Consumer Credit
How You Are Protected

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Before 1969, credit consumers had limited protection against unfair creditor practices. Since that time, however, several federal and Illinois laws and regulations have been enacted that establish the rights of consumers in a variety of credit situations. This publication describes these laws and the situations to which they apply. For example, you as a credit consumer are now protected if you find yourself faced with the following problems:

- You are asked to sign a credit contract that does not list all the credit costs (page 5).
- You receive a credit card through the mail that you did not request (page 7).
- Someone else makes purchases on your lost or stolen credit card (page 7).
- You apply for credit and are refused (pages 7-8).
- You learn that your file at the local credit-reporting agency contains faulty or outdated information (page 7).
- You are asked by a credit interviewer whether you plan to have children soon (page 8).
- You think that there is a mistake on your bill for credit purchases (page 9).
- You discover a major defect in an item on which you are making payments, and the merchant insists that you continue to pay for the item (page 10).
- You receive harassing telephone calls from a debt collection agency (page 12).

Being aware of your rights will help you make informed credit decisions and deal effectively with many of the credit problems that can arise.
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CREDIT COST DISCLOSURE
(THE TRUTH-IN-LENDING ACT)

Title I of the Consumer Credit Protection Act, or Regulation Z, became effective on July 1, 1969. Commonly known as the Truth-in-Lending Act, this law was written primarily to ensure that consumers understand how much their particular credit plan will cost before they make a credit commitment.

Under this act, all lenders and retail merchants must provide consumers with specific information about the cost of credit before credit is granted. Consumers then know exactly how much their plan will cost and can compare costs from different sources before deciding what credit plan to use.

Finance Charge

The finance charge covers all fees required by the creditor. It usually includes such costs as interest, a service or carrying charge, loan fees, and premiums for credit insurance that may be written in connection with obtaining credit. Expressed in dollars and cents, the finance charge allows the consumer to see at once what the actual out-of-pocket cost of credit will be.

Under the Truth-in-Lending Simplification and Reform Act, with which creditors may comply at any time but which is effective April 1, 1982, the creditor upon request must present a written itemization of the amount financed on installment-contract credit accounts. The creditor must also disclose the following information: the finance charge; the annual percentage rate; the payment total (amount financed and finance charge); and the payment schedule (number, amount, and due dates of payments). For credit sales, the creditor must disclose the total sale price, which could include the down payment. The creditor must also indicate whether the consumer is entitled to a rebate of any finance charge through prepayment, whether a penalty is involved for early payment of the balance due on the credit account, or whether any additional dollar charge or percentage amount might be imposed for a late payment. Finally, the creditor must state that credit life and disability insurance are voluntary.
Annual Percentage Rate

The annual percentage rate (APR) expresses the finance charge, or the cost of credit, as a percentage of the total amount financed. With this figure, consumers can compare credit terms from various sources even when the amount of credit differs or when the repayment time varies. How the annual percentage rate is figured depends on whether the credit is open-end (such as revolving credit) or of another type (such as installment credit).

Open-End Credit. For open-end credit, such as with department store, bank card, and entertainment card revolving charge accounts, the annual percentage rate is figured by multiplying the finance charge for the period (month or year) by the number of periods in a year. For example, if the interest rate on the unpaid balance is 1.5 percent per month, the annual percentage rate would be 18 percent.

Under the average daily balance method, the creditor adds the balance for each day of the billing period and then divides by the number of days in that period. Let us say that you owed $200 on the first of the month and paid $100 to the creditor on the 15th of the month. For the first 15 days, you therefore owed $200, and for the last 15 days, $100. By adding the total of 200 × 15 to the total of 100 × 15, you reach a total of 4,500. This number divided by 30 gives an average daily balance of $150 for the month. At 1.5 percent interest per month, your finance charge would therefore be $2.25. (See Circular 1182, Uses and Costs of Consumer Credit, for information on how to figure finance charges on other types of credit card accounts.)

Credit Other Than Open-End. According to the Truth-in-Lending Act, the annual percentage rate must be computed by the actuarial method for any credit that is of a type other than open-end; the installment account is one such type of credit. For example, for a one-year bank loan of $100 to be repaid monthly at a finance charge of $10, the finance charge appears to be 10 percent of the loan. However, the true annual percentage rate would be 18.46 percent because the $100 would be available to you only for the first month of the loan. When you make the first payment, you actually repay part of the principal and then have less money at your disposal. (See Circular 1182 for information on how to figure installment interest.)

Under the same set of circumstances, but this time with a 10 percent charge discounted in advance, the annual percentage rate would be 20.5 percent. In this case you receive $90 and must repay $100. (See Circular 1182 for information on the discount rate and how to figure it.)
Advertising Regulations

Advertising of credit accounts is also covered by the law. In general, advertising refers to newspaper, magazine, radio, and television advertising, as well as to leaflets, flyers, catalogs, public-address-system announcements, direct mail literature, window displays, and billboards.

If the business mentions one specific item in an advertisement, such as the down payment or the finance charge, it must state all of the other important terms as well. For installment contracts, all of the following items must be stated: down payments, if any; terms of repayment; and rate of finance charge expressed as an annual percentage rate.

CANCELLATION RIGHTS

The Truth-in-Lending Act gives you the right of rescission; that is, the right to cancel a credit transaction when your home (principal dwelling) is used as collateral. You have until midnight of the third business day to cancel the transaction, but you must make the cancellation in writing to the creditor. The creditor must also give you written notice of the right to cancel. This cancellation right does not apply to the first mortgage on your residence.

CREDIT CARD PROTECTION

Illinois law prohibits the sending of unsolicited credit cards, and an amendment to the Truth-in-Lending Act also prohibits this practice throughout the United States. Effective January 24, 1971, this same amendment limits the liability of the card holder to $50 for each account when a credit card is used by an unauthorized person. To be liable for the $50, the unauthorized use must have occurred before you notified the credit card issuer of a loss or theft. Companies must also provide you with a means for notifying them (telephone number or address) that a credit card has been lost or stolen.

FAIR HANDLING OF CREDIT RECORDS

Title VI of the Consumer Credit Protection Act became effective on April 25, 1971. Entitled the Fair Credit Reporting Act, its purpose was to offer consumers some protection against the circulation of inaccurate or obsolete information on their credit files and to ensure that consumer reporting agencies — better known as credit bureaus — were completely fair in reporting consumer credit practices.
Under this law, when you have been denied credit, insurance, or employment because of information in your file, you have the right to be told the contents of the file and the name of the credit bureau that issued the report. If you act within 30 days, you can find out the "nature and substance of all information" that is in the file free of charge. You have the right to see the information at other times, too, but you may have to pay a fee. You may also have incorrect information reinvestigated. If any information in your file cannot be verified, you can have it removed and ask the agency to notify those who have received the incorrect information that it is false and has been deleted from the file. If you cannot resolve a dispute with the credit reporting agency, you have the right to record your version of the dispute and to have your version included in future consumer reports.

PROTECTION AGAINST DISCRIMINATION

Effective October 28, 1975, the Equal Credit Opportunity Act, or Regulation B, is also an amendment, Title VII, to the Consumer Credit Protection Act. It is designed to prevent lenders from discriminating against a credit applicant for any reason that is not directly related to the person's ability to repay. This act states that creditors cannot refuse credit to any qualified applicant on the basis of sex or marital status. An amendment to the act, effective March 23, 1977, also prohibits discrimination on the basis of race, color, religion, national origin, or age (except for minors). In addition, credit cannot be refused solely because an applicant receives income from a public assistance program.

Under the Equal Credit Opportunity Act, creditors are forbidden to ask for information about a person's marital status unless a spouse will also use the credit account or be legally responsible for it, or unless the applicant is relying on the spouse's income or property. In addition, a creditor cannot request information about an applicant's birth control practices or plans for having children. Finally, a creditor may not prohibit a woman from opening an account in her maiden name.

If a married couple applies for credit, the income of both spouses must be accepted as valid income for purposes of determining credit worthiness. Effective June 1, 1977, consumers can also require creditors to report credit history information in both spouses' names if they share an account. Credit accounts opened after June 1, 1977, which both spouses may use and for which both are liable, must be reported by creditors in both names.
Creditors must tell applicants that they do not have to disclose income from alimony, child support, or maintenance payments if those payments are not relied upon as income for the purpose of obtaining credit. If applicants choose to rely on such income, creditors cannot refuse to consider those sources and may inquire about their frequency and regularity.

If the consumer requests it, a creditor must provide a written explanation for denying credit. If the denial is based on information from another source, such as a credit reporting agency, that source must be identified. (See page 7 for information about credit reporting agencies.)

BILLING PROBLEMS

An amendment to Title I of the Consumer Credit Protection Act, the Fair Credit Billing Act became effective October 28, 1975. It is designed to help consumers correct billing errors and report disputed credit accounts, and it regulates the methods and procedures creditors use in billing credit card accounts and other revolving credit accounts that include finance charges. In addition, the act specifies procedures for solving consumer billing disputes.

Billing Regulations

The Fair Credit Billing Act requires creditors to mail bills to the consumer at least 14 days before the payment due date. The consumer then has time to pay the bill before a finance charge is imposed on the account. In addition, the consumer must receive an account statement for each billing period in which there is a balance of $1 or more.

Procedures for Disputing Billing Errors

Under this law, if you think a bill is in error and send a written notice about it to the creditor within 60 days of the postmark of the bill, you must receive a response from the creditor within 30 days. Within 90 days after receiving your notice, the creditor must either explain why the bill is correct or correct the error.

When sending a written notice disputing a bill, you must include the following information: your name, your account number, a description of the suspected error, and the dollar amount of the suspected error. This information should be written on a separate piece of paper, not on the bill.
As long as the bill is under dispute, you do not have to pay the part of the bill being discussed or any finance charge on the disputed amount. During this same time, the creditor is not allowed to report the account to a credit reporting agency unless an explanation is also given regarding the settling of the dispute.

If the creditor has made a mistake on the bill, you will not have to pay any finance charge on the disputed amount. However, if the creditor has not made an error, you may have to pay finance charges on the amount in dispute, and you will also have to make up any missed minimum or required payments on the disputed amount. The creditor must send you a written notification of what you owe and allow you the normal payment period before adding any more finance charges or late payment charges.

If, after receiving the creditor's explanation, you still feel the bill is in error and wish to dispute the amount, you must notify the creditor in writing to that effect within 10 days of receiving the explanation. The creditor may then report you to credit bureaus and other creditors and may pursue regular collection procedures. However, the creditor must also report that you do not feel that you owe the money, and he must let you know to whom such reports were made. Once the matter has been settled between you and the creditor, the creditor must notify those to whom he reported you as delinquent that the matter has been resolved.

If the creditor does not follow these rules, he is not allowed to collect either the first $50 of the disputed amount or any finance charges, even if the bill turns out to be correct.

**Payment for Faulty Merchandise or Poor Service**

**Payment Regulations.** Under a provision of the Fair Credit Billing Act, if you charge a product or service whose quality proves faulty, you may have the right to refuse to pay the amount still due. However, you must first try to obtain satisfaction directly from the seller. If you do not gain satisfaction and if the charge was on a third-party credit card (such as a bank or entertainment card), you may refuse to pay for the faulty merchandise if the item's purchase price was more than $50 and if the item was purchased in the buyer's home state or within 100 miles of home. These requirements need not be met if the creditor mailed you an advertisement for the item or if the seller is a firm owned or operated by the creditor.

**Installment Contracts.** In 1976 the Federal Trade Commission Holder-in-Due Course Regulation went into effect. This regulation protects consumers with installment contracts from exploitation by creditors who sell credit contracts to a third party such as a finance company or bank. Before this ruling went into effect, if you discovered a fault or
problem with the product purchased on the contract, you would still be forced to continue paying for the faulty product because the third party demanded payment. Under the new ruling, the finance company or bank is as responsible for the faulty merchandise as the original seller.

**Discounts for Cash-paying Customers**

Another provision of the Fair Credit Billing Act allows merchants to offer consumers discounts of up to 5 percent of the purchase price if they pay with cash or checks instead of with credit cards. Since merchants may incur costs of from 2 to 8 percent for extending credit, they are allowed to pass on to cash-paying customers some of those savings, and consumers can sometimes save money by requesting that the seller offer a cash discount. However, merchants must tell all customers about the discounts, and they cannot require a charge-account customer to pay more for a purchase than a cash-paying customer.

**CONSUMER LEASES**

In response to the pronounced increase in the leasing of cars and other durable goods by consumers, Congress passed an amendment to the Truth-in-Lending Act called the Consumer Leasing Act. Effective March 23, 1977, this act offers some protection to consumers who wish to lease a car, a piece of furniture, or some other item rather than purchase it. Like the Truth-in-Lending Act, its purpose is to enable consumers to compare the costs and terms of various leases; it also enables them to compare the cost of leasing an item to the cost of buying it. In addition, the act regulates disclosures in leasing advertisements and contains provisions to limit the balloon payment (an extra-large charge at the end of a lease).

A lease is a legal contract for the use, or "rental," of goods for a certain period of time. To be subject to the requirements of the Consumer Leasing Act, the lease must be for a time period of more than four months, and it must involve a contractual obligation of $25,000 or less for goods that are to be used for personal, family, or household purposes. The act does not cover daily or monthly car rentals, leases for apartments or houses (or furniture provided with a rented apartment), or property leased to companies or individuals for business use.

As with any legal contract, before signing a lease you should understand all the terms, conditions, and costs, and you should leave no blank spaces. You should also examine all carbon copies of any signed agreement to make sure that the wording is exactly the same as that on the original copy.
DEBT COLLECTION REGULATIONS

Effective March 20, 1978, the Fair Debt Collection Practices Act, Title VIII, became an additional amendment to the Consumer Credit Protection Act. Devised to help protect consumers from harassment and intimidation by bill collectors, it establishes a nationwide system for controlling agencies that collect other companies’ overdue accounts.

Although many collection firms follow legitimate business practices, some have used unscrupulous methods in collecting debts. This law helps shield consumers from abusive treatment such as threats of violence, harassing phone calls, all forms of false or misleading representation, and the publication of "shame lists" of defaulting debtors. It is directed toward professional organizations whose principal business is collecting money for others. It does not apply to attorneys or to establishments that handle their own debt collections, such as stores, hospitals, banks, and credit unions.

Under the provisions of the Fair Debt Collection Practices Act, after a collection agency first contacts you, it has 5 business days in which to send you a written notice detailing the amount of the debt and the name of the creditor. You have the right to dispute the debt in writing within 30 days of receiving the notice. The collector is then obligated to verify the amount owed with the creditor and to send that verification to you. If you do not dispute the first written notice from the collection agency, the collector can assume that the debt is valid.

Another provision of the law is that a debt collector may not contact persons at work if their employer objects. If the debt collector does contact an employer or friend, he or she cannot divulge that the individual owes a debt and can only use the contact to locate the person. Unless the debtor consents or unless a court permits, a debt collector may not ask any employer to assist in collecting an employee's debt.

Further, the debt collector may not contact the consumer at inconvenient or unusual times or places. For example, unless you agree, the collector may not call or come to your home before 8:00 a.m. or after 9:00 p.m.

The Federal Trade Commission is responsible for enforcing the Fair Debt Collection Practices Act. The consumer can sue a violating debt collector within one year of the date the law was violated. The debt collector is liable for the debtor's legal fees, and the court can award up to $1,000 in damages and additional damages for any resulting loss a debtor incurs, such as the loss of a job as a result of harassment. Maximum damages allowed in class-action suits are $500,000 or 1 percent of the collector's net worth, whichever is less.
DEBIT CARD RIGHTS

The most recent addition to the Consumer Credit Protection Act is Title IX, the Electronic Fund Transfer Act, or Regulation E. Effective March 30, 1979, this act establishes the rights and liabilities of consumers who use electronic money transfer systems. Under these systems, funds are debited or credited to an account through an electronic terminal, telephone, computer, or magnetic tape. Consumers authorize and initiate the transfer with a card, a code, or a combination of both. Transfers do not include payments by check, draft, or similar paper instruments.

If you notify the financial institution within two business days after learning that your access device (card or code) has been lost or stolen, the liability for the unauthorized transfer(s) shall not exceed $50 or the unauthorized amount, whichever is less. If you fail to notify the financial institution within two business days, the liability shall not exceed a total of $500 or the amount of unauthorized transfers that occurs following the close of two business days, whichever is less. However, if you wait more than 60 days after receiving a statement indicating unauthorized use of your card, you could face unlimited liability.

ILLINOIS LAWS

Retail and Motor Vehicle Installment Sales

Effective January 1, 1968, the Retail Installment Sales Act and the Motor Vehicle Installment Sales Act regulate the sale of goods on the installment plan. These acts provide that every installment contract must include the following information: the cash price of the item; the down payment, if any; the finance charge as an annual percentage rate; the number and size of the payments; the due dates or periods of payments scheduled to repay debts; and the sum of the payments. Since the Illinois Retail Installment Sales Act and Motor Vehicle Installment Sales Act require more itemization then the Truth-in-Lending Simplification and Reform Act, Illinois law takes precedence over federal law. The consumer has the right to prepay his installment contract on any due date and to receive a refund of excess finance charges paid if the excess is greater than $1.00. In addition, the consumer can cancel the agreement and receive a full refund if the seller fails to give the consumer a signed copy of the contract.

If you have a credit problem that you believe is due to a violation of the Illinois sales acts, the Illinois attorney general or the state’s attorney of any county in Illinois can take action against the violator. Report your
claim to your county state's attorney or to: Attorney General, 500 South Second Street, Springfield, Illinois 62706; or to Attorney General, Room 204, 134 North LaSalle Street, Chicago, Illinois 60601.

**Consumer Finance and Installment Loans**

The Consumer Finance Act and the Consumer Installment Loan Act, effective in 1963, regulate consumer finance companies in Illinois. The Consumer Finance Act deals with companies licensed in the state of Illinois that make loans of up to $3,000. The amount of interest those companies charge a consumer is regulated according to the dollar amount of the loan. To protect consumers from harassment, the act also regulates the methods of debt collection that can be used.

The Consumer Installment Loan Act regulates consumer finance companies that make loans of over $800 but not exceeding $10,000. The maximum rate of interest the finance companies can charge is regulated according to the time period of the loan.

The Illinois laws require finance companies in the state to give the consumer more information than is required by federal law. They provide that installment contracts include the following information: the amount financed; every deduction from the amount financed; the date on which the finance charge begins to accrue, if different from the date of transaction; a description of each amount included in the term “finance charge”; the annual percentage rate; the number, amount, and due dates of payments; and the sum or total of payments. Consumers who have problems with Illinois finance companies should contact the Division of Consumer Credit, Department of Financial Institutions, State of Illinois, 421 East Capital Avenue, Springfield, Illinois 62706; or Department of Financial Institutions, 160 North LaSalle Street, Chicago, Illinois 60601.

**SOURCES OF INFORMATION**

For information on the uses, costs, and sources of consumer credit, see Circular 1182, *Uses and Costs of Consumer Credit*, available from the University of Illinois Cooperative Extension Service, Urbana, Illinois 61801, or ask your county Extension adviser for a copy.

For a free copy of the *Consumer Credit Handbook*, write to the Consumer Information Center, Pueblo, Colorado 81009.

To report a possible violation of the federal laws or to request a copy of the laws, write to the Federal Trade Commission, Sixth Street and Pennsylvania Avenue, N.W., Washington, D.C. 20580; or to the FTC Regional Office, 55 East Monroe Street, Suite 1437, Chicago, Illinois 60603.
For a copy of the Illinois laws, write to Attorney General, 500 South Second Street, Springfield, Illinois 62706; or to Attorney General, Room 204, 134 North LaSalle Street, Chicago, Illinois 60601.

REFERENCES FOR FURTHER READING


