and Accurate Credit Transactions Act)**
- l. Which law offers consumers some protection when they use a debit card? **(The Electronic Funds Transfer Act.)**
3. Introduce the next activity, in which the students will play the role of credit counselors. Give each student a copy of **Exercise 18.2** from the *Student Workbook*; ask the students to read Part 1, which explains the purpose of the activity. When the students have read Part 1, divide the class into small groups. Assign each group to read and analyze the situations of two of the six clients portrayed in Part 2. Make sure that all clients are counseled at least twice across the student groups. Ask each group to answer the questions in Part 1 for each of their two clients. When they have finished this task, ask each group to appoint a spokesperson to present their analyses to the rest of the class. Display **Visual 18.1** while the presentations are being made.
4. Complete the activity by discussing each group's responses with the class. Possible responses for each client include the following:
- Client 1**
- a. According to federal law, what are the legal rights of your client? **(The Electronic Fund Transfer Act limits the client's loss to \$50 because the cardholder contacted the card issuer immediately after discovering the loss.)**
- b. Are your client's legal rights being violated? **(The client is a victim of a crime but has protection of federal laws.)**
- c. Is your client being responsible or irresponsible? **(The client is acting in a responsible manner, although the 18 year-old cardholder could behave more responsibly in keeping track of his or her card.)**
- d. What should your client do? **(Cancel the debit card immediately. Continue to work with the card issuer until the matter is resolved.)**

**Client 2**

- According to federal law, what are the legal rights of your client? **(The telephone calls your client is getting from the collection agency may constitute harassment. Harassment is a violation of the Fair Debt Collection Practices Act.)**
- Are your client's legal rights being violated? **(Possibly. The telephone calls may be illegal.)**
- Is your client being responsible or irresponsible? **(The client acted irresponsibly by not paying the loan as agreed. A responsible action would be to seek out credit counseling to reschedule debt payments)**
- What should your client do? **(The client may wish to contact federal authorities to end the harassment under the Fair Debt Collection Practices Act. The client should immediately try to work out a mutually agreeable repayment plan.)**

**Client 3**

- According to federal law, what are the legal rights of your client? **(The client has a right under the Truth in Lending Act to know all the terms of credit. If the amount of a payment is mentioned in an advertisement, all other credit terms must be disclosed.)**
- Are your client's legal rights being violated? **(Yes. Your client's rights are being violated, along with the rights of other consumers.)**
- Is your client being responsible or irresponsible? **(The client is acting in a responsible manner.)**
- What should your client do? **(The client might want to alert the company running the ad or bring the ad to the attention of federal authorities. Tell the client to look elsewhere for a sofa.)**

**Client 4**

- According to federal law, what are the legal rights of your client? **(The client has a right under the Fair Credit Reporting Act to know the reason for the denial of a loan.)**
- Are your client's legal rights being violated? **(Yes. The reason for denial was not provided.)**
- Is your client being responsible or irresponsible? **(The client is acting in a responsible manner.)**
- What should your client do? **(The client should contact the company immediately and ask for a reason for the denial. The client may wish to file a formal complaint with the federal authorities if there is evidence of discrimination.)**

**Client 5**

- According to federal law, what are the legal rights of your client? **(The Truth in Lending Act limits liability for unauthorized charges prior to notifying the credit card company of the lost card.)**
- Are your client's legal rights being violated? **(No. It appears that no rights are being violated.)**
- Is your client being responsible or irresponsible? **(Client 5 is shirking his or her responsibility to contact the credit card company immediately, so that the company can close the account and stop all new charges.)**
- What should your client do? **(Client 5 should contact the credit card company immediately.)**

**Client 6**

- According to federal law, what are the legal rights of your client? **(The Truth in Lending Act requires that creditors present borrowers with an annual percentage rate [APR] for all the costs of financing, including any loan fees. The client has a legal right to this information.)**
- Are your client's legal rights being violated? **(Yes. The lender is required to supply the APR information.)**
- Is your client being responsible or irresponsible? **(The client is acting in a responsible manner.)**
- What should your client do? **(The client should contact the car dealership immediately and bring this matter to the dealer's attention. The client may wish to file a formal complaint with the federal authorities. Tell the client to look elsewhere for a car.)**

**Client 7**

- According to federal law, what are the legal rights of your client? **(The client has a right under the Fair and Accurate Credit Transactions Act to have a fraud alert put on his account and to receive a free copy of his credit report.)**
- Are your client's legal rights being violated? **(No. The phone company agreed to dismiss the charges.)**
- Is your client being responsible or irresponsible? **(The client is acting in a responsible manner.)**
- What should your client do? **(The client is taking appropriate action to protect against identity theft. He should continue to carefully monitor financial transactions made in his name.)**

**CLOSURE**

Use the following questions to review key points of the lesson:

- Who gains from credit transactions? **(In a credit transaction, both sides expect to benefit. Borrowers expect to use credit to purchase something that may be of value today and/or in the future. Lenders expect to be repaid, with interest.)**
- Name the federal laws examined in this lesson that regulate consumer credit. **(The Electronic Funds Transfer Act, the Equal Credit Opportunity Act, the Fair Credit Billing Act, the Fair Debt Collection Practices Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Fair and Accurate Credit Transactions Act.)**

**ASSESSMENT**

Give each student a copy of **Exercise 18.3** from the *Student Workbook*. Tell the students to complete the chart. When they have completed the exercise, discuss the answers.

Problem 1: **Fair Debt Collection Practices Act**

Problem 2: **Equal Credit Opportunity Act**

Problem 3: **Truth in Lending Act**

Problem 4: **Equal Credit Opportunity Act**

Problem 5: **Fair Credit Reporting Act**

Problem 6: **Fair Credit Reporting Act**

Problem 7: **Electronic Funds Transfer Act**

Problem 8: **Fair Credit Billing Act**

Problem 9: **Truth in Lending Act**

Problem 10: **Fair and Accurate Credit Transactions Act**

**EXTENSION**

Assign the students to use the Internet to study key points of the Credit Card Accountability Responsibility and Disclosure Act of 2009. This legislation, signed by President Obama in May

2009, provides several key layers of protection for credit card users, including the following:

- Requires credit card companies to disclose the period of time and total interest it will take to pay off a credit card balance if only the minimum payment is made each month.
- Prohibits credit card companies from treating a payment as late unless the bill is mailed or delivered at least 21 days before the bill's due date.
- Requires interest-rate increases that have been applied because of delinquent payments to revert back to their original lower rate if card holders have made minimum payments for at least six months.
- Abolishes over-the-limit fees unless the cardholder has asked that the account be set up to allow transactions to exceed the credit limit.
- Prohibits credit card issuers from extending credit cards to people under 21 without first verifying the applicant's ability to pay, or getting the applicant's parents or someone else to co-sign.
- Requires a 45-day notice of credit card rate increases.

## Questions for Credit Counselors

After reading each client's case, answer the following questions.

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

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

**c. Is your client being responsible or irresponsible?**

**d. What should your client do?**