



## Credit/Truth-In Lending

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### Background

Credit is money granted by a [CREDITOR](#) or lender to a [DEBTOR](#) or borrower, who defers payment of the debt. In exchange for the credit, the lender gets back the money, usually paid on a monthly basis, plus finance charges or interest.

### Types of Credit

#### ***Same as Cash Credit***

Same as cash or noninstallment credit is the simplest form of credit. Same as cash credit is usually very short term, such as thirty days. Same as cash credit enables consumers to take possession of property today and pay for it within a set amount of time. Many department stores offer noninstallment credit; however, many same-as-cash plans can convert to high interest credit if the customer does not pay in full on the due date.

#### ***Installment Credit***

With [INSTALLMENT](#) closed-end credit, a particular amount of money is lent to the consumer, usually the amount of the purchase price of the goods. The full amount of the principal and interest must be paid within a pre-determined time period.

#### ***Revolving Credit***

Revolving open-end credit is found with most credit cards. Under agreement with the lender, an amount of credit is extended to the consumer. An outside limit is established, depending upon the consumer's credit history and ability to handle the debt repayment. The financial institution gives the consumer a credit card with a credit limit, and the consumer can choose how much of the available credit to use at any given time. Usually the consumer makes monthly payments. Revolving credit requires active management by the consumer. The consumer can decide to pay off the entire outstanding debt when the statement is present, pay

off more than the required minimum payment, or simply make the minimum required payment.

## Interest

Interest is the compensation to the creditor for the use of the creditor's money. Over time, due to inflation, the value of money decreases. Interest on credit can be either simple or compound. Simple interest is interest charged only on the principal amount borrowed. Simple interest does not add the interest charge back to the outstanding loan during the length of the loan. Thus, simple interest charges are less than [COMPOUND INTEREST](#) charges. Compound interest is interest charged not only on the principal, but on the interest accrued during the length of the loan. Compound interest is more expensive to the consumer because interest is charged on top of interest.

The amount of interest that can be charged is limited and regulated by state laws. The percentage interest rate allowed varies from state to state, depending on the type of credit being extended. A fixed interest rate does not change throughout the duration of the extension of credit. Under a variable rate loan, the [FINANCE CHARGE](#) is determined by an index, such as the "prime rate" published nationally each quarter for short-term loans charged by banks. This allows the lender to charge an interest rate that reflects current market conditions. Regardless of whether the interest rate charged is fixed or variable, the rate may not exceed the permissible rate set by state [USURY](#) laws.

## Truth In Lending Act

The Truth in Lending Act is a federal law which sets minimum standards for the information which a creditor must provide in an installment credit contract. The amount being financed, the amount of the required minimum monthly payment, the total number of monthly payments, and the [ANNUAL PERCENTAGE RATE](#) (APR) must all be provided to the consumer prior to entering into a credit contract. In addition, the Truth in Lending Act regulates the advertising of credit. The Federal Trade Commission (FTC) works to ensure that the nation's markets are efficient and free of practices which might harm consumers. To ensure the smooth operation of our free market system, the FTC enforces federal [CONSUMER PROTECTION](#) laws that prevent [FRAUD](#), deception, and unfair business practices. The Federal Trade Commission Act allows the FTC to act in the interest of all consumers to prevent deceptive and unfair acts or practices. In interpreting the Act, the Commission has determined that, with respect to advertising, a representation, omission or practice is deceptive if it is likely to mislead consumers and affect consumers' behavior or decisions about the product or service. In addition, an act or practice is unfair if the injury it causes, or is likely to cause, is substantial, not outweighed by other benefits, and not reasonably avoidable.

The FTC's Bureau of Consumer Protection protects consumers against unfair, deceptive, or [FRAUDULENT](#) practices. The Bureau enforces a variety of consumer protection laws enacted by Congress, as well as trade regulation rules issued by the Commission. Its actions include individual company and industry-wide investigations, administrative and federal court [LITIGATION](#), rule-making proceedings, and consumer and business education. In addition, the Bureau contributes to the Commission's on-going efforts to inform Congress and other government entities of the impact that proposed actions could have on consumers. The Bureau of Consumer Protection is divided into six divisions and programs, each with its own areas of expertise. One of the divisions is the Division of Advertising Practices.

Within the Bureau of Consumer Protection is the Division of Advertising Practices and the Division of Enforcement. These entities are the nation's enforcers of federal truth-in-advertising laws. The FTC Act prohibits unfair or deceptive advertising in any medium. That is, advertising must tell the truth and not

mislead consumers. A claim can be misleading if relevant information is left out or if the claim implies something that is not true. In addition, claims must be substantiated especially when they concern health, safety, or performance. The type of [EVIDENCE](#) may depend on the product, the claims, and what experts believe necessary. Sellers are responsible for claims they make about their products and services. Third parties such as advertising agencies or website designers and catalog marketers also may be liable for making or disseminating deceptive representations if they participate in the preparation or distribution of the advertising, or know about the deceptive claims.

### FTC Litigation

Typically, FTC investigations are non-public to protect both the investigation and the companies involved. If the FTC believes that a person or company has violated the law, the agency may attempt to obtain voluntary compliance by entering into a consent order with the company. A company that signs a consent order need not admit that it violated the law, but it must agree to stop the disputed practices outlined in an accompanying complaint. If a consent agreement cannot be reached, the FTC may issue an administrative complaint or seek injunctive relief in the federal courts. The FTC's administrative complaints initiate a formal proceeding that is much like a federal court trial but before an administrative law judge: Evidence is submitted, [TESTIMONY](#) is heard, and witnesses are examined and cross-examined. If a law violation is found, a [CEASE AND DESIST ORDER](#) may be issued. Initial decisions by administrative law judges may be appealed to the full Commission. Final decisions issued by the Commission may be appealed to the U.S. Court of Appeals and, ultimately, to the U.S. Supreme Court.

In some circumstances, the FTC can go directly to court to obtain an injunction, civil penalties, or consumer [REDRESS](#). The injunction preserves the market's competitive status quo. The FTC seeks federal court injunctions in consumer protection matters typically in cases of ongoing consumer fraud.

### Equal Credit Opportunity Act

The Equal Credit Opportunity Act (ECOA) ensures that all consumers are given an equal chance to obtain credit. Factors such as income, expenses, debt, and credit history are always valid considerations for creditworthiness; however, there are certain areas about which it is unlawful for a potential creditor to inquire. These include sex, race, national origin, or religion. A creditor may ask for voluntary disclosure of this information if the loan is a real estate loan. This information helps federal agencies enforce anti-discrimination laws. When permitted to ask marital status, a creditor may only use the terms: married, unmarried, or separated. A creditor may ask for such information in [COMMUNITY PROPERTY](#) states. A creditor in any state may ask for this information if the account is joint and spouses apply together. A potential creditor may not inquire about plans a consumer may have for having or raising children, except that a creditor may inquire about court-ordered [ALIMONY](#), [CHILD SUPPORT](#), or separate maintenance payments a potential debtor may be obligated to make.

As creditors decide whether to grant credit, they may not base their decision on sex, marital status, race, national origin, religion, or age (unless the applicant is a minor and without capacity to contract) or if age is used to determine the meaning of other factors important to creditworthiness. A potential creditor must consider public assistance income, part-time employment or [PENSION](#), [ANNUITY](#), or retirement income as well as any reported alimony, child support, or separate maintenance payments.

Creditors are required to notify applicants within 30 days whether the application has been approved or denied. Creditors who reject potential consumers must provide a notice explaining either the specific reasons

for rejection or the procedure for discovering the reason within 60 days.

## **Fair Credit Reporting Act**

The **FAIR CREDIT REPORTING ACT (FCRA)** is a federal law which regulates the activities of credit reporting bureaus. The FCRA is designed to protect the privacy of credit report information and to guarantee that information supplied by consumer reporting agencies (CRAs) is as accurate as possible. Private credit reporting bureaus, such as TRW Information Services, Equifax Credit Information Services, and Trans Union Credit Information Company, maintain records of financial payment histories, public record data, along with personal identification information. The FCRA punishes unauthorized persons who obtain credit reports, as well as employees of credit reporting bureaus who furnish credit reports to unauthorized persons. The FTC also places responsibilities on those who supply the reporting bureaus with the initial information.

## **Credit Reports**

A credit report is a type of consumer report which contains information about where a consumer lives and how that consumers pays bills. It also may show whether an individual has been sued, arrested, or has filed for **BANKRUPTCY**. Companies called consumer reporting agencies (CRAs) or credit bureaus compile and sell consumer credit reports to businesses. Businesses use this information to evaluate applications for credit, insurance, employment, and other purposes allowed by the Fair Credit Reporting Act (FCRA).

Any consumer denied credit insurance or employment because of information supplied by a CRA, is entitled to receive the CRA's name, address, and telephone number. If the consumer contacts the agency for a copy of the report within 60 days of receiving a denial notice, the report is free. In addition, consumers are entitled to one free copy a year if unemployed or if identity theft or fraud is suspected. Otherwise, a CRA can charge a small fee for issuing a report. The major CRAs are Equifax, TransUnion, and Experian.

### ***Credit Report Errors***

Under the FCRA, both the CRA and the organization that provided the information to the CRA, such as a bank or credit card company, have responsibilities for correcting inaccurate or incomplete information in consumer credit reports. If a consumer disputes an item on the credit report in writing, the CRAs must reinvestigate the items in question within 30 days. After the information provider receives notice of a dispute from the CRA, it must investigate, review all relevant information provided by the CRA, and report the results to the CRA. If the information provider finds the disputed information to be inaccurate, it must notify all nationwide CRAs. Disputed information that cannot be verified must be deleted from a consumer credit report. When the reinvestigation is complete, the CRA must give the consumer written results and a free copy of the report if the dispute results in a change. If an item is changed or removed, the CRA cannot put the disputed information back into a consumer file unless the information provider verifies its accuracy and completeness, and the CRA gives the consumer a written notice that includes the name, address, and phone number of the provider. If the consumer requests, the CRA must send notices of corrections to anyone who received a report in the previous six months. Job applicants can have a corrected copy of their report sent to anyone who received a copy during the past two years for employment purposes. If a reinvestigation does not resolve a dispute, consumers have a right to ask the CRA to include a statement of the dispute in the file and in future reports.

### **Accurate Negative Information**

When negative information in a consumer report is accurate, only the passage of time can assure its removal. Accurate negative information can generally stay on a consumer report for 7 years. However, bankruptcy information may be reported for 10 years. Information about a lawsuit or an unpaid judgment can be reported for seven years or until the [STATUTE OF LIMITATIONS](#) runs out, whichever is longer.

Credit Counseling Services can assist consumers. Some will contact creditors and attempt to consolidate debts, and put together a repayment plan. Most of these businesses are non-profit agencies that charge small or even no fees to provide credit counseling. Other for-profit organizations sometimes advise consumers to apply for new employee ID numbers, and then use them instead of their Social Security numbers to apply for more credit. Using an identification number in order to [DEFRAUD](#) creditors, however, may be considered fraudulent and possibly criminal.

### **Fair Debt Collection Practices Act**

The Fair Debt Collection Practices Act is a federal law which regulates the activities of those who regularly collect debts from others. Many states have adopted similar laws regulating the practices of debt collectors. Under this law, debt collectors may contact debtors by mail, in person, by telephone, or by telegram during "convenient hours" (commonly between 8 AM and 9 PM). Debt collectors are prohibited from contacting the debtor at work if the collector knows or has reason to know that the employer forbids employees from being contacted by debt collectors at the workplace. Finally, debt collectors may not contact individuals who are represented by an attorney.

Additional provisions specify that debt collectors may not threaten violence, use obscene or profane language, repeatedly telephone to annoy or harass, make collect telephone calls, or use false or misleading information in an effort to collect the debt. Consumers who believe this law has been violated may contact the regulating body, which is the Federal Trade Commission. Consumers also have the option of filing a lawsuit against the debt collector for violation of the law.

### **Additional Resources**

*Credit after Bankruptcy: A Step-by-Step Action Plan to Quick and Lasting Recovery after Personal Bankruptcy.* Snyder, Stephen, Bellwether, 2000.

*How to Fix Your Credit Report Yourself.* Lamet, Jerome, Jerome Limited, 1998.

*The Insider's Guide to Managing Your Credit: How to Establish, Maintain, Repair, and Protect Your Credit.* McNaughton, Deborah, Berkley Publishing Group, 1999.

### **Organizations**

#### ***Council of Better Business Bureaus (CBBB)***

4200 Wilson Blvd., Suite 800  
Arlington, VA 22203-1838 USA  
Phone: (703) 276-0100  
Fax: (703) 525-8277

URL: <http://www.bbb.org>

***Equifax***

P.O. Box 740241  
Atlanta, GA 30374-0241 USA  
Phone: (800) 685-1111

***Experian (formerly TRW)***

P.O. Box 949  
Allen, TX 75013 USA  
Phone: (800) 682-7654

***Federal Trade Commission***

600 Pennsylvania Avenue, NW  
Washington, DC 20580 USA  
Phone: (877) FTC-HELP  
URL: <http://www.ftc.gov>

***Trans Union***

760 West Sproul Road  
Springfield, PA 19064-0390 USA  
Phone: (800) 916-8800

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