

The Truth-In-Lending Law and Your Credit

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Credit is a valuable resource available to families in the United States. Credit needs to be used with care. Credit costs money and it is as important to shop for the credit you use as it is to shop for the products and services you buy.

Most families use credit in one form or another for:

- charging purchases at the local department store
- buying gas and oil or restaurant meals on credit cards
- buying a car or furniture on an installment contract
- borrowing money from a bank, finance company, or a credit union to meet a family emergency
- signing a mortgage when buying a home or making major home improvements.

The Truth-in-Lending Law went into effect on July 1, 1969. As a result there is a standard measurement available for the cost of credit. The law provides that the annual percentage rate for all credit transactions be given to the consumer who uses credit. In the past there were several methods used to compute the cost of credit and the result was difficulty in comparing the costs of credit from various sources. The Truth-in-Lending Law affects nearly all of us, whether we have a charge account or a home mortgage. It is of concern to you. It affects your credit, and it concerns your money.

What the law tells you about credit costs

The main point of the law which you as a consumer should understand is that when you borrow money or apply for credit you must be told the exact cost of credit—clearly and in writing—on the credit agreement itself or on an attached sheet. Then you can and should:

- read the credit agreement
- compare the cost of credit of one lender with another
- keep the information provided by the lender for your future use.

The law makes it easier for you to know the two most important things about the cost of credit. One is the *finance charge*—the amount of money you pay to obtain credit. The other is the *annual percentage rate*—a way of comparing the cost of credit regardless of the dollar amount of costs or the length of time over which you will make payments.

Both the finance charge and the annual percentage rate must be displayed prominently on the credit forms and the statements used by a creditor (the person or firm you owe).

The *finance charge* is the total of all charges you will pay for credit, expressed in dollars and cents. It includes the interest and other charges such as:

- loan fees
- time-price differential (difference between cash price and price bought on credit)
- points on home mortgages
- investigation fees, and
- similar charges that are directly related to credit.

Some costs, such as taxes, license fees, registration fees, or fees paid to public officials, are not a part of the cost of credit and therefore not a part of the finance charge. These charges must be itemized separately and full disclosure made to you.

The *annual percentage rate* is the amount of the finance charge expressed as an annual rate. For example, the familiar $1\frac{1}{2}\%$ rate on a revolving charge account must be expressed as $1\frac{1}{2}\%$ per month of the unpaid balance and as an annual percentage rate of 18%. This annual percentage rate is a uniform yardstick by which you can compare credit costs.

Other information also must be disclosed. On a typical loan transaction or installment contract, you must be told these essential facts about the loan and the repayment procedure:

- when the finance charges begin
- the number, amount, and due dates of your payments
- the total of all payments (except on home mortgages)
- penalties for default or late payment or for paying ahead of schedule
- a description of any security interest (collateral) held by the creditor.

A copy of this disclosure statement must be given to you. Keep the statement. If you have a question later about any part of the transaction you may need this information.

Advertising about credit

The Truth-in-Lending Law gives a new look to the advertising of credit terms. It says if a business is going



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to mention one feature of credit in its advertising, such as the amount of down payment, it must mention all other important terms, such as the number of payments, the amount of each payment and the period of repayment. If, for example, an advertisement states "Only \$5 down," it must also state you will have to pay \$10 a week for the next two years if these are the terms of the credit sale. Here again, the intent of the law is to provide you, the consumer, with full information so that you can make an informed decision about the use of credit.

Cancellations

Another important provision of the law is designed for your protection in case your home is used as a collateral in a credit transaction. This often occurs when you have a major repair or remodeling job done on your home. Now, when you enter into a credit transaction in which your home is used as a collateral, the creditor must give you written notice of your right to change your mind and cancel. The law gives you three business days to think about the contract and to cancel the transaction during that period if you wish. If you decide to cancel the transaction, you must notify the business in writing.

Under this right of cancellation the contractor cannot start work until the three days are up. You may give up your right to cancel and get the work started without the three-day wait if you notify the contractor, in writing, that you face an emergency and need the credit immediately to finance the repairs to avoid danger to you, your family, or your property.

The right to cancellation does not apply when you sign a first mortgage to finance the purchase of a home.

What the law does not do

The Truth-in-Lending Law does not:

- Tell the lender the rate of interest to charge. It only requires that he tell the borrower what he does charge.
- Require the lender to discontinue a discount for prompt payment.

- Require the lender to discontinue the 30-60-90-day charge accounts.

- Require the lender to increase finance charges where more modest ones were previously imposed.

- Require, nor does it prevent, a finance charge being figured on the total amount charged before deducting payments or credit. Some stores are doing this on open-end accounts. If the store does not subtract payments and/or the amount of returned merchandise, you are paying interest on money you do not owe. Before you open a new account, check with the credit manager about their method of determining the unpaid balance on which you pay a finance charge each month.

Enforcement of the law

If you have any questions about the Truth-in-Lending Law, you can get information from the federal agency that enforces the law for a particular business. Nine agencies are involved. For example, retail stores, department stores, and consumer finance companies are regulated by the Division of Consumer Credit, Federal Trade Commission; national banks, by the Comptroller of the Currency, United States Treasury Department; and state chartered banks that are members of the Federal Reserve System, by the Federal Reserve Bank serving the area in which the state member bank is located.

The law does provide criminal penalties for willful violators of the law. You, as an individual, may sue if a businessman fails to make the required disclosures. You may sue for twice the amount of the finance charge—for a minimum of \$100, up to a maximum of \$1,000—plus court costs and reasonable attorney's fees.

No matter where you borrow money it will cost you money.

For each situation you must consider whether to pay cash or use credit.

If you use credit, use the information required in the Truth-in-Lending Law and compare the cost before you decide where to obtain credit.