FINANCE

Credit: Consumer Right and Responsibilities 9.147

by J. McKenna and C. Makela[1]

Consumers have the right to a fair and open marketplace when they shop for credit. They also have the right to be fully informed about the conditions of a credit contract. Once a credit agreement is signed, consumers must live up to the agreement and complete the credit terms. As this responsibility is fulfilled, consumers gain good credit records. This record is an indication of the consumer's integrity and credit risk. A good record is rewarded through future granting of credit at favorable interest rates.

In order to ensure a good credit record, consumers must pay their bills on time and protect themselves by resolving problems as they arise. Consumer laws protect you when you have a problem with a credit card or loan contract. Follow the guidelines and keep good records and you will be able to resolve credit problems.

Quick Facts...

If you use your home as security for a loan, the Truth-in-Lending Law gives you the right to change your decision in three business days.

Shop for credit only at legitimate lending institutions where credit terms meet legal limits and are clearly and completely stated on contracts.

The Colorado Consumer Credit Code sets the maximum rates for consumer loans, credit sales, and revolving credit.

Credit Laws

Credit laws give consumers rights and responsibilities when they shop for credit and sign credit contracts. A federal law, the Consumer Credit Protection Act, is divided into four sections known by common names: Equal Credit Opportunity Act, Fair Credit Reporting Act, Fair Credit Billing Act, and Truth-in-Lending Act. In Colorado, credit users also have protection under the Colorado Uniform Consumer Credit Code (UCCC).

The **Equal Credit Opportunity Act** prohibits lenders from using unequal and unfair criteria when granting credit.

The **Fair Credit Reporting Act** protects consumers when their credit reports have inaccurate information. The Act also stipulates that only users with justifiable reasons have access to this information.

The **Fair Credit Billing Act** allows consumers to contest a credit card charge.

Truth-in-Lending requires lenders to state finance charges as an annual percentage rate.

The **Colorado Uniform Consumer Credit Code** (UCCC) sets maximum interest rates for consumer loans, credit sales, and credit cards.

Protection for Credit Shoppers

The federal Truth-in-Lending Act and the Colorado Uniform Consumer Credit Code (UCCC) aid consumers as they shop for credit.

To make decisions about loans, consumers must know that interest rates are presented in common and comparable terms. The **Truth-in-Lending Act** requires an interest percentage to be computed and stated as an annual percentage rate (APR) so consumers can compare rates from one lending institution to another. Truth-in-Lending also spells out how credit must be treated in advertisements. The law states that if one feature of credit is stated, such as the down payment, the ad also must disclose other important credit terms, such

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as the number, amount and period of payments the consumer will be obligated to make.

If you use your home as security for a loan, the Truth-in-Lending Law gives you the right to change your decision in three business days. If you change your mind in that time period, you may legally cancel the contract. The lender must inform you of this right at the time you sign the contract, and you must cancel in writing if you decide not to agree to the loan.

The **Colorado Uniform Consumer Credit Code** requires lenders to disclose the APR you will be charged as well as the total dollar amount of the transaction.

Credit Contracts

A credit contract is a serious obligation and signing a credit contract is a promise to pay. Failure to live up to the contract terms can tarnish your credit history and close doors to future credit opportunities. Protect yourself by living up to your responsibilities. Cosigning a loan makes you an equally responsible party to the terms of the loan.

The purpose of a contract is to establish the rights and responsibilities of both parties who sign. A contract is defined as an agreement that can be enforced by law, and by signing, both parties promise to carry out their parts of the agreement. A credit card application is such an agreement.

Anxious to have money, goods or services, many consumers pay little attention to what they agree to when they sign a contract. They may not be aware of the credit laws that offer consumer protection and they may be equally unaware of their responsibilities when signing their names to a contract.

Before signing a contract. You can avoid legal problems by thinking about the long-term implications of signing a contract. It is essential to build a reputation that says you are able and willing to meet your financial obligations when they are due. Don’t sign if you can’t pay.

Be honest and accurate when applying for a loan. Misrepresenting salary, age, or other important facts may block future credit. Shop for credit only at legitimate lending institutions where credit terms meet legal limits and are clearly and completely stated on contracts. It is difficult to resolve a problem with a fly-by-night operator.

Credit laws define legal rights and responsibilities for consumers. Consumers have the right to know how much a loan will cost before a contract is signed. They are protected against excessive interest rates and unfair sales practices. At the same time, a contractual credit agreement stipulates consumer responsibilities. The consumer agrees to pay a specified amount at a certain time. Be sure that the contract is completely filled in and that you agree to the terms.

Failing to meet responsibilities. If you do not live up to the terms of a credit contract, the creditor can choose from three courses of action.

1. Repossess the merchandise or claim the security.
2. Obtain a court order to garnish wages or to receive property to pay the debt.
3. File a lawsuit requiring payment of the amount of the debt.

Repossessing merchandise. When you buy goods on credit, they usually are used as the lender’s security in the event that you stop making payments. The seller can pick up the goods and sell them to satisfy the loan agreement.

The seller cannot sell the goods and then sue you for the balance if the original amount financed was $1,000 or less. The seller can, however, take you to court to settle the contract instead of repossessing the goods.

Garnishing wages. A creditor may get a court decision requiring an individual to complete payment on a contract. The court can direct an employer to pay a certain amount from each paycheck to the creditor. The amount subject to payment (called garnishment) can be no more than 25 percent of the consumer's disposable weekly earnings. Disposable earnings are arrived at by subtracting federal and state withholding taxes and social security from weekly earnings.

An employer may not fire an employee if his or her paycheck has been garnished because of a judgment resulting from a consumer credit sale, lease or loan. The employee can be fired if the garnishment is a result of a bad check or an unpaid open account bill not covered by the Colorado Uniform Consumer Credit Code.

Filing a lawsuit. If you do not uphold your promise to pay according to the terms on the contract you signed, you may be sued by the lending institution. If you have good cause for nonpayment, you must present evidence in court supporting your decision. You must have good documentation to substantiate your reasons for breaking the contract.

Annual Percentage Rate

If you borrow $100 for one year and repay it at the end of the year with $8 interest, the APR is 8 percent. If you pay the $100 loan (plus $8 interest) in 12 monthly payments, you would have had the entire $100 for only a portion of the year. Therefore, the APR is 14.5 percent.

Contract Laws

Truth-in-Lending and the Colorado Uniform Consumer Credit Code protect consumers in the area of contract decisions, specifically—information disclosure, usury (excessive interest charges), right to cancel, selling contracts, and referral sales. Before signing, know your rights and understand your responsibilities.

Information disclosure. Truth-in-Lending requires lenders to state interest in an annual percentage rate (APR) to allow easy comparison from one loan or credit card to the next. The APR is the percentage of interest charged on a loan based on the portion of a year you get to keep the entire amount of the loan.

Some lenders also add a service charge. The total charges, called finance charges, must be shown in writing before you sign a contract.

The Colorado Uniform Consumer Credit Code (UCCC) provides protection similar to Truth-in-Lending. A credit contract must state the annual percentage rate, total finance charges, total amount due, and number of monthly payments.

Table 1. Financing a vehicle.

Amount Financed	Annual % Rate	No. of Payments	Amount of Payments	Finance Charges	Total of Payments
$8,000.00	18 percent	48 payments	$235/mo	$3,280.00	$11,280.00

Usury. The maximum amount of interest that can be charged for financing a product or service depends on the type of credit. The Colorado Consumer Credit Code sets the maximum rates for consumer loans, credit sales, and revolving credit.

Consumer loans. If you apply for a loan directly from a lending institution and receive money to pay for goods or services, you have arranged a consumer loan.

Credit sales. A credit sale is made by a retailer who arranges a repayment schedule for goods purchased at that store. The maximum charges on consumer loans are higher than on credit sales but many lenders do not charge the maximum rates. Loan rates are subject to competition as are the prices for automobiles, houses or groceries. Do not borrow at the maximum rates unless absolutely necessary.

Revolving charge accounts. For revolving charge accounts, the maximum allowable interest charge is 1 3/4 percent per month or 21 percent per year. The creditor must give you credit for payments made during the month.

Table 2: Maximum allowable interest rates for consumer loans.

Borrowed	Consumer Loan	Credit
$0 – 1,000	36%	25%
1,000 – 2,100	21%	20%
Over 2,100	15%	15%

Right to Cancel. You may sign a contract in your home for magazine subscriptions, a sewing machine, aluminum siding, or other products and later decide you don't want to make the purchase. Under the UCCC, you have the right during a cooling-off period to cancel the contract. You must notify the seller in writing within three business days after you sign the contract that you plan to cancel. When you sign the contract, the seller is required to show you in writing when you sign the contract that you have this cancellation right. Three conditions must exist to give you this right: 1) the contract must be signed in your home, 2) you must not have had any previous negotiation about the sale in a business establishment, and 3) you must buy on credit, not using a credit card.

If you agree to use your home as credit security for a purchase, it is not necessary to sign the contract in your home to exercise your right to cancel. The total credit contract must be for more than $1,000 to use your home as security. Typical examples of credit contracts over $1,000 are remodeling projects such as patios, room additions or kitchen remodeling. The lender must give you written notice of this right to cancel and if you cancel, it must be in writing.

Sale of Your Contract. If you sign a contract when you purchase furniture, appliances, or other products, the retail store may sell your contract to a bank or finance company. If this is the case, you make your payments to the place where the contract was purchased and is held.

After you have used the product for several weeks, you may find that it has a major defect or that it quits working. Contact the retail store where you made the purchase. If you are unable to work out an acceptable agreement with the store or the manufacturer, you may withhold payments to the new contract holder. The UCCC gives you the same right to withhold payment from the new contract holder as you would have to withhold payment for faulty merchandise from the retailer.

Referral sales. Referral sales are illegal. If a salesperson tries to talk you into buying a product on credit by offering you the opportunity to pay for it by referring names of prospective customers, watch out. This is called a referral sale and is illegal if the plan is offered to you before you decide to buy a product. It also is illegal if you agree to buy, entirely or at least in part, because you think you can earn a reduced price by participating. If you sign a credit contract to buy a product as part of a referral sale offer, you can either cancel the contract, keep the goods or use the services without any obligation to pay for them. Use of a credit card, however, may void these rights.

Complaints

- *Keep copies of bills, letters, telephone calls, names of people contacted and dates of discussions. If the amount in dispute is substantial, it might end up in court and your carefully documented case will increase your chance of winning.*
- *Try to resolve credit disputes with the billing company. If you are not successful, send a complaint to the Colorado Uniform Consumer Credit Code Office. Download the form from www.ago.state.co.us/uccccmplform.pdf or call 303-866-4494 and request a copy of the complaint form. If they cannot address your problem, they will refer your complaint to the appropriate authority.*
- *After resolving disputes, check with each credit bureau to make sure your credit record is accurate and complete. If there is a problem with your credit report, write a statement explaining your position so it is on record in your file. Send copies of your statement to each of the credit bureaus. This statement will be included in future credit reports.*
- *Keep current about credit protection laws. Be alert and protect yourself.*

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