

Chapter Seven

Consumer Credit

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Introduction

THE USE OF CREDIT is a way of life in the United States. At any one time, about three-fourths of American households have some form of debt. They owe money for their credit purchases of cars, appliances, clothing, vacation trips and other goods and services. Just over two-fifths of households have loans secured by their homes. [The “[Buying and Selling a Home](#)” and “[Home Ownership](#)” chapters in this publication cover home mortgages.]

Over the past decade, American households devoted about six percent to almost eight percent of their monthly after-tax income to make monthly payments on their installment debts, and 5.5 percent to almost 6.0 percent of their after-tax income on home mortgage payments. Taken together, consumers total monthly payments on their debts ranged from 11.2 percent to 14.2 percent of their after-tax incomes. The high for the decade was reached in the fourth quarter of 1999. Current quarterly data may be obtained from www.federalreserve.gov/releases/.

This chapter can help you better understand how to use credit, how to determine if you are reaching or have reached your credit limit, and what to do if you have exceeded that limit.

This chapter also will help you better understand the rules, regulations, and laws about consumer installment credit, designed to protect you, the consumer. In addition, this chapter will

help you decide when you may need a lawyer to handle your credit problems. (If you are married, see the ["Family Law" chapter](#) for topics regarding credit and marriage. ["The Rights of Older Americans"](#) chapter also contains credit-related discussions.)

Credit: What Is It and What Does It Cost?

Q. What exactly is credit?

A. Credit allows you to buy and use goods and services now, and pay for them later. For example, credit lets you use a car or a washing machine before (and, usually, long after) you have fully paid for its services. You pay for the services as you use them. Of course, you could save now to buy the car in the future, but you may want or need the car now, not three years from now. Similarly, you may buy a pair of shoes or a dinner on your credit card now and pay for them later.

Q. What are the basic forms of consumer credit?

A. There are three basic forms of consumer credit: noninstallment credit (sometimes called thirty-day or charge-account credit), installment credit or closed-end credit, which is legally defined as credit that is scheduled to be repaid on four or more installments (usually monthly) and revolving or open-end credit. In addition, some lease arrangements operate like consumer credit and may be subject to similar laws, so these are discussed briefly in this chapter. However, credit secured by real property--your home, for example--is discussed in the chapters on ["Home Ownership"](#) and ["Buying and Selling a Home."](#)

How Credit Operates

TYPE OF CREDIT	BASIC OPERATION
Charge-account or 30-day credit	Balances owed on such accounts usually require payment in full within thirty days. Such arrangements are not considered to be installment credit, since the debt is not scheduled to be repaid in two or more installments. Travel and entertainment cards, such as American Express and Diners Club, operate this way, as do most charge accounts with local businesses, especially service providers: doctors, plumbers, and so on.
Installment or Closed-end credit	A consumer agrees to repay the amount owed in two or more equal installments over a definite period of time. Automobile loans and personal loans are examples of this type of consumer credit.
Revolving or open-end credit	In this more flexible method, the consumer has options of drawing on a pre-approved open-end credit line from time to time and then paying off the entire outstanding balance, only a specified minimum, or something in between. With this type of credit, the consumer may use the credit, make a payment, and use the credit again. Bank credit cards, such as Discover, Master Card, and VISA, and those issued by major retail establishments are examples of revolving credit.

Q. Why does credit cost money?

A. To buy now and pay later, you usually must pay a finance charge. This is because the supplier who waits for payment, or the lender who lent you the money to pay a supplier, could have invested the money instead and earned interest. Thus the finance charge you pay compensates them for that lost interest, as well as covering some of the costs and risk involved in extending you credit. The supplier may be the car dealer, appliance dealer, shoe store, or restaurant. The lender may be a bank, credit union, or finance company. Only you can decide whether it is worth the cost of the finance charge to have a car or other goods and services now, rather than later.

Many states regulate by law how much finance charge you can agree to pay and provide penalties if the supplier or lender charges too much. However, some states allow your agreement and competition among credit extenders to determine what you pay. You should shop for credit much as you shop for the best deal on a car or television set. The Truth in Lending Act and similar state laws allow you to do that.

Q. I keep seeing references to the Truth in Lending Act. What is it?

A. The Truth in Lending Act (TILA) is a federal law that requires that all creditors provide information that will help you decide whether to buy on credit or borrow, and if so, which credit offer is the best for you. Creditors include banks, department stores, credit card issuers, finance companies, and so on.

Under the law, before you sign an installment contract, creditors must show you, among other information, the amount being financed, the monthly payment, the number of monthly payments and--very important--the annual percentage rate (APR). The APR is an annual rate that relates the total finance charge to (1) the amount of credit that you receive and (2) the length of time you have to repay it. Think of the APR as a price per pound, like 20 cents per pound for potatoes. You may buy five pounds for one dollar or ten pounds for two dollars. In either case the rate is 20 cents per pound. However, the total cost in dollars depends on the amount of potatoes you buy. When you buy credit instead of potatoes, you buy a certain amount of credit for a given number of months. The total dollar amount of your finance charge will depend upon how many dollars worth of credit you obtain initially and how many months you use those dollars.

The TILA also regulates credit advertising, which makes it easy to credit shop. For example, if an automobile ad emphasizes the low monthly payment (giving a dollar figure), it also must tell you other pertinent information, like the APR.

Of course, the APR can help you in shopping for a credit card and other forms of open-end credit.

SIDEBAR: Carefully Evaluate Your Options

The example on these pages illustrates the importance of checking all financing options before making a decision. Fortunately, the law allows you to obtain the information that you need to

comparison shop. You should use this information, and, factoring it in with your own situation and needs, determine which loan or credit arrangement is best for you.

Q. How do I select the best way to finance the purchase of, for example, a car?

A. Let's see how you can use the information required by the TILA to get the best deal for you in financing a used car having a cash price of \$5,000. You have \$1,000 in savings to make a down payment on the car and need to borrow the remaining \$4,000. Suppose that by shopping around you find the four possible credit arrangements shown below:

	<i>APR</i>	<i>Length of Loan</i>	<i>Monthly Payment</i>	<i>Total Finance Charge</i>
Creditor A	11%	3 years	\$131	\$714
Creditor B	11%	4 years	\$103	\$962
Creditor C	12%	4 years	\$105	\$1,056
Creditor D	12%	2 years	\$188	\$519

[Please note that the figures for total finance charge are correct, even though not precisely equal to the sum of the payments less the amount financed (\$4,000). Creditors often round off monthly payments to the nearest dollar, and adjust the final payment to make up the difference.]

Let's begin with an easy decision. Notice that the four-year loan of Creditor B is a better deal than the four-year loan of Creditor C. Since their lengths are equal, we know that an 11-percent loan is cheaper than a 12-percent loan for the same amount of money. Forget about Creditor C.

However, look what happens when the lengths of the loans vary: Even though Creditors A and B charge an APR of 11 percent, the total dollar finance charge is a good deal greater on the 4-year loan from Creditor B than on the 3-year loan from Creditor A. Of course, the difference makes sense, since with Creditor B you would have another year to use the lender's money. You have to decide whether you would like to have the lower monthly payment that is available on the longer loan. Note that it doesn't help to look just at the total finance charge, which is lowest on the loan from Creditor D. But that creditor charges 12 percent rather than the 11 percent available from Creditors A and B. The only reason the total finance charge is the lowest of the four is that you would have the use of the creditor's money for only two years. Forget Creditor D.

Thus, your choice narrows to Creditor A vs. Creditor B, and which you choose depends on how easy it will be to meet the monthly payments. And, a big decision is whether having a car today, rather than later, is worth the monthly payments at the 11 percent financing rate.

Q. Does this mean that I should look only at the APRs when shopping for credit?

A. No, when buying on credit, you will not be shopping wisely if you merely compare APRs. For example, your car dealer may be pushing "incentive financing" by offering an APR that is

way below the rate being offered by, say, your credit union. Alternatively, the auto dealer may also be advertising a cash rebate if you buy the car for cash. To see which is the best deal, you need to find out which arrangement would yield the lowest monthly payment. You can do this if you do not change the down payment and the length of the loan from the dealer or credit union. In essence, you make all the terms of the two credit arrangements the same, except the monthly payment. Then take the deal that gives you the lowest monthly payment to buy the car.

For example, a major car maker once offered a choice of a \$1,500 cash rebate or 5.8-percent financing for four years on certain models. Assume that the car you would like to buy costs \$16,000. If you have \$2,000 for a down payment, you have the following choices:

1. Finance through the dealer's finance company. A \$2,000 down payment would leave \$14,000 to be financed over four years at 5.8 percent. Monthly payments disclosed under the TILA would be \$327.51.
2. Finance directly from a bank, credit union, or another credit grantor. With the \$1,500 cash rebate from the dealer and your \$2,000, you have \$3,500 to apply to the purchase price of \$16,000. This leaves \$12,500 to borrow ($\$16,000 - \$3,500 = \$12,500$). If you borrow \$12,500 for four years at 11.17 percent, you will find from the TILA disclosures that your monthly payments would be \$324.10. Take it.

Q. Are there any other points to consider when using installment credit?

A. Yes, consider whether the interest that you pay for the credit is deductible when calculating your federal income taxes. Almost all homeowners may still deduct their entire mortgage interest for tax purposes. However, the interest that you pay on credit-card debt, student loans, auto loans, and other debts is no longer deductible.

If you itemize deductions in preparing your taxes, you might consider financing major credit purchases through a home equity loan. This type of loan is discussed in the chapter on [owning a home](#). However, remember that if you use a home equity loan, you are placing your home at risk. And if the items that you are permitted to deduct for tax purposes are less than your standard deduction, you will find that the interest on home equity credit will not help you cut your tax bill.

There is another factor to consider. What if you pay the loan off early? You need to check how the rebate of unearned finance charges will be calculated.

Choosing a Credit Card

Q. Who provides revolving credit?

A. Revolving or open-end credit is becoming increasingly popular in this country, as more people have credit cards than ever before. Discover, MasterCard, Optima and Visa are examples of the many credit cards issued by banks, savings and loans, and credit unions. In your shopping for a bank credit card, you need to recognize that credit cards with the Visa and MasterCard logos or marks are issued by thousands of different savings and loans and credit unions. Hence,

if you do not like the terms on one Visa card, you can always check with other issuers to see if their terms are preferable. Major retailers issue their own credit cards, and oil companies also have their cards, although many of the oil companies do not offer revolving credit, only 30-day credit (except on purchases of tires, batteries and accessories).

Q. How may I choose a credit card that is right for me?

A. Selecting a credit card is like selecting a suit or dress; you want a good "fit." Because there are many card issuers, you have a wide choice among cards. In this section, we will examine terms that are typically offered to consumers by banks and other issuers of credit cards. It is illegal for card issuers to send you a credit card unless you have asked for it or unless it replaces a card you previously asked for. Furthermore, under the TILA, every solicitation for a credit card must contain a brief disclosure statement. Disclosures more extensive in nature are due before the first time you use the credit card you have applied for, and specific disclosures about finance and other charges and transactions are required with your periodic statement (usually monthly). In this section we use examples from actual solicitations and explain how they might affect the "fit" of the card offered to your own credit needs.

Q. How should I judge the APR shown in the solicitation?

A. The law requires credit grantors to quote the APR and to tell you the balance calculation method they use to figure the finance charge you pay. Since credit grantors use many different methods to compute that balance to which the APR is applied, credit grantors who quote identical APRs may charge you very different dollar finance charges each month. It depends on how you use the account and how they calculate the unpaid balance for assessing the charge.

Q. How do credit grantors figure an account's balance?

A. The most common system used by card issuers is to apply the APR to the average daily balance in your account over the billing period. A typical offering of a credit card states:

Method of Computing the Balances for Purchases

Average Daily Balance (including new purchases)

Occasionally, retailers compute the balance by subtracting payments made or credits given during the billing period from the total amount you owe. They refer to this as the adjusted balance method. A few credit grantors do not subtract from the balance any payments made during the billing period. This previous balance method can cost you more than the other two methods; it depends on how you use your account. Other methods also are employed, but these three methods can be used to illustrate the differences. For example:

	<i>Average Daily Balance</i>	<i>Adjusted Balance</i>	<i>Previous Balance</i>
Monthly interest rate	1.5%	1.5%	1.5%
Previous balance	\$500	\$500	\$500

Payment on 15 th day	\$400	\$400	\$400
Finance charge	\$4.50	\$1.50	\$7.50
Calculation of finance charge	Average balance of \$300x1.5%	\$100x1.5%	\$500x1.5%

As you can see from these examples, finance charges may vary greatly depending on how the credit grantor calculates them. In the first example, the average daily balance of \$300 determines the amount of finance charge owed. The average daily balance is the average of the \$500 owed for half a month and the \$100 (\$500 minus \$400) owed for the other half. You owe the \$500 and the \$100 each for half a month because you paid the \$400 in the middle of the month. In the adjusted balance method, which is used by relatively few creditors, you owe a finance charge only on the amount owed at the end of the period. Since you paid \$400, and thus only owe \$100, you pay a finance charge only on the \$100. In the previous balance method, you owe a finance charge on the amount owed at the beginning of the pay period--the entire \$500.

Q. Can I avoid paying a finance charge?

A. Many credit cards offer a grace period for prepayments, which is the time between the end of the billing cycle and the date that you must pay the entire bill to avoid paying a finance charge. It is usually between 20 and 25 days. The grace period is shown on the disclosure statement in the following manner:

Grace period for repayment of the balance for purchases

No finance charges are assessed on current purchases if the balance is paid in full each month within 25 days after billing.

Note that the full balance must be paid each month to avoid finance charges and that the grace period applies only to purchases. If you obtain a cash advance on your bank credit card, you will almost always pay finance charges from the date of the advance and probably a cash advance fee as well.

The credit grantor may adjust the grace period under another method of assessing monthly charges on your bill called the retroactive or two-cycle balance method. Under this system, if your opening balance on your bill was zero, and then you made credit purchases, but did not pay your entire bill, your next monthly bill will include a finance charge for these purchases from the dates that they were posted to your account.

For example, assume that you used a credit card on an account with no outstanding balance to buy a \$500 item that the credit grantor posted to your account on March 15. Say that the credit grantor bills you on April 1, and you must pay in full by April 20 to avoid a finance charge. However, assume further that you make a payment of only \$200, which the credit grantor credits to your account on April 18. Then your next bill (say May 1) will include a finance charge composed of two parts. One portion of the finance charge will be for the use of \$500 for the period from March 15 to March 31. The other charge will be for the period from April 1 through

April 30. You must read the disclosure statement or cardholder agreement very carefully to determine whether the card issuer uses this retroactive method.

Q. Does the APR on a credit card always stay the same?

A. Not if there is a variable-rate provision. More and more credit card issuers set APRs that vary with some interest-rate index, such as the market rates on three-year U.S. Treasury bills (T-bills) or the prime rate charged by banks on short-term business loans. These issuers must disclose in their solicitation to you that the rate may vary and how the rate is determined. This may be done by showing the index and the spread. The latter is the percentage points added to the index to determine the rate you will pay. An example of a disclosure on a variable-rate credit card offering is shown below:

Variable Rate Information

Your Annual Percentage Rate may vary quarterly. The rate will be the Prime Rate as published in The Wall Street Journal plus 9%. The rate will not go below 15.0% or exceed 19.9%.

Q. Is there a charge each year for the right to use a credit card?

A. Whereas few, if any, credit cards issued by retailers have annual fees, some credit cards issued by financial institutions have annual fees. These may range from \$15 to \$25, and perhaps \$35 to \$60 for "premium cards" that provide a higher line of credit. (And charge accounts, such as American Express or Diners Club, have annual fees that probably exceed annual fees charged for bank cards.) If you usually pay your credit card accounts in full each month and do not expect to pay a finance charge, you should shop for a credit card with no annual fee or one that is low. However, if you often don't pay the balance in full each month, then a low APR may be better for you than a low annual fee. A credit card solicitation must disclose any annual or other periodic fee, and certain other fees such as transaction, cash advance, and late fees if they are imposed.

Q. What other fees and charges should I look for on the disclosure statement?

A. In your disclosure statement, you will find a statement something like the following (assuming these fees are part of the plan):

Transaction fee for cash advances, and fees for paying late or exceeding the credit limit

Transaction fee for Cash Advances: 2% of the amount of the advance (\$1.00 minimum; \$10 maximum). Late payment fee: \$15, if the amount due is \$2 or more. Over-the-limit fee: \$15.00. (There may be other fees as well, such as replacement card fees, copy fees, wire transfer fees, and insufficient funds fees.)

Unless you expect to be late in your payments, your choice of a card should not be heavily influenced by the size of the late fee. An over-the-limit fee may be more troublesome. Most credit card issuers set a limit on the amount of credit that they are willing to provide you at any one time. To encourage you not to exceed this limit some banks may charge an over the limit fee.

Unless you keep careful track of your charge slips, it is difficult for you to know how much you owe in relation to the credit limit. If you believe that you might be close to your credit limit from time to time, you might want to shop for a bank credit card that does not have an over-the-limit fee, or a very low charge.

SIDEBAR: Choosing a Credit Card

A credit card must fit your financial habits. If you often do not pay your account in full each month, you will pay more attention to the annual percentage rate (APR) than someone else who never pays a finance charge. That person will be more concerned with an annual fee that would be levied.

Just knowing the APR is not enough, since there are different ways of calculating the balances against which the APR is applied. If you don't think that your income will rise if interest rates go up, you might prefer a credit card with a fixed APR rather than one with a variable rate.

If you expect to use the credit card to obtain cash advances, the cash advance fee is important to consider. If you have a hard time keeping track of charges on your credit cards, a high over-the-limit fee may be worth avoiding. And, if late fees promise to be a major problem, perhaps you should not take on another credit card.

Q. What if I can't get a credit card from a financial institution--either because of a bad credit record or because I have not established a credit record?

A. You may want to consider applying for a secured credit card. This is a credit card issued by a bank or other financial institution that is secured by a savings account that you have deposited with the bank or other financial institution. You need to shop carefully for the best terms. Generally, you should be able to avoid an application fee. In the past these have been quite high. Your line of credit will typically be limited to 90 percent to 100 percent of your savings account. In shopping for a secured card, compare the rates paid on savings accounts, the APR charged and the annual fees. The APR is important, since you are not likely to be repaying your account in full each month. Also important are the late fee and any over-limit fee. These are sometimes quite high on secured credit cards.

Having a secured card may be something like using training wheels on a bicycle. Once that you have shown you can handle a revolving credit account, you should ask the institution that has issued you the secured credit card to offer you the opportunity to switch to an unsecured card with more favorable terms. If the offer is not made, even after you have established a good credit record, apply for a regular credit card from another financial institution.

Protections for the Consumer

Q. How does the Truth in Lending Act affect me?

A. The federal Truth in Lending Act (TILA) helps you to choose credit wisely by requiring credit grantors to give you plenty of information before you make a choice. However, the law alone cannot protect you fully. You have to make it work by being an informed consumer.

The TILA does not set finance charges, nor does it tell you what rates are fair or unfair--even if we knew what those terms mean. In some states, laws exist to prevent you from paying finance charges that are thought by legislators to be too high, but in most cases it is competition that serves to keep credit card rates in line, and they have been declining in recent years. But for competition to be effective in controlling rates, you must use the information provided by the TILA to select the credit card that best fits your needs.

Q. How can I limit the amount of finance charges that I pay for credit?

A. Your shopping for credit plays a key role in limiting and minimizing the finance charges that you must pay. It does not matter whether you are looking for closed-end credit (installment credit) or open-end credit (revolving credit). And even though most states impose rate ceilings on various credit grantors or types of credit--for example, state law usually limits the rates that finance companies may charge--your shopping can still save you money.

In shopping for the best terms for you, check The Wall Street Journal and other newspapers that frequently publish shopping guides to credit cards from financial institutions that cover all of the relevant terms discussed above. You can easily shop for credit cards and compare terms by logging on to www.cardtrak.com. The Federal Reserve Board also gathers credit card rate terms for publication.

Q. In shopping for a credit card, I found that one credit card issuer charges a higher rate than that allowed by my state law. How can that be?

A. Many states impose rate ceilings on retail or bank credit cards. However, these limits do not always apply across the board. For example, under federal law national banks may "export" their finance charge rates on credit cards. (State-chartered, federally insured institutions generally have the same exportation rights.) Thus, a national bank may issue cards from an office in South Dakota, a state that has no rate ceiling on bank cards, so the bank may charge cardholders in Iowa any rate the agreement specifies. While most retailers selling to Iowa consumers may not charge rates on their credit cards higher than Iowa law permits, some major retailers have established credit card banks and issue cards from those banks. In those instances, they abide by the laws of the state in which the bank is located. In real life, competition forces national banks and retailers to keep their rates in line with those charged by state-chartered banks, other financial institutions, and retailers. In this example the pressures of the marketplace--the choices made by informed consumers--set the rates. The law does not set them.

Nonetheless, if you believe that the rate being charged violates state law, you should report the case to the Office of Consumer Protection (or similar office) or your state's attorney general. Competition and enforcement activities usually prevent such violations, but if there is a violation, you may be able to recover all of your finance charges plus a penalty, depending upon your state's law.

Protect Your Credit Cards and Know Your Rights

1. Sign new credit cards as soon as they arrive. Cut up and throw away expired credit cards. Destroy all unused pre-approved credit applications.
2. In a safe place, keep a list of your credit card numbers, expiration dates, and the toll-free telephone number of each card issuer to report missing or stolen credit cards and possible billing errors (see page xxx).
3. Don't lay your credit card down on a counter or table. Hand it directly to the clerk or waiter. Keep an eye on your card after you give it to a clerk. Make sure that he or she imprints only one charge slip and, if he or she makes an error and has to imprint a second charge slip, tears up the first one. Take your card back promptly after the clerk is finished with it, and make sure that it is yours. Tear up any carbons when you take your credit card receipt.
4. Never leave your credit card or car rental agreement in the glove compartment of a car or the credit card in an unlocked desk drawer, grocery cart or hotel room.
5. Never sign a blank credit card receipt. Draw a line through any blank spaces above the total when you sign receipts.
6. Open credit card bills promptly, and compare them with your receipts to check for unauthorized charges and billing errors. If your monthly statement doesn't arrive on time, call the issuer immediately.
7. Write or telephone the card issuer promptly to report any questionable charges. As a practical matter, most consumers would prefer to call the card issuer's 800 number for billing questions, and most disputes can be settled in this way. (You can find the correct 800 number on your billing statement.) However, written inquiries will leave a paper trail that might be helpful in certain situations, and might better preserve your legal rights. Written inquiries should not be included with your payment. Instead, check the billing statement for the correct address for billing questions. Either a written or telephone inquiry must be made within 60 days of the statement date to guarantee your rights under the federal Fair Credit Billing Act.
8. Never give your credit card or checking account number over the telephone unless you make the call. Never put your credit card number on a postcard or on the outside of an envelope.
9. If any of your credit cards is missing or stolen, report the loss as soon as possible to the card issuer. Follow up your telephone calls with a letter to each card issuer. Send each letter by certified mail and keep a copy. The letter should contain your credit card number, the date the card was missing and the date you called in to report the loss.
10. If you report the loss before a credit card is used, the issuer cannot hold you responsible for any subsequent unauthorized charges under federal law. If a thief uses your card before you report it missing, the most that you will owe for unauthorized charges on each card is \$50, though if you lose a number of cards you could be out hundreds of dollars.
11. Identity theft is a growing problem. If your credit card has been out of your hands (for example, taken by a waiter), the individual may run it through a small device that can read and store the magnetic stripes on the back of credit cards. Selling for around \$100, these devices are readily available. The "skimmer" can then load the data onto another credit card to use at will.

You will become aware of the theft when charges that you never made show up on your bill. Notify the card issuer immediately and call the Federal Trade Commission's Identify Theft Hotline toll-free at 1-877-IDTHFT. You can obtain without charge a helpful booklet, *Theft*, by writing the FTC, 600 Pennsylvania Ave., NW, Washington, DC 20580 or on the web at www.ftc.gov

12. Federal law requires that creditors who allow a grace period to pay your monthly bill get the bill to you so you have two weeks to pay before the grace period ends.

13. Federal law requires a creditor to post your payment promptly; to credit overpayments or other credits to your account and refund the money to you on request or after six months; to promptly notify card issuers of returns and card issuers to promptly credit returns; and prohibits a credit card issuer from setting off your credit card debt against your checking account or savings account without your consent (however, you often give your consent in signing the credit card agreement, since written notice of the offset policy is often included there).

Q. What if a credit grantor fails to obey the TILA?

A. You should inform the proper federal enforcement agency, as listed in the back of this chapter. Violations include failing to disclose timely information as required under the Truth in Lending Act or giving you inaccurate information. To enforce your rights, you may bring a lawsuit for actual damages (any money loss you suffer). You may also sue for the greater of twice the finance charge or one-hundred dollars. However, the most you can recover, even if the finance charge is high, is one-thousand dollars. If you win the lawsuit, the law also entitles you to court costs and attorneys' fees.

Protections for Consumers Who Lease Products

Q. What is the Consumer Leasing Act?

A. The Federal Consumer Leasing Act applies to any lease of consumer goods for more than four months. (It does not apply to leases of real estate.) This law requires the lessor (the owner of the auto you lease, for example) to disclose information before you sign the lease. Among the most important items are:

- total amount of any initial payment you are required to pay;
- number and amounts of monthly payments;
- total amount for fees, such as license fees and taxes;
- any penalty for default or late payments;
- the annual mileage allowance and the extra charges involved if you exceed that allowance;
- whether you can end the lease early, and the extra charge required;
- whether you can purchase the auto at the end of the lease and for what price;
- any liability that you may have for the difference between the estimated value of the auto and its market value at the time you end the lease;
- any extra payment that you must make at the end of the lease.

You have the same rights to sue for violation that you have under the TILA. You can report apparent violations of the Consumer Leasing Act to the same agencies that enforce the TILA (see final section of this chapter on page xxx).

Determining Creditworthiness

Credit grantors may use any of the following factors to decide whether to extend credit to you. However, if your credit history is bad, they usually will not give you credit or else will charge you a high finance charge for the risk they will accept.

Factor	Explanation
Ability to repay	This depends on the stability of your current job or income source, how much you earn, and the length of time you have worked or will receive that income. Credit grantors also may

consider your basic expenses, such as payments on rent, mortgage loans or other debts, utilities, college expenses and taxes.

Credit history

This shows how much money you owe and whether you have large, unused lines of open-end credit. A very important consideration is whether you have paid your bills on time and whether you have filed for bankruptcy within the past ten years or had judgments issued against you.

Stability

Your stability is indicated by how long you have lived at your current or former address and the length of time you have been with your current or former employer. Another consideration is whether you own your home or rent.

Assets

Assets such as a car or home may be useful as collateral for a loan. Credit grantors also look at what else you may use for collateral, such as savings accounts or securities.

Creditors obtain information about these indicators of credit worthiness from the credit report (see below). A recent study was released by Fair, Isaac, a company that computes “credit scores” by analyzing the relationships between consumers’ credit records and their performance in paying their debts. Of the overall score, 35 percent was based on payment history. In other words, when your credit report shows that you repay your debts on time, you are likely to be able to continue to obtain credit. Other important factors and their weight in your total credit score are amount and types of debt, 30 percent; length of credit history, 15 percent and amount of new credit sought or gained, 10 percent.

How To Apply for Credit

Equal Credit Opportunity Act

Q. When I apply for credit, are there factors that credit grantors must consider in a fair manner?

A. The federal Equal Credit Opportunity Act (ECOA) says that credit grantors may not use certain factors to discriminate against you in a credit deal. A credit grantor may not use age (providing that you are old enough to enter into a legally binding contract), race, color, national

origin, sex, marital status, religion, receipt of public aid or the exercise of rights under the Consumer Credit Protection Act, TILA, and related federal law to:

- discourage or prevent you from applying for credit;
- refuse you credit if you otherwise qualify;
- extend you credit on terms different from those granted someone with similar risk (as determined by such factors as ability to repay, credit history, stability and assets); or
- give you less credit than you asked for, if someone with similar risk would have received that amount or more.

The Equal Credit Opportunity Act does not, however, guarantee that you will receive credit. You still must meet the credit grantor's standards of whether you are worthy of receiving credit.

SIDEBAR: Protecting Your Right to Credit

The Equal Credit Opportunity Act offers equal opportunity to obtain credit, but does not assure you of credit--only the opportunity to obtain it. Essentially, the law requires that credit grantors may not treat an applicant less favorably than other equally creditworthy applicants on the basis of age (as long as you're old enough to make a legally binding contract), race, sex, color, national origin, marital status, religion, receipt of income from a public assistance program or exercise of rights under federal consumer protection laws. Some state laws may be even more protective; for example, they may preclude discrimination because a couple has children.

Age Discrimination

Q. When I apply for credit, may a credit grantor ask my age?

A. Yes, but if you are old enough to sign and be liable for a contract (usually 18 to 21, depending on state law), a credit grantor may not:

- refuse to give you credit or decrease the amount of credit just because of your age;
- refuse to consider your retirement income in rating your credit application if the creditor considers income in evaluating creditworthiness;
- cancel your credit account or require you to reapply for credit just because you are a certain age or have retired;
- refuse you credit or cancel your account because you cannot get credit life (or related) insurance due to your age.

The law does allow a credit grantor to consider certain age-related facts. These include how long your income will continue or how long it will be until you reach retirement age. Consider, for example, a loan that will take a long time to pay back. If an older applicant does not provide adequate security, he or she may not be a good credit risk.

Public Assistance

Q. May a credit grantor deny credit if I receive public assistance?

A. Not if you receive Social Security or public assistance payments such as Aid to Families with Dependent Children. Then a credit grantor may not deny you credit for that reason alone. However, credit grantors may ask the age of your dependents, since you may lose federal benefits when they reach a certain age. A credit grantor also may consider whether you will continue to meet residency requirements for receiving benefits and whether the creditor can reach the benefits by legal process if you do not pay.

Discrimination Against Women

Q. Does my gender or marital status affect whether I am worthy of credit?

A. No, the law protects both men and women from discrimination based on gender and marital status. In general, a credit grantor may not deny you credit or take any adverse action, such as lowering your credit limits or raising your APR, just because of your gender or because you are married, single, widowed, divorced, or separated. Specific prohibitions include:

- a credit grantor usually may not ask your gender when you apply for credit; (one exception would be a loan to buy or build a home, or to repair, rehabilitate, or remodel a home, when asking your gender helps the federal government look for housing discrimination by determining whether equally qualified females and males are able to obtain residential mortgage loans; however, you may refuse to answer this question);
- you normally do not have to use a gender title (Mr., Miss, Mrs., or Ms.) when applying for credit; sometimes credit grantors may ask whether you are married, unmarried, or separated if your marital status relates to their right to obtain repayment; such a request would most likely be made in a state with community property laws or if the credit will be secured;
- a credit grantor may not ask women if they use birth control or whether they plan to have children; and
- you do not have to reveal child support or alimony payments to a credit grantor unless you wish the credit grantor to consider it as income.

Marital Status and Separate Credit Accounts

Q. May married people open credit accounts that are not also in their spouses' names?

A. Yes, you may open credit accounts or take out loans in your own name and do not have to open joint accounts or take out loans with your spouse. Moreover, if you have a joint account with your spouse, when a creditor sends a credit bureau information about your account, it must report the information in both your names. The credit bureau will also maintain a separate file on you and may rely only on your credit history when making a credit decision.

A credit grantor may not:

- refuse to open a separate credit account just because of your gender or marital status;
- require your spouse to cosign your account, unless you live in a community property state where spouses are liable for each other's debts; or

- ask about your spouse or ex-spouse when you apply for credit based on your own income. However, a credit grantor may seek this information if a community property state is involved or if you are relying in part on your income from alimony, child support, or maintenance payments from your ex-spouse for the purpose of obtaining credit.

Change in Marital Status

Q. If my marital status changes, may a credit grantor force me to reapply for credit?

A. No, a credit grantor may not require you to reapply for credit just because you marry or divorce, or your spouse has died.

A credit grantor also may not close your account or change its terms for these reasons alone. There must be a change in how worthy of credit you are, such as a decrease in your income. For example, if your spouse dies or you get a divorce, and you had used your spouse's income to get credit, a credit grantor may have you reapply. The credit grantor must allow you to use the account while considering your new application.

Denial of a Credit Application

Q. What happens if a credit grantor denies credit to me?

A. Under the Equal Credit Opportunity Act, a credit grantor must notify you whether it has approved or denied your credit application within thirty days after you have completed your credit application. If the credit grantor denies credit to you, the notice must be written and list the reasons for denying credit or tell you how to request an explanation. Another law, the Fair Credit Reporting Act, affects credit denials, as well. It requires that the notice tell you if the credit grantor used a credit report to deny you credit and, if so, the name and address of the credit bureau that provided the report. These rights also apply if a credit grantor takes any adverse action, such as closing an existing credit account or reducing an open line of credit.

Q. What may I do if a credit grantor will not say why it has taken an adverse action against me?

A. First, ask the credit grantor to supply a written explanation as required by law. If you think the credit grantor has discriminated against you, tell the credit grantor why you think this, then try to resolve the issue through negotiation. If the credit grantor continues the adverse action and has not given a satisfactory explanation, you may sue (see below) or complain to the appropriate federal enforcement agency (see the end of this chapter).

Q. Can I sue if a credit grantor has discriminated against me?

A. Under the Equal Credit Opportunity Act, you may sue for actual damages (the actual losses you suffered), plus punitive damages of up to \$10,000. The amount of punitive damages awarded depends on whether the credit grantor should have known it was violating the law and other

factors like the number of violations. Punitive damages penalize the credit grantor because it has violated the law.

Credit Insurance

Q. What is credit insurance?

A. There are many different types of credit insurance. Credit life insurance will pay off the balance owed should you die. Credit accident and health insurance will make the monthly payments on the covered debt for the period of time that you cannot work as a result of an accident or illness. The coverage may not become available until after you have been disabled for four or more days. Occasionally, you may be offered unemployment insurance, which would provide for payments on the covered debt during the period that you become unemployed. (Again, there may be a waiting period.)

Q. What requirements must creditors follow when they offer credit insurance?

A. There are certain basic requirements that creditors must observe in offering you any of these forms of credit insurance:

- whether or not you accept the insurance will normally not be a factor in the approval of your loan, and that fact should be disclosed to you in writing; however, if the credit insurance is required, the premiums for the insurance must be included in the annual percentage rate (APR) that is disclosed to you;
- the cost of any credit insurance offered must be disclosed to you in writing;
- you must give affirmative, written indication of your desire to have such insurance. Usually this means that you must check the "yes" box on the loan form and sign that you want the insurance.

Q. Do I have to have credit insurance?

A. No. If possible, you should decide ahead of time whether or not you want credit insurance. Once you are at the point of sale, you may be pressured to accept it, just as you maybe pressured to buy a more expensive TV set or more options on a car. Buying a car can be pretty exciting, but be sure that your decision prevails when it comes to the credit insurance. Tell the salesperson whether or not you want the insurance. If you are told to "sign here, here and here," be sure to study the loan agreement to see that your wishes on credit insurance have been observed. When you are at the final closing, check again. If you have made arrangements over the phone for a loan, and specified "no credit insurance," check the loan document when you are at the lender's office to get the loan. If you had stated that you did not want credit insurance but find that it is provided on the loan agreement, don't sign it, even if the lender moans that the form will have to be completely redone.

Q. Is credit insurance a good idea?

A. Whether or not you should buy any credit insurance is a personal decision. Surveys of consumers who have purchased credit insurance indicate that they have done so because they did not have much other life insurance and did not wish to leave their family with the obligation to pay off the debt. The cost per \$100 of credit insurance is definitely higher than the cost per \$100 of a term life insurance policy. However, if the credit life insurance covers a \$5,000 auto loan, the comparison is not very meaningful, since most consumers cannot buy \$5,000 term life policies. The minimum amount purchasable is usually \$50,000 or \$100,000, depending on the insurer. Thus, you should expect to pay more per \$100 of coverage for credit life insurance than for a \$50,000 term life insurance policy--just as you expect to pay more per ounce for a glass of milk in a restaurant than for a gallon of milk at the supermarket.

Credit Records

How to Establish a Credit Record

Q. How can I get credit if I never previously had it?

A. First-time borrowers soon realize that in order to get credit they must have a credit history. There are several ways to start building a good, solid credit history. For example, you may:

- open a checking or savings account; when credit grantors see such accounts they can judge whether you have adequate money and know how to manage it;
- apply for limited credit from a large, local department store, and use it; (If you want to build a credit history, remember that some small local retailers, travel-and-entertainment cards, credit unions, and gasoline card companies do not report your credit performance to a credit bureau.);
- obtain a secured credit card (discussed earlier in this chapter on page xxx); or, deposit money in a bank, savings and loan association, or savings bank and then borrow against it;
- have someone cosign the loan with you; that person must have a favorable credit record and will be liable for the debt if you cannot pay. With your first loan based on someone else's credit, it will be easier to get credit on your own after you pay back the loan. If you are asked to cosign for another person's loan, be very careful; if that person fails to pay, the debt will be your responsibility.

Q. Should I get credit in my own name, even though I am married?

A. Yes, if you have your own sources of income, you should establish a credit history in your own name in case you become divorced or your spouse dies. This is also especially important if your spouse has a poor credit record and you do not want your credit records tarnished with his or her payment performance. However, many divorced or widowed persons do not have credit histories separate from their former spouses. In these cases, credit grantors must look at the credit history of any accounts held jointly with the former spouses. The non-earning spouse may be able to obtain credit by showing with checks, receipts, or other records that he or she is worthy of credit. If their former spouses had poor credit records, non-earning spouses may show

that the records do not reflect whether they deserve credit by producing previous explanatory letters sent to credit grantors, copies of contracts signed only by the spouse, receipts, or other evidence.

Q. What is a credit bureau?

A. Credit bureaus (sometimes called credit reporting agencies or consumer reporting agencies) maintain computer files of your financial payment histories, public record data, and personal identifying data. Your credit record does not contain information on your medical history. There are several competing major credit reporting systems: Experian, Equifax, Credit Information Services, and Trans Union Credit Information Company. You can find the bureaus serving your area by looking for credit reporting companies in the yellow pages of your phone book. Activities of credit bureaus are governed by a federal law: the Fair Credit Reporting Act (FCRA).

Credit bureaus do not make credit decisions. Instead, they provide data to credit grantors for use in making credit decisions. How does this work? Credit grantors provide information on their customers' debts and payment habits to credit bureaus, usually on a monthly basis. The data are stored on computer and then made available, sometimes on an "on-line" basis, to other credit grantors to whom you apply for credit. For this reason, a good credit record is very important to your ability to obtain credit to purchase goods and services, to rent an apartment or to buy a home. Credit reports may also be used when you apply for insurance or for employment. The law punishes unauthorized persons who lie to obtain a credit report, or credit bureau employees who supply a credit report to unauthorized persons. These people may receive fines of up to five-thousand dollars or prison terms for one year, or both, if they are proven guilty. In addition, they may face civil liability as well, in the form of money damages a court may impose on them.

Since your credit record is critical to your obtaining credit, it is very important that you assist the credit bureaus in assuring that each item in your credit record really reflects your credit history and not that of another person. Whenever you apply for credit you should use the same name. Thus, if you are James R. Jones, Jr., always append the "Jr.," and do not sometimes use J. Randall Jones and other times use J. R. Jones. Finally, you will typically be asked for your social security number on a credit application. If so, provide it. The request is not to invade in your privacy but to assure that your credit records do not get mixed in with those of some other James Jones.

Two useful publications about credit bureaus are:

- The Credit Reporting Dispute Resolution Process
- Credit Reports, Credit Reporting Agencies and the FCRA

These two publications are also available in Spanish and can be obtained from:

Associated Credit Bureaus
1000 Vermont Ave., NW, Suite 200
Washington, DC 20005-4905

How to Check Your Credit Record

Q. May I look at my credit record?

A. Yes, you have the right to know the content of credit files that contain information on you, and many consumer credit experts suggest that you examine these credit files about once a year. A periodic checkup will enable you to find out what the credit bureaus will report to those businesses with a legitimate reason to check your credit record. Whenever you ask to learn the contents of your file, you should be sure to provide adequate identification to the credit bureau so you will receive your report and not that of someone with a similar name.

The FCRA allows you to review your file at any time, and it is particularly important for you to do so if you plan to apply to rent an apartment or apply for a job or a home mortgage loan or other major loan or credit purchase. The credit bureau is permitted to charge you a reasonable fee for providing this service unless your inquiry is after adverse credit action is taken against you. Currently, credit bureaus that are members of the industry's trade association, Associated Credit Bureaus (ACB), charge no more than \$8.50 for an individual report or \$17 for a joint report. Some members offer consumers one free report each year upon request.

As noted earlier, a creditor may turn you down or take other adverse credit action because of a report from a credit bureau. If so, the law requires that the credit grantor give you the bureau's name and address. You are allowed to request information about the data from the credit bureau by phone, mail, or in person. If a credit grantor has denied you credit within the past thirty days because of data supplied by a credit bureau, the bureau may not charge you for the information. As a matter of practice ACB members will provide a free report within sixty days from the date your credit application was declined. Although federal law requires only that the credit reporting agency disclose the "nature and substance" of the report, most credit bureaus disclose all of the information in the report, although in a more "consumer friendly" form than the computerized report used by credit grantors.

The FCRA requires the credit bureau to tell you the names of the creditors who provided the data and the name of everyone who has received a report on you in the last six months (or within the past two years for employment reports). The credit bureau also must help you interpret the data.

SIDEBAR: Understanding Your Credit Report

Contrary to popular belief, a credit bureau neither tracks all aspects of your personal life nor explicitly evaluates credit applications, though the "risk score" summary that credit grantors can ask for does suggest the probability of bankruptcy or serious delinquency in the future. Credit bureaus are simply organizations that collect and transmit four principal types of information: identification and employment data; payment histories; credit-related inquiries; and public record information.

A good credit report is vital to your access to credit. Therefore, it is important for you to understand and find out what your credit report contains, how to improve your credit report and how to deal with credit problems.

Q. What does a credit report look like?

A. The basic format used by members of the ACB contains these major types of information:

- Identification and employment data: Your name, birthdate, addresses (present and former), employment history, home ownership, income, and similar data for your spouse, since this is a joint report.
- Payment history: Your account record with different credit grantors, showing how much credit has been extended and how you have repaid it. The first column labeled "Whose" shows whether the debt listed is joint (2), while the "1" indicates that the person named has sole responsibility for the debt. Some accounts, such as a department store credit card, may be labeled "3", since one person is responsible for payment, but both spouses may use it.
- Inquiries: Credit bureaus maintain a record of all credit grantors who have checked your credit record within the past six months. Credit bureaus typically do not include credit prescreening inquiries in credit reports, but will provide them to consumers as a part of disclosure. Prescreening occurs when, for example, issuers of credit cards develop mailing lists to make pre-approved offers of their credit cards.
- Public record information: Events that are a matter of public information related to your creditworthiness, such as bankruptcies, foreclosures, or tax liens, will appear in your credit report. An example would be record of a dispute between the consumer and an appliance dealer that was settled in a small claims court.

Q. What does the law allow me to do if the credit bureau will not cooperate?

A. Under the Fair Credit Reporting Act, you may bring a lawsuit against any credit bureau or credit grantor who violates any provisions of the Act. This includes any credit reporting agency that fails to observe the restrictions about who may access your credit file and any credit bureau that does not properly reinvestigate and correct inaccurate data in your file that you have disputed. However, if the agency has followed reasonable procedures, it has obeyed the law. If you win the lawsuit, you deserve to receive actual damages (which might be lost wages for a job you did not get), as well as punitive damages if you prove the violation was intentional. If you are successful, you also will receive court costs and a reasonable amount for attorneys' fees.

How to Maintain a Good Credit Record

Q What may I do if I believe the credit bureau has incorrect information in my file?

A. If you find that information in the credit report is inaccurate, incomplete, or outdated, you may challenge its accuracy or completeness by notifying the credit bureau. These credit reporting agencies may be contacted as shown below:

- Equifax 1-800-685-1111, or www.equifax.com
- Experian 1-888-397-3742, or www.experian.com
- Trans Union 1-800-916-8800, or www.tuc.com

Unless it believes that your request is "frivolous or irrelevant," the credit bureau must either verify the facts within a reasonable period of time or delete the information from its files. The "frivolous-or-irrelevant" provision is there in part to deal with some credit repair clinics (see below), who challenge all negative information, whether there is a basis for the challenge or not. As a matter of practice, ACB bureaus reinvestigate the complaint within thirty days. If your complaint is justified, the credit bureau will automatically notify the other bureaus of the change and, if you request it, notify any creditor that has checked your file in the past six months (two years for employment reports).

If reinvestigation of disputed information by a credit bureau does not resolve the matter, you may file your version of the story in a statement of up to one hundred words. The credit bureau must include your statement, or a clear and accurate summary of it, in all future credit reports containing the disputed item. You also may ask the credit bureau to mail copies of your statement to anyone who received a report containing the disputed item during the last six months. This time period is two years for employment reports.

Q. How does the passage of time affect my credit report?

A. Under the FCRA most negative information (such as late payments, accounts charged off) may be maintained on your credit record for only seven years, unless the information is used when you apply for fifty thousand dollars or more in credit, for a life insurance policy with a face amount of fifty thousand dollars or more, or for a job paying at least twenty thousand dollars a year. Records of bankruptcies may be reported for ten years. The fact that negative information remains on your credit report for such a long time emphasizes the importance of maintaining a good credit record.

Q. What is the story behind companies that advertise their abilities to repair faulty credit histories? They sound too good to be true.

A. These "credit repair clinics" can help you review and update your credit record and report. However, their fees could be as high as one thousand dollars, whereas you can deal directly with a credit bureau on your own. If your credit report has an error, you may correct it yourself for free or at very little cost. If the information in your credit report is accurate, only better management of your debts can offset the negative record and only the passage of time can remove it. Be very suspicious and careful if a credit repair clinic promises that it can remove accurate records of bankruptcy and bad debts from your credit record or if it promises to get you credit. In general, if a credit program sounds too good to be true, it probably is.

SIDEBAR: Creditors Make Mistakes Too

After you have established credit, the best way to remain in good standing is to repay your debts on time. However, what happens if the credit grantor makes an error on your bill? What if you are billed for an item that you did not buy or for a product that you returned as defective? If you just don't pay the bill, the creditor will hurt your credit record by reporting it as delinquent to the credit bureaus. This section discusses what to do to correct creditors' mistakes

How to Correct Credit Mistakes

Billing Errors

Q. Why should I keep a sales receipt when I buy an item on credit?

A. One reason is so that you may return the item in case it is defective or damaged or the wrong size or color. Another reason to keep sales slips is to correct billing errors. Most creditors do not provide a sales slip with the monthly statement. Under this billing procedure, the statement usually gives only the date and amount of purchase and the store and department from which you bought the item. Therefore, you need to keep all sales slips, at least until you have checked them against the monthly billing statements.

Q. Will my credit rating suffer if my bill contains an obvious error?

A. Yes, if you don't bring the error to the attention of the creditor. The Fair Credit Billing Act requires credit grantors to correct errors promptly without damaging your credit record.

Q. What exactly is a billing error?

A. The law defines a billing error as a charge:

- for something that you didn't buy, or for a purchase made by someone not authorized to use your account;
- that is not properly identified on your monthly statement, or that is for an amount different from the actual purchase price; or
- for something that you refused to accept on delivery because it was unsatisfactory or that the supplier did not deliver according to your agreement.

Billing errors also may include:

- errors in arithmetic;
- failure to reflect a payment that you made or other credit to your account;
- failure to mail the billing statement to your current address (if the credit grantor received notice of that address at least twenty days before the end of the billing period);
- extension of credit about which you request additional clarification.

Q. What should I do if my bill seems wrong?

A. If you think your bill is incorrect, or if you simply want more details about it, take the following steps:

1. Technically, you should notify your creditor of the potential billing error in writing in order to preserve your legal rights. However, most creditors readily handle billing complaints over the phone, and it is a lot faster and easier than writing a letter. Be prepared to provide your name, address, account number and description of the error. If you aren't satisfied with the results of your phone call, note the name of the person that you talked to and send a letter to the address your credit grantor has supplied for this purpose so that it receives the notice within sixty days

after it mailed the bill. If you don't do this, you may lose your rights under the Fair Credit Billing Act. The sixty-day period is very important.

2. The letter should contain your name, address, and account number. State that you believe your bill contains an error, specify the error and why you believe it is wrong, and include the date and the suspected amount of the error.

Q. What happens after I notify the credit grantor about the possible billing error?

A. The law requires the credit grantor to acknowledge your letter within thirty days. (This does not apply if the credit grantor can fix the billing error in less time.) The credit grantor must correct your account within two billing periods. It should never take longer than ninety days from the time the credit grantor receives notice of your dispute. If the credit grantor does not correct the error, it must tell you why it believes the bill is not wrong.

If the credit grantor does not find an error, it must promptly send you a statement showing what you owe. The credit grantor may include any finance charges that accumulated and any minimum payments you missed while questioning the bill.

Q. Must I pay finance charges on the contested amount?

A. There are two possible outcomes. If the bill is not correct, you do not have to pay the finance charges on the amount in dispute or the amount that was improperly billed to your account. If you have already paid these amounts, the credit grantor should refund them. If the bill is correct, you must pay the amounts owed, including finance charges.

Q. While I am trying to solve a billing problem, may a credit grantor threaten my credit rating?

A. Not because you fail to pay the disputed amount or related finance or other charges while you're trying to resolve a billing dispute. Once you have taken the steps described above by writing down your question and sending it to the credit grantor, the law prohibits your credit grantor from reporting the account as delinquent because of the disputed amount or related finance or other charges. Until the credit grantor answers your complaint, the law forbids it from taking any action to collect the amount in dispute. You must, however, continue paying any undisputed amounts.

Q. What happens after the credit grantor has explained that my bill is correct?

A. Then the credit grantor may take action to collect if you do not pay and may report you to the credit bureau as overdue on the amount in question.

Q. What if you still disagree with the credit grantor?

A. Notify the credit grantor of your views in writing. Then, the credit grantor must report to the credit bureau that you have challenged the bill and give you written notice of the name and address of each person who has received information about your account after the dispute arose.

When you settle the dispute, that outcome must be reported to each person who has received information about your account.

Q. What happens if the credit grantor does not follow all the rules within the proper time limits?

A. The law does not permit the credit grantor to collect the disputed amount or related finance charges up to \$50. This is true even if it is money you truly owed. In addition, the creditor is subject to remedies available for violating federal law.

Defective Goods or Services

Q. May the law help me if I bought a product on credit that is defective or not provided, or if there is a billing error or if the merchant has breached a contract with me?

A Yes, if you use a store credit card to purchase shoddy or damaged goods or poor quality services, the Fair Credit Billing Act may help. If you have not already paid off the balance, it allows you to withhold payment that is still due for the disputed transaction when you first notify the card issuer or merchant of your claim or defense, as long as you have made a real attempt to solve the problem with the merchant. A "real attempt" could be demonstrated by a letter or by notes on a phone call to the complaint department of the retailer--a note on the date of the call and the name of the person with whom you spoke.

You have this right even if you bought the goods or services with a bank card such as Visa or Master Card, or a travel or entertainment card. Thus, if you purchase a tour or an air travel ticket using your bank credit card, you may be in a good position to recover the cost from the bank that provided the credit for your purchase if the tour or airline goes bankrupt. However, when you use your bank credit card, the law limits your right to withhold the payment to purchases totaling more than fifty dollars that took place in your home state or within one hundred miles of your home address. These restrictions do not apply to store credit cards.

If you refuse to pay because the goods or services were defective, the creditor might sue you for payment. If the court finds the goods or services to be truly defective, you probably won't have to pay. Also, during the dispute period, the card issuer cannot report the amount as delinquent to a credit bureau.

Lost or Stolen Credit Cards

Q. Am I liable for all the bills that may arise if I lose my credit card or someone steals it?

A. No, the Truth in Lending Act (TILA) limits your liability on lost or stolen credit cards. However, it is very important that you notify the credit-card company as soon as you notice the loss or theft of your card or cards. You do not have to pay any unauthorized charge made after you notify the company of the loss or theft of the card. Under the TILA, the most you will have to pay for any unauthorized charges made before that time is fifty dollars on each card.

Q. How may I prepare for the possibility of losing a credit card or having it stolen?

A. As noted in the earlier section on credit cards, it is a good idea to keep a list of all your credit cards showing their account numbers and how to notify the credit-card issuers of theft or loss. Since you may lose credit cards when traveling, always take a copy of the list with you and keep it separate from your credit cards. And be sure to keep the list itself in a safe place, since someone with the numbers may be able to make purchases on your account. Also, it is advisable to keep your social security number separate from your credit cards, since some issuers of credit cards use that to check the identify of a card user.

SIDEBAR: Preventing Credit Problems

It is a lot easier to prevent of credit problems from starting in the first place than it is to dig your way out once you have more debt than you can handle. Even if you do finally pay off an overload of debt, your credit record will be tarnished and make it difficult to obtain low-priced credit in future years. This section points out some warning signs of debt overload and some methods that you can use to attack the problem before it grows larger.

How Much Debt Can You Handle?

Q. What are the costs to me or my family of becoming over-indebted?

A. First, as we have learned from the section on credit reports, your creditors will report your delinquencies to the credit bureaus. As a result, you will have difficulty in obtaining more credit or keeping the lines of credit that you now have on your credit cards. Some may be canceled or not renewed on their renewal dates. If you are already over-indebted, that result may not be entirely bad. But when you really need a good credit record to rent an apartment, to get a home mortgage loan, or to get a new job, having a bad or even a weak credit report can hurt.

Also, as you will see in the next section, you will be the target of vigorous collection efforts, from your creditors and ultimately from professional collection agencies. These people want to recover the money that you owe and will write you and telephone you frequently.

Finally, there is the ultimate possibility of bankruptcy, which is discussed in the next chapter. Regardless of what you might be told by others, that is not a pleasant experience. Moreover, the record of your having filed for bankruptcy stays on your credit record for ten years, and can handicap your access to various forms of credit for much of that period of time.

Q. What guidelines are there for how much debt I can handle?

A. As a rough guideline, one long-standing rule is that if your monthly payments on debts, excluding your home mortgage payment, exceeds 20 percent of your after-tax or take-home pay, you most likely have reached your debt limit. Or, to put it another way, a roughly equivalent debt limit for those same credit payments is 30 percent of your pretax income. Since less than 3 percent of American families find themselves with payments at 30 percent or more of their gross

income, you can see that relatively few families permit their debt burdens to reach or exceed that limit.

Q. Are there danger signs that I am heading for debt troubles?

A. Aside from the percentage of payments to take-home pay or gross income, there are some very reliable danger signs:

- you are making only minimum monthly payments on your credit card accounts;
- you have to use credit for expenditures that you once paid cash for;
- you have used a series of consolidation loans, home equity loans or other types of loans to pay overdue bills;
- you are borrowing from one lender to pay another; for example, you take a cash advance on your bank card to pay amounts owed other banks or retailers;
- you begin to run a few days late on critical payments, such as your rent or mortgage payment, or you are consistently late with all your bill payments so that late fees are piling up;
- you dip into savings for normal living expenses.

Q. So, what do I do when I see one or more of these danger signs?

A. The first step is to slow down on use of credit. If you are going shopping, take only the one credit card that you will need, or try using cash instead of credit cards. Cut up excess credit cards and return them to the creditor asking that the credit bureaus be notified that you have closed the account.

Next, find out where your money is going by keeping track of family purchases for just two weeks. If you start out the day with thirty dollars in cash and end with five dollars, where did the twenty-five dollars go? To the twenty-five dollars add any credit card slips from credit purchases during the two weeks. Keep track of these money outflows for just a couple of weeks and then have a family conference to discuss how those outflows can be reduced. Now is the time to begin financial training for teenagers and even younger children.

Once you have a good understanding of where the money is going, you may find it useful for the family to prepare a cash budget that will show the highest monthly payments you can afford on your debts. A rough outline is shown below; it can be as fancy or simple as you want it.

Family Cash Budget

You and your spouse's
monthly take-home pay _____
Other income _____

A Total monthly income _____

Your monthly expenses:
Food _____
Rent or mortgage payments _____
Utilities _____
Telephone _____
Transportation (gasoline,
mass transit costs) _____
Itemize other major categories _____
Regular monthly savings _____

B. Total outlays _____

Your annual expenses:
Taxes _____
Insurance (not paid monthly) _____
Medical and dental bills _____
School costs _____
Entertainment _____
Clothing _____
Itemize other major categories _____
Total annual expenses _____

**C. Total annual
expenses divided by 12** _____

**D. Monthly income available for
payments on debts:** _____
(A - C)

Income already committed
to monthly payments:

Personal loans _____

Auto loans _____

E. Committed income _____

Discretionary income (D - E) _____

A few comments on this budget may be helpful. It is easy to overlook annual expenditures and then be hit with a cash crisis when an insurance bill comes due. Also, it is easier to decide on a budget for clothes, recreation and such on an annual basis and then divide the total by twelve to get a rough estimate of acceptable monthly outlays. The trick is not to spend the annual budget in the first two months.

Note that savings are budgeted as a monthly expense. If we don't budget it, we won't save. Savings are for two purposes. First, to set up an emergency fund in case somebody is laid off or becomes ill. A rule of thumb is that an emergency fund in the form of savings or other readily accessible assets should equal three to five months of after-tax income. Second, once you have set up an adequate emergency fund, the saving is for retirement, to build a college tuition fund and to meet other long-term goals that the family may have. These rules, however, should take into account any sick leave and retirement programs you have through work.

You may have wondered why the section for payments on "Income already committed on payments" did not include payments on your credit cards. Expenditures on credit cards have already been included in the budget allowed for clothes, entertainment and the other expenditures for which you use your credit cards. If you live within your budget for those expenditures, you will be able to make those payments.

Finally, many families may find that the difference between the amount on line D: "Monthly income available for payments on debts" is less than the amount on line E: "Income already committed on payments." This result means that income must be increased or expenditures cut.

Go back and look at a two-week record of cash outflows and see where you can cut spending, so that you can free more money to meet your monthly bills. Add up all of the costs of going bowling once a week or pursuing some other hobby. Consider writing letters rather than making long-distance calls. Adopt the industry approach of "zero-based budgeting." Show a real need for any expenditure above zero. In addition to cutting cash outflows, you may be able to improve cash inflows. For example, a spouse or teenager might take a part-time job.

If you are not able to meet your monthly payments, you may want to approach one or more of your creditors and try to reduce or defer monthly payments without having to pay a penalty. Simply be honest in explaining your cash flow problem and ask the creditors if they can help you get back on your feet. While there is no guarantee that creditors will agree to this arrangement, the worst thing that you can do is to try to avoid them or to make promises to pay that you don't keep. If these self-help efforts don't do the job, you may want to contact a

consumer credit counseling service that can help you set up a new budget. These are discussed at the end of this chapter.

SIDEBAR: What if You Don't Pay Debts as Promised?

The law allows credit grantors various ways of collecting unpaid debts, some of which depend upon the law of the state in which you live. They may be able to seize part of your wages or the car that you purchased on credit. Or, they may rely on debt collectors. The law attempts to balance the rights of the credit grantor who provided the credit and the rights of consumers who used it but did not fully pay for it. If you have successfully managed your finances as explained in the previous section, you can skip this section.

Debt Collection and the Law

Q. What can happen to me when I don't pay a debt?

A. As noted earlier, creditors are very likely to report your delinquencies to one or more credit bureaus, thus harming your credit record. In many states they may seek a judgment and court order to garnish your wages; that is, an order to your employer to pay directly to the credit grantor some portion of your wages. Federal law sets a limit on what portion may be taken, and many state laws are even more protective. But if you have a good income, the probability is that some of it is subject to garnishment.

You will always have a chance to appear in court to defend yourself before the garnishment is approved. If the garnishment is approved, the creditor will then notify your employer to subtract a given amount from your paycheck each payday and pay that amount to the creditor until the debt is satisfied. Your employer may not fire you because of the garnishment.

For a car, truck, home appliance or other durable good purchased on credit, your creditor probably has a lien on the item that you purchased. Having a lien means that, if you fail to pay as agreed, the creditor may recover (repossess) the item that you purchased with credit. Many state laws require that the creditor notify you, say two weeks in advance, of its intent to repossess so that you may have a last chance to pay your outstanding debt on the item. The creditor may not breach the peace when repossessing your car. For example, he may not seize it by force or break into your garage to seize the car.

Remember, most agreements specify that when you are in default, the entire debt, not just the monthly payment, is immediately due. Nor does repossession of your car, for example, end your obligation to the creditor. If your unpaid balance and accumulated, unpaid finance charges, plus the creditor's costs of repossessing the car, are more than the net amount that the creditor obtains from the sale of the car, you are still legally liable to the creditor for the shortage. If the creditor thinks that you may be able to pay something towards the shortage, the creditor can ask a court to assess a deficiency judgment against you for the shortage. A few state

laws prevent deficiency judgments in some cases, but you should not count on being able to avoid this problem.

Q. Who is a debt collector?

A. Under the federal Fair Debt Collection Practices Act (FDCPA), a debt collector is someone, other than a creditor, who regularly collects debts for others. This federal law does not cover creditors, although your state laws in many cases may govern them. Thus, a retailer who attempts to collect unpaid debts owed to it would not be covered by the FDCPA, but may be covered by the laws of the state where the delinquent consumer resides. These laws usually are similar to the federal Fair Debt Collection Practices Act. The rest of this section is based on the federal act.

Q. How may a debt collector contact me?

A. A debt collector may contact you by mail, in person, or by telephone or telegram during convenient hours. Unless you agree in writing (or a court specifically grants permission), a collector may not contact you at inconvenient or unusual times or places. Examples of poorly chosen times are before 8:00 A.M. or after 9:00 P.M. Also, a debt collector is not permitted to contact you at work if the collector knows or has reason to know that your employer forbids employees from being contacted by collectors at the workplace. You can tell the debt collector what times and places are inconvenient for you to receive calls.

Also, a debt collector is forbidden from contacting you if he or she knows that you are represented by a lawyer.

Q. How can I stop a debt collector from contacting me?

A. By notifying a debt collector by mail not to contact you. After that, the attempts at contact must stop. There are two exceptions to this. The debt collector may tell you that there will be no more contact, and that some specific legal or other action may be or will be taken. However, debt collectors may state this only if they actually plan to take such action.

Debt collectors also must stop trying to contact you if you notify them, by mail within thirty days after they first contact you, that you dispute all or part of the debt or that you are requesting the name and address of the original creditor. However, debt collectors are permitted to begin collection activities again if they send you proof of the debt, such as a copy of the bill, or the information you requested about the original creditor.

Q. What does the law require the debt collector to tell me about my debt?

A. Within five days of your first contact, a debt collector must send you a written notice stating:

- the name of the credit grantor to whom you owe the money;
- the amount of money you owe;
- that the debt collector will assume the debt is genuine unless you challenge all or part of it within thirty days, and what to do if you believe you do not owe the money;
- that if you ask for it, the debt collector will tell you the name and address of the original creditor, if different from the current creditor.

Q. Whom may a collector contact about my debt?

A. A debt collector may contact any person to locate you. However, in doing so, the collector usually may not talk to anyone more than once or refer to the debt when talking to that person. If debt collectors use the mail to contact you or another person, they may not send letters in envelopes identifying themselves as bill collectors. They also may not send a postcard. Once collectors know that you have hired a lawyer, they may communicate only with your lawyer.

Q. What types of debt collection practices does the law prohibit?

A. A debt collector may not harass, oppress, or abuse any person. For example, a debt collector may not:

- use threats of violence to harm you, your property, or reputation;
- use obscene or profane language;
- repeatedly use the telephone to annoy you;
- make you accept collect calls or pay for telegrams; or
- publish a "shame list" or other roster of individuals who allegedly refuse to pay their debts (though the debt collector can still report you to a credit bureau).

A debt collector may not use false statements when trying to collect a debt. For example, a debt collector may not:

- misrepresent the amount of the debt;
- falsely imply that the debt collector is a lawyer;
- tell you that your property or wages will be seized, garnished, attached, or sold, unless the debt collector or the credit grantor intends to do so and it is legal.

Q. What may I do if the debt collector breaks the law?

A. If the collection effort is being made by a credit grantor (for example, a retailer or bank), check with the consumer protection office of your state attorney general's office and write that office a letter detailing your complaint (with a copy to the offending credit grantor). If the collection effort is from an independent debt collector, write the nearest office of the Federal Trade Commission or the office in Washington, D.C. (See www.ftc.gov for addresses.) The FTC has been active in pursuing violators and may fine them heavily or even put them out of business.

In addition, if debt collectors violate the Fair Debt Collection Practices Act, you may sue them in a state or federal court. However, you may do so only within one year from the date they violated the law. You may recover money for the actual damage you suffered. In addition, the court may award up to one thousand dollars for each violation for an individual suit and as much as five hundred thousand dollars in a class action suit. (The latter is a suit brought by a group of people who claim that the illegal debt collection practice injured all of them. In other words, it injured them as a class.) You also may recover court costs and attorneys' fees. However, consumers found acting in bad faith against a debt collector may have to pay for court costs.

Credit Counseling

SIDEBAR: Where to Get Credit Counseling

You can get credit counseling from several sources. These include credit unions, lawyers, and university-sponsored programs. The personnel offices of some firms also offer the service, as do those of some of the armed forces. Nonprofit and for-profit specialized financial counseling services are also available. The major problem is not so much finding a source of credit counseling services, but in being willing to admit that there is a problem and share the problem with a stranger.

Q. Are all financial counseling services the same?

A. No, there are nonprofit and for-profit financial counseling centers. The National Foundation for Consumer Credit provides leadership for about 1,470 nonprofit Consumer Credit Counseling Services (CCCS) throughout the United States. CCCS offices get most of their fees from credit grantors, but will typically charge consumers a small fee for setting up a budget plan. Hence, the costs to you may be lower than those of for-profit centers, which must cover all their costs from charges to consumers who use the centers' services. However, it is possible that, because of the source of their funding, nonprofit centers may favor arrangements that benefit creditors the most. While many for-profit financial counseling centers provide worthwhile services, some may exaggerate the benefits that they promise.

Q. What kinds of services can I get from a credit counseling center?

A. Most specialized counseling offices provide two types of services. First, they can help you set up a realistic budget so that you can manage your debts better. Second, if you still have trouble paying your debts on time, the center will contact your creditors and arrange a repayment plan based on your budget. You will make a single payment each month to the office, which will then distribute the payment among your creditors until it pays all your debts in full. Most creditors prefer this type of plan (since they eventually will get most of their money) rather than "straight" bankruptcy. While many credit grantors agree to such arrangements with CCCS offices, some will not work with for-profit counseling offices.

Under a repayment plan through a CCCS, you may still have to pay finance charges on your debts. However, many creditors will waive (not require payment of) finance charges and delinquency fees after you have agreed to repay your debts through a CCCS.

Q. How can I find a CCCS or a for-profit counseling center?

A. Check the yellow pages of your phone book for "Credit & Debt Counseling Services" or call toll-free 1-800-388-2227. Contact CCCS on the web at www.nfcc.org or write and send a self-addressed, stamped envelope to:

National Foundation for Credit Counseling
8611 Second Avenue, Suite 100
Silver Springs, MD 20910

Credit Repair and Debt Consolidation

SIDEBAR: Consumer Warning:

Though most financial counseling services are reputable and offer important services, some unscrupulous agencies have ripped consumers off. It's estimated that as many as two million Americans are clients of credit repair clinics that may be taking them for a ride. This section offers some examples of dubious practices and tips on spotting services that are not on the up and up.

Q. What are some problems with using a credit repair service?

A. Problems may include, among many others:

- charging big up front fees
- not making full payments to creditors under debt consolidation loans, making late payments, or not making payments at all
- charging high interest for debt consolidation loans, and inflating them with hidden fees, credit insurance and other high-profit items for lenders; these can make the loan more expensive than the original consumer debt.

Q. Don't debt consolidation loans save you money?

A. They might—if the interest rates were low and there were few if any add-on charges. Unfortunately, at unscrupulous credit repair operations you may be charged fees each time you refinance the loan or take a “vacation” from payments, and interest rates are often high. If you're offered a debt consolidation loan, don't agree right away. Check with credit unions and other lenders to see if you can find a loan with lower interest and fewer add-ons.

Q. How can you determine whether a service is not legitimate?

A. One tip-off is an agency that promises too much. For example, some credit repair clinics promise to erase all records of bad credit—in fact, no one can remove information that is accurate and timely. Others may promise to cut your credit payments to a small fraction of what you are now paying—but in fact you may ultimately pay more than you will without their services. The general rule is, if it sounds too good to be true, it probably is.

Q. Are there any laws that protect consumers?

A. Yes. There is a federal **Credit Repair Organizations Act**. Under this law, credit repair agencies must give you a contract that spells out your rights and obligations and not perform any service for you until a three-day waiting period has expired. In this three-day period, you can't be charged any fees if you cancel the contract. And they must give you a copy of the "Consumer Credit File Rights Under State and Federal Law" *before* you sign a contract.

Under the law, a credit repair company cannot:

- make false claims about their services; or
- charge you until they have completed the promised services.

Q. What should I look for in the contract?

A. Under the law, the contract must specify:

- the company's name and business address;
- any guarantees they offer;
- a detailed description of the services to be performed;
- the payment terms for services, including their total cost; and
- how long it will take to achieve the results.

Make sure the written contract matches up to your understanding of what the agency will do and what it will charge. Pay special attention to the payment terms—your monthly payments may be less, but you may have to make many more of them, so that in the long run you owe much more money.

Q. Are there state laws as well?

A. Yes. Many states have laws regulating credit repair agencies, and sometimes they have stronger protections than those found in the federal law.

Q. Can I save money by doing some of this myself, rather than using an agency?

A. Probably. If you're willing to make the effort, you can do for yourself almost anything a credit repair agency can do. As noted earlier in this chapter, you can check your own credit record and request a reinvestigation of information in your file that you think is wrong or incomplete. This won't cost you anything. If you can't make your monthly payments, *you* can contact your creditors, again at no cost, to try to work out extensions of the payment period, a new payment plan, or maybe even a reduction in the interest rate.

Or, as noted in the most recent section of this chapter, you can find a nonprofit credit counseling group that can perform these and other services for you at little or no cost. These are sometimes operated by universities, military bases, credit unions, and housing authorities. Your local consumer protection office may have a list of reputable, low-cost financial counseling services.

Q. So I'm better off going to a nonprofit credit counseling service?

A. Maybe—but maybe not. Unfortunately, the line between profit and nonprofit is not as clear as it once was. Because the Credit Repair Organizations Act applies to for-profit agencies and exempts the nonprofits, some unscrupulous operators have simply opened business as nonprofits—but they may ask for up-front “contributions” and steer you to for-profit loan companies for your debt consolidation loans.

Your best bet is to evaluate any agency carefully. Do you feel pressured to take out a debt consolidation loan? Are you asked to take on loans that you don't understand—just because the monthly payments now may be lower? Protect yourself by comparison shopping—make sure you've considered other loans, and that the deal you're offered is a good value in today's market.

Where to Resolve Dispute and Get More Information

What if you believe that you have been treated improperly by a credit grantor? Resolving the problem involves a sequence of four possible steps--each one more aggressive than the other. Disputes can almost always be settled long before the third and fourth steps.

1. Check to be sure that you have the correct information regarding your rights under the law and the credit grantor's obligation to you under the law. In addition to the information included in this chapter, this section provides other sources that you may wish to review.
2. If you are reasonably confident that your complaint is well-founded, contact the creditor by phone or, if the matter is quite serious, by letter. Be sure to provide your name, address, account

number and a statement of your concern. If your initial contact is by telephone, get the name of the person with whom you talked. To compete effectively, most credit grantors wish to keep good customers by settling complaints fairly and quickly. Nonetheless, create a "paper trail" by keeping a written record or log of all of your contacts with the creditor.

3. If you are not satisfied with the settlement offered by the creditor, based on your study of your rights under the law, the next step is to contact any state or federal agency that regulates your creditor. It is best to write the appropriate agency and to supply a copy of the written record that you have maintained. By sending a copy of the letter to your creditor, you may focus attention on your complaint. While the regulatory agency may require some time to get to your problem, it will often be able to arrange a solution that will be satisfactory to you. A description of the various regulatory agencies that might be involved and their addresses are included in this section.

4. If the regulatory agency fails to satisfy you, you can hire your own attorney to pursue the matter. However, if you do not win, you are likely to be liable for your attorney's fees. In some cases that may be true even if you win.

The first part of this resource section relates to step three. It provides lists of the major federal laws and tells you how to file a complaint with the FTC.

If a financial institution has violated a federal law discussed in this chapter, the regulatory agency that oversees that category of institutions might be able to help you. To find these agencies, the FTC or your consumer protection office may be able to help. For the number of your consumer protection office, look in your local telephone directory under the listings for your local or state government.

The second part of this resource section lists various low-cost or no-cost federal publications that will help you obtain and use credit more effectively. The office of consumer protection (often found in your state's attorney general's office) may also have useful publications.

Federal Laws on Credit and Debt Collection

The Truth in Lending Act (TILA) requires all credit grantors to provide you with the annual percentage rate (APR), costs and terms, and other relevant information on the credit sought and obtained. Typical credit grantors are banks, department stores, credit-card issuers, finance companies, and oil companies, among others.

The Equal Credit Opportunity Act (ECOA) prohibits discrimination against a credit applicant and debtor because of age (except for capacity to contract), sex, marital status, race, color, religion, national origin, receipt of public aid, or exercise of certain legal rights.

The Fair Credit Reporting Act (FCRA) sets up a procedure for correcting mistakes on your credit record and requires that the record be kept confidential.

The Fair Credit Billing Act (FCBA) sets up a procedure for promptly correcting errors on a credit account and prevents damage to your credit rating while you are settling a dispute.

The Consumer Leasing Act (CLA) requires disclosure of information that helps you compare the cost and terms of one lease with another. It also orders firms that offer leases to reveal facts that help you compare the cost and terms of leasing with those for buying on credit or with cash.

The Fair Debt Collection Practices Act (FDCPA) applies to people and firms that regularly collect debts for others. It prohibits them from performing abusive collection practices and allows consumers to dispute a debt and to halt unreasonable collection activities.

Where to File Your Complaint

You should file complaints about consumer credit reporting agencies or debt collection agencies with the Federal Trade Commission (FTC). The same goes for complaints about violations of the Truth in Lending Act and other federal laws involving credit issued by retail stores, department stores, and small loan and finance companies and for credit-related complaints about oil companies, public utility companies, state credit unions, or travel and entertainment credit-card companies. Mail your complaint to:

Federal Trade Commission
Consumer Response Center
6th Street and Pennsylvania Avenue, NW
Washington, DC 20580

Or call toll-free 877-FTC-HELP (382-4357) or use the online complaint form you can find on the FTC website (www.ftc.gov).

Instead of contacting the FTC's national headquarters at the address shown above, you can send your complaint to one of the FTC Regional Offices listed below:

Suite 5M35
60 Forsyth Street, SW
Atlanta, GA 30303-2322

Suite 1860
55 East Monroe Street
Chicago, IL 60603-5701

1 Bowling Green
New York, NY 10004

Suite 200
1111 Superior Ave.
Cleveland, OH 44114-2507

Suite 2150
1999 Bryan Street
Dallas, TX 75201

Suite 570
901 Market St.
San Francisco, CA 94103

2806 Federal Building
915 Second Ave.
Seattle, WA 98174

PUBLICATIONS

You can find the addresses and telephone numbers for consumer protection offices in your local telephone directory. You also can find them in the Consumers Resource Handbook, available free by writing to: Handbook, Consumer Information Center-N, P.O. Box 100, Pueblo, CO 81002; telephone, (719) 948-3334 or access www.pueblo.gsa.gov.

Publications from the Federal Reserve

You can obtain various publications without charge from:

Board of Governors of the Federal Reserve System
Publications Services
Mail Stop 127
Washington, DC 20551

These publications include:

Consumer Handbook on Adjustable Rate Mortgages
Consumer Handbook to Credit Protection Laws
A Guide to Business Credit for Women, Minorities , and Small Businesses
A Consumer's Guide to Mortgage Lock-Ins
A Consumer's Guide to Mortgage Settlement Costs
A Consumer's Guide to Mortgage Refinancings
Home Mortgages: Understanding the Process and Your Right to Fair Lending

How to file a Consumer Complaint about a Bank
Making Sense of Savings
SHOP: The Card You Pick Can Save You Money
Welcome to the Federal Reserve
When Your Home is on the Line: What You Should Know About Home Equity Lines of Credit
Keys to Vehicle Leasing
Looking for the Best Mortgage

The Federal Reserve banks, listed above, also have many excellent publications.

Publications from the Federal Trade Commission

The Federal Trade Commission (FTC) publishes many popular consumer publications in English or Spanish. For a listing, access the FTC website (www.ftc.gov), or get a copy of "FTC Best Sellers." For it and all FTC publications, write to: Public Reference, Federal Trade Commission, 6th and Pennsylvania Avenue, NW, Washington, DC 20580. Many of these also are available from: Consumer Information Center, Pueblo, CO 81009. You can write there for a Consumer Information Catalog or access their website at www.pueblo.gsa.gov.

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