Consumer Credit Legislation

Standard 7

The student will identify the procedures and analyze the responsibilities of borrowing money.

Lesson Objectives

- Explain key legislation related to consumer credit.
- Apply consumer credit legislation to specific credit problems.

Personal Financial Literacy Vocabulary

Consumer credit legislation: Any law that is designed to protect consumers, especially by assuring that consumers have access to accurate information about products and services related to financial transactions.

Introduction

Jenna was furious. She could not believe what she read on her credit card statement. The card company had raised her interest rate, and her minimum payments were going up. "Mom, look at this. What am I going to do? This new interest rate raises my payments so high that I am not sure I can make the minimum payments any more. And they did not even tell me they were raising the interest. How can they do that?"

"Jenna, are you sure you read everything they sent you?"

"Well, I think so." Jenna looked again at her statement. "I really cannot believe this."

Given the laws, what can Jenna do if she is correct?

Lesson

Several state and federal laws have been enacted to protect the rights of consumers. The commitment to consumer legislation began when Congress passed the *Consumer Credit Protection Act of 1968*. As the economy became more complex and more people relied on credit, additional laws were passed to reduce potential problems for both borrowers and lenders. Consumer credit legislation is designed to provide you with the information you need to make knowledgeable decisions about your financial matters. These laws cover a wide range of topics, including privacy rights, unfair business practices, fraud, misrepresentation, and other consumer/business interactions.

Most federal legislation is enforced by the U.S. Department of Justice or the Federal Trade Commission. Enforcement of state laws varies from state to state. In Oklahoma, most consumer credit laws are enforced by the Oklahoma Department of Consumer Credit and the State Attorney General's Office.

Following are some of the most significant federal laws impacting consumers. Each law is listed in chronological order, starting with the earliest legislation.

- ***Consumer Credit Protection Act* (1968)** requires that all consumer lenders (banks, credit card companies, finance companies and others) fully disclose the annual percentage rates and the total potential costs associated with receiving a loan to the borrower.

- ***Truth in Lending Act* (1969)** requires all lenders to inform potential borrowers about the cost of borrowing money, including finance charges and the annual percentage rate. Finance charges (all charges to borrow money, including interest) and the APR must be placed on the forms that borrowers will sign. The law also outlines criminal penalties for lenders who knowingly and willfully violate the law. In addition, the law protects you if someone else uses your credit card without your permission. If your credit card is lost or stolen and you report it to the company issuing the card, the most you have to pay is $50.

- ***Fair Credit Reporting Act* (1971)** outlines your rights with credit reporting agencies. The law sets limits on who has access to your credit file; requires outdated information be removed from your file; gives you the right to know what is in your credit report; requires credit bureaus and creditors to correct any mistakes reported on your file; allows you to dispute any inaccurate information; add a 100-word statement to your report to explain accurate negative information; and requires you to be informed about why you were turned down for credit.

- ***Fair Credit Billing Act* (1975)** covers problems with credit card billings on open-end credit accounts such as credit cards. You are required to notify the creditor of any errors within 60 days of receiving the first bill with an error. The creditor must contact you within 30 days that your notice was received and then investigate the potential error. They cannot take any steps to damage your credit rating while a dispute is pending.

- ***Equal Credit Opportunity Act* (1975)** ensures all individuals have an equal opportunity to receive credit or loans. It prohibits lenders from discriminating based on sex, race, marital status, religion, national origin, age, or receipt of public assistance. Lenders cannot ask about your plans for having children or refuse to consider alimony or child support payments as income. It also says that you have the legal right to know why you are denied credit.

- ***Consumer Leasing Act* (1976)** requires lessors (people that lease something to another person) to provide you with uniform information about consumer leases. Originally a part of *the Truth in Lending Act*, the *Consumer Leasing Act* applies to leases for personal property under $25,000 and for more than four months. A long-term automobile lease is the most common type of lease covered by the act.

- ***Electronic Fund Transfer (EFT) Act (1976)*** explains your rights when mistakes are made with an ATM transaction or if your debit card is lost or stolen. If you notify the bank in a timely manner, your bank must correct the mistake and not charge you for any withdrawals someone else made with your card. If you delay in reporting your card lost or stolen, however, you can held liable for up to $500 or an unlimited amount if you fail to report the problem for more than 60 days.

  If a financial institution does not follow the provisions of the *EFT Act*, you may sue for actual damages (or, in certain cases when the institution fails to correct an error or re-credit an account, for three times actual damages) plus punitive damages of not less than $100 nor more than $1,000. You are also entitled to court costs and attorney's fees in a successful lawsuit; class action suits are permitted as well.

- ***Fair Debt Collection Practices Act* (1978)** prohibits debt collectors from engaging in unfair, deceptive, or abusive practices when collecting debts. Collectors must send you a written notice with the amount you owe and the name of the business owed. Bill collectors cannot call you if you dispute the bill in writing within 30 days unless they provide proof that you owe the bill. Also, collectors must identify themselves on the phone and can call only between 8 a.m.—9 p.m. unless you agree to another time; they cannot call you at work if you tell them not to call.

- ***Fair Credit and Charge Card Disclosure Act* (1989)** is part of the *Truth in Lending Act*. It requires that all credit card applications include information on the card's key features and costs, including the APR, grace period, minimum finance charge, balance calculation method, annual fees, transaction fees for cash advances, and penalty fees such as over-the-limit fees and late-payment fees. Also, card issuers must inform customers if they make certain changes in rates or coverage for credit insurance.

REMINDER

If a financial institution does not follow the provisions of the EFT Act, you may sue for actual damages plus punitive damages of not less than $100 nor more than $1,000.

- ***Consumer Credit Reporting Reform Act* (1996)** is an amendment to the *Fair Credit Reporting Act*. It requires free credit reports for the unemployed, persons on public assistance, and fraud victims; the full name of anyone requesting a credit report within the past year; and credit bureaus to share corrections to your file. It also clarified when the seven- year period for negative information begins and raised the limits on what information can be reported longer than seven years (jobs paying $75K or more and loans or life insurance of $150K or more).

- ***Credit Repair Organizations Act* (1996)** makes it illegal for groups to make false promises or claims about improving your credit history. About the only things they can do for you are the same things you can do for yourself. For example, they can get copies of your credit report and write letters disputing inaccuracies in your report if you give them access to your records. They really have no more power than you do when dealing with the credit bureaus; however, they can provide these services for you if you are willing to pay them for it. Should you decide to use a credit repair organization, the act requires that you receive a contract before the services begin, and it prohibits them from charging you any fees until services are delivered.

So Many Laws!

Wow, that is a lot of laws! Why do you think so much legislation related to consumer credit has been passed by the Congress? In almost every situation, the law was passed because someone was harmed by an action that adversely impacted their personal finances. The concepts of "fair" and "equal" credit have been written into laws to prohibit others from unfairly discriminating against you in credit transactions, to require that you be told why you are denied credit, to let you know what is included in your credit report, and to establish a way for you to dispute any inaccurate information or billing disputes. Each law is intended to help you better understand your rights and responsibilities when using credit, to reduce potential problems, and to decrease the confusion in financial transactions.

For example, these laws say:

- You cannot be denied a credit card just because you are a single woman, a minority, or over age 62.
- You can limit your risk if a credit card is lost or stolen.
- You can resolve errors in your monthly bill without damage to your credit rating.
- You have access to information in your credit report and can dispute any inaccurate information reported about you.

Conclusion

Virtually everyone will use consumer credit or engage in a financial transaction at some point. In most cases, the idea of "*Buyer beware*!" is still true. Knowing your rights and responsibilities will help you protect yourself when making credit-related choices. As borrowing and lending have become more complex, state and federal governments have enacted numerous laws raising the standards for treating people fairly in the business dealings.

FINAL NOTE: Jenna's mom is right. A credit card company cannot change its interest rate without informing the card holder. That is why it is so important to read the information credit card companies and other lenders send you. While it may seem like junk mail, it is part of your responsibility as a card holder or borrower to read any changes in the terms of the loan. Most reputable lenders follows the laws and will notify their customers about changes.

If Jenna was not informed about the rate change, she should call the credit card company to let them know and request a delay in implementing the new interest rate. She could also file a complaint with the Federal Trade Commission.

This lesson was written and created by Oklahoma educators in partnership with Oklahoma Council on Economic Education

Name:______________________________Class Period: ______________________________

Consumer Credit Legislation Review 7.4

Complete the following assignment and give the completed lesson to your teacher to review.

A. Truth in Lending Act

B. Fair Credit Reporting Act

C. Fair Credit Billing Act

D. Equal Credit Opportunity Act

E. Electronic Fund Transfer (EFT) Act

F. Fair Debt Collection Practices Act

G. Consumer Credit Reporting Reform Act

Place the letter in the blank indicating which law requires these actions:

_______ 1. Free credit reports for the unemployed, persons on public assistance, and fraud victims.

_______ 2. Your bank cannot charge you for ATM withdrawals made by someone else with your card if you notify them in a timely manner that your card was lost or stolen.

_______ 3. Limits who has access to your credit file.

_______ 4. All lenders must inform potential lenders about the cost of borrowing money, including finance charges and the annual percentage rate.

_______ 5. You must notify the creditor of any errors within 60 days of receiving the first bill with an error.

Name:_______________________________Class Period: ______________________________

Resolving Consumer Problems Activity 7.4

Choose one of the situations described below. Write a letter to the appropriate entity explaining what happened and what should be done. Be sure to use correct grammar, and be polite in making your request. Circle the one you plan to use and identify the person or place you are writing. You do not need to give an exact name, but you should identify the title of the person you are writing and the company.

A. You have just lost your billfold and your debit card was in it.
B. You have just reviewed your credit card bill and it is not correct.
C. You were denied credit because of a problem with your credit report; however, you know the information in the report is not correct.

This letter is written to____

Dear:

Yours very truly,