

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 with 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, the Fair and Accurate Credit Transactions Act, and the Credit Card Accountability Responsibility and Disclosure Act.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

- Credit

NATIONAL STANDARDS FOR FINANCIAL LITERACY

- **Standard 4 Credit, Grade 12, Benchmark 12** – Consumers who use credit should be aware of laws that are in place to protect them. These include requirements to provide full disclosure of credit terms such as APR and fees, as well as protection against discrimination and abusive marketing or collection practices.

COMMON CORE STATE STANDARDS

- **CCSS.ELA-Literacy.CCRA.R.10** – Read and comprehend complex literary and informational texts independently and proficiently.
- **CCSS.ELA-Literacy.W.9-10.7, CCSS.ELA-Literacy.W.11-12.7** – Conduct short as well as more sustained research projects to answer a question (including a self-generated question) or solve a problem; narrow or broaden the inquiry when appropriate; synthesize multiple sources on the subject, demonstrating understanding of the subject under investigation.

- **CCSS.ELA-Literacy.W.9-10.9, CCSS.ELA-Literacy.W.11-12.9** – Draw evidence from literary or informational texts to support analysis, reflection, and research.
- **CCSS.ELA-Literacy.L.9-10.6; CCSS.ELA-Literacy.L.11-12.6** – Acquire and use accurately general academic and domain-specific words and phrases, sufficient for reading, writing, speaking, and listening at the college and career readiness level; demonstrate independence in gathering vocabulary knowledge when considering a word or phrase important to comprehension or expression.
- **CCSS.ELA-Literacy.RH.11-12.2** – Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.
- **CCSS.ELA-Literacy.RH.11-12.9** – Integrate information from diverse sources, both primary and secondary, into a coherent understanding of an idea or event, noting discrepancies among sources.

OBJECTIVES

The student will

- 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

Two 45-minute class periods

MATERIALS

- **Exercise 18.1: Consumer Credit Protection**, one copy per student
- **Exercise 18.2: Credible Credit Counselors**, one copy per student

- **Exercise 18.3: Legal Protection for Borrowers**, one copy per student

ADDITIONAL RESOURCES

Visit <https://www.econedlink.org/resources/collection/ffffl-9-12/> to find presentations, interactives and other great technology tools to enhance your teaching of this lesson.

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: Consumer Credit Protection**. 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**

educational 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?)

- What levels of government offer consumer credit protection? (**State governments and the federal government offer consumer credit protection.**)
- 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 re-paid, with interest.**)
- Which law protects consumers from unauthorized use of credit cards? (**The Truth in Lending Act.**)
- Which law forbids collection agencies from using harassment to collect debts? (**The Fair Debt Collection Practices Act.**)
- Which law requires creditors to bill you at least 14 days before payment is due? (**The Fair Credit Billing Act.**)
- Which law protects users of consumer credit against discrimination on the basis of gender or race? (**The Equal Credit Opportunity Act.**)
- Which law establishes a procedure that consumers may use to correct inaccuracies in their credit reports? (**The Fair Credit Reporting Act.**)
- 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.**)
- m. Which law restricts credit card offers to young people under 21 years of age? (**The Credit Card Accountability Responsibility and Disclosure 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: Credible Credit Counselors**. Ask the students to read the opening paragraph and the instructions that follow. Divide the class into small groups. Assign each group to read and analyze the situations of two of the six clients. Make sure that all clients are counseled at least twice across the student groups. Ask each group to answer the questions 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.
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

- a. 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.**)
- b. Are your client's legal rights being violated? (**Possibly. The telephone calls may be illegal.**)
- c. 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.**)
- d. 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

- a. 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.**)
- b. Are your client's legal rights being violated? (**Yes. Your client's rights are being violated, along with the rights of other consumers.**)
- c. Is your client being responsible or irresponsible? (**The client is acting in a responsible manner.**)
- d. 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

- a. 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.)

- b. Are your client's legal rights being violated? **(Yes. The reason for denial was not provided.)**
- c. Is your client being responsible or irresponsible? **(The client is acting in a responsible manner.)**
- d. 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

- a. 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.)**
- b. Are your client's legal rights being violated? **(No. It appears that no rights are being violated.)**
- c. 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.)**
- d. What should your client do? **(Client 5 should contact the credit card company immediately.)**

Client 6

- a. 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.)**
- b. Are your client's legal rights being violated? **(Yes. The lender is required to supply the APR information.)**

- c. Is your client being responsible or irresponsible? **(The client is acting in a responsible manner.)**
- d. 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

- a. 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.)**
- b. Are your client's legal rights being violated? **(No. The phone company agreed to dismiss the charges.)**
- c. Is your client being responsible or irresponsible? **(The client is acting in a responsible manner.)**
- d. 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

1. 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, and the Credit Card Accountability Responsibility and Disclosure Act.)

ASSESSMENT

Give each student a copy of **Exercise 18.3: Legal Protection for Borrowers**. 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 Credit Reporting Act**

Consumer Credit Protection

Total credit card debt in the United States is increasing again, reaching an estimated total of \$17.8 trillion in 2023, according to a study by NerdWallet. The study reported the average household has a credit card balance of \$21,500 and pays over \$1,400 annually in credit card interest. The survey also found that people have different reasons for accumulating credit card debt, with the top three being 1) spending above their means, 2) periods of unemployment, and 3) paying for goods and services that their income doesn't cover.

A similar study by Sallie Mae, an agency that makes educational loans more widely available to college students, found that 56% of all college students have credit cards and use them regularly. Additionally, about 25% of those students worry that their credit card debt is out of control. The majority of students who do not use credit cards reported they do not have one because they are concerned about incurring too much debt using them; however, they hope to get one in the near future.

In addition, college graduates have more student debt than in previous years, with the Class of 2023 graduating with an average student loan debt of \$38,700. With total student loan debt mounting to \$1.74 trillion nationally, the average monthly payment on this debt is \$299 per borrower.

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 create financial trouble.

As the above information suggests, people sometimes spend more than they earn. Whether for good reasons or bad, they end up with big debts that may be hard to manage. Excessive credit card debt is a common problem, as 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.

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 decide 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? Will they 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 online?

Credit-counseling agencies generally 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 fees. These cost savings allow clients to repay their debt more quickly.

Before entering 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 repayment 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 either party consistently cheated and lied, the cost of credit would be very high, making it difficult for everyone. Most credit transactions go smoothly, ensuring everyone involved receives the desired benefits.

However, 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. In those cases, government rules and regulations exist to resolve the problems. Several state and federal laws are designed to spell out the rights and responsibilities of both borrowers and lenders to help ensure both parties understand what is expected in credit transactions.

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 about the rules and regulations in your state. The federal government has several laws regulating consumer credit, several of which are described below.

- 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 (which includes interest plus other 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 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**, 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 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 **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 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 gender, marital status, race, national origin, religion, age, or because the applicant receives public assistance income.
- The **Fair Credit Billing Act** requires creditors to provide 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.
- The **Credit Card Accountability Responsibility and Disclosure Act of 2009**, commonly called the CARD Act, provides additional protection for credit card users including: requiring credit card companies to disclose the total time and interest needed to pay off a credit card balance when making minimum payments each month; requiring credit card companies to reduce increases in interest rates due to delinquent payments once the cardholder has made payments on time for at least six months; abolishing over-the-limit fees on credit and debit cards (charging more than the credit limit set for a credit card or the available funds in a bank account for a debit card) unless the cardholder has specifically requested the coverage; requiring a 45-day notice of any increases in interest rates; and prohibiting credit card companies from giving credit cards to anyone under 21 without verifying their ability to pay or getting a co-signer on the account.

After reading the information on consumer credit protection, answer the following review questions in your own words.

- 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 gender 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?
- m. Which law restricts credit card offers to young people under 21 years of age?

Credible Credit Counselors

Directions

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 your assigned client's case, answer the following questions.

(Note: Exercise 18.1 may be of help!)

- 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?

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. 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, he said 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.

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.							