Credit – contracts, should you sign?

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Quick Facts
Credit laws give consumers rights and responsibilities when they sign credit contracts.

If a consumer does not live up to the terms of a credit contract, the creditor can repossess the merchandise, garnish wages to pay the debt or file a lawsuit requiring payment of the debt.

Consumers have the right to know how much a loan will cost before a contract is signed; they are protected by law against excessively high interest rates and against unfair sales practices.

The purpose of a contract is to establish the rights and responsibilities of both parties who sign. A contract is defined as an agreement that can be enforced by law, and by signing, both parties promise to carry out their parts of the agreement.

Anxious to have money, goods or services, many consumers pay little attention to what they sign when they agree to credit terms. They may not be aware of the credit laws that offer consumer protection on credit contracts and they may be equally unaware of their responsibilities when signing their names to a contract.

Before Signing a Contract
You can avoid legal problems by thinking beyond today to the long-term implications of signing a contract.

It is essential to build a reputation that says you are able and willing to meet your financial obligations when they are due. Don’t sign if you can’t pay.

Be honest and accurate when applying for a loan. Misrepresenting salary, age or other important facts may block future credit.

Shop for credit only at legitimate lending institutions where credit terms meet legal limits and are clearly stated on contracts. It is very difficult to resolve a problem with a fly-by-night operator.

Be sure that the contract is completely filled in and that the terms are what you agreed to.

You have a legal right to deduct interest charges from your income taxes. The contract should show the total interest that you agree to pay. Keep a record of these charges.

Credit Laws
Credit laws give consumers rights and responsibilities when they sign credit contracts. A federal law, called the Consumer Credit Protection Act, is divided into four sections known by common names: Truth-in-Lending, Equal Credit Opportunity Act, Fair Credit Reporting Act and Fair Credit Billing Act. In Colorado, credit users also have pro-

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Protection under the Colorado Uniform Consumer Credit Code (UCCC).

Truth-in-Lending and the Colorado Uniform Consumer Credit Code protect consumers in the area of contract decisions, specifically: information disclosure, usury (excessive interest charges), right to cancel, selling contracts and referral sales. Before signing, know your rights and understand your responsibilities.

**Information Disclosure**

Before Truth-in-Lending was passed, consumers had a difficult time comparing rates. Rates were not stated in common terms.

Truth-in-Lending requires lenders to state interest in an annual percentage rate (APR) to allow easy comparison from one loan to the next. The APR is the percentage of interest charged on a loan based on the portion of a year you get to keep the entire amount of the loan. If you borrow $100 for one year and repay it at the end of the year plus 8% interest, the APR is 8 percent. If you paid that $100 loan (plus 8% interest) in 12 monthly payments, you would have had the entire $100 for only a portion of the year. Therefore, the APR is 14.5 percent.

Some lenders also add a service charge to the interest charge. The total charges, called finance charges, must be shown in writing before you sign a contract.

The Colorado Uniform Consumer Credit Code (UCCC) provides protection similar to Truth-in-Lending. A credit contract must state the annual percentage rate, total finance charges, amount, and number of monthly payments.

**Usury**

The maximum amount of interest that can be charged for financing a product or service depends on the type of credit used. The Colorado Consumer Credit Code sets the maximum rates for credit sales, revolving credit and consumer loans.

Credit sales. A credit sale is made by a retailer who arranges a repayment schedule for goods purchased at that store. For credit sales, the maximum percentage rate that can be charged is:

- 25 percent per year on amounts from $0 to $630;
- 20 percent per year on amounts over $630 to $2,100;
- 15 percent per year on amounts over $2,100.

Revolving charge accounts. For revolving charge accounts, the maximum allowable interest charge is 1-3/4 percent per month or 21 percent per year. The creditor must give you credit for payments made during the month.

Consumer loans. If you apply for a loan directly to a lending institution and receive money to pay for goods or services, you have arranged a consumer loan. The maximum annual percentage rate a lender may charge is:

- 36 percent per year on amounts from $0 to $630,
- 21 percent per year on amounts over $630 to $2,100,
- 15 percent per year on amounts over $2,100, and
- a maximum of 12 percent per year for credit unions.

The maximum charges on consumer loans are higher than on credit sales but many lenders do not charge the maximum rates. Loan rates are subject to competition as are the prices for automobiles, houses or groceries. Do not borrow at the maximum rates unless absolutely necessary.

**Right to Cancel**

You may sign a contract in your home for magazine subscriptions, a sewing machine, aluminum siding or other products and later decide you don’t want to make the purchase. Under the UCCC you have the right during a cooling-off period to cancel the contract. You must notify the seller in writing within three business days after you sign the contract that you plan to cancel. The seller is required to show you in writing when you sign the contract that you have this cancellation right.

Three conditions must exist to give you this right:

1. The contract must be signed in your home.
2. You must not have had any previous negotiation about the sale in a business establishment.
3. You must buy on credit and cannot use a credit card.

If you agree to use your home as credit security for a purchase, it is not necessary to sign the contract in your home to exercise your right to cancel. The total credit contract must be for more than $1,000 to use your home as security. Typical examples of credit contracts over $1,000 are home remodeling projects such as patios, room additions or kitchen remodeling. The lender must give you written notice of this right to cancel and if you cancel it must be in writing.

**Sale of Your Contract**

If you sign a contract when you purchase furniture, appliances or other products, the retail store may sell your contract to a bank or finance company. You, then, make your payments to the place holding the contract.

After you have used the product for several weeks, you may find that it has a major defect or that it quits working. Your first step is to contact the retail store where you made the purchase. If you are unable to work out an acceptable agreement with the store or the manufacturer, you may withhold payments to the contract holder. The UCCC now gives consumers the same right to withhold payment from the contract holder as they would have to withhold payment for faulty merchandise from the retailer.

**Referral Sales**

Referral sales are illegal. If a salesperson tries to talk you into buying a product on credit by offering you the opportunity to pay for it by referring names of prospective customers, watch out. This is called a referral sale and is illegal if the plan is offered to you before you decide to buy a product. It also is illegal if you agree to buy, entirely or at least in part, because you think you can earn a reduced price by participating. If you sign a credit contract to buy a product as part of a referral sale offer, you
can either cancel the contract, keep the goods or use the services without any obligation to pay for them. Use of a credit card, however, may void these rights.

**Failing to Meet Responsibilities**

If you do not live up to the terms of a credit contract, the creditor can choose from three courses of action.

1. Repossess the merchandise or claim the security.
2. Obtain a court order to garnish wages or to receive property to pay the debt.
3. File a lawsuit requiring payment of the amount of the debt.

**Repossessing Merchandise**

When you buy goods on credit, they usually are used as the lender's security in the event that you stop making payments. The seller can pick up the goods and sell them to satisfy the loan agreement.

The seller cannot sell the goods and then sue you for the balance if the original amount financed was $1,000 or less. The seller can, however, take you to court to settle the contract instead of repossessing the goods.

**Garnishing Wages**

A creditor may get a court decision requiring an individual to complete payment on a contract. The court can direct an employer to pay a certain amount from each paycheck to the creditor. The consumer has the right to keep at least 75 percent of the paycheck.

The amount subject to payment (called garnishment) can be no more than 25 percent of the consumer's disposable weekly earnings. Disposable earnings are arrived at by subtracting federal and state withholding taxes and social security from weekly earnings.

An employer may not fire an employee if the paycheck has been garnished because of a judgment resulting from a consumer credit sale, lease or loan. The employee can be fired if the garnishment is a result of a bad check or an unpaid open account bill not covered by the Colorado Uniform Consumer Credit Code.

**Filing a Lawsuit**

If you do not uphold your promise to pay according to the terms on the contract you signed, you may be sued by the lending institution. If you have good cause for nonpayment, you must present evidence in court supporting your decision. You must have good documentation to substantiate your reasons for breaking the contract.

**Consumer Rights and Responsibilities**

Credit laws define legal rights and responsibilities for consumers. Consumers have the right to know how much a loan will cost before a contract is signed. They are protected against excessively high interest rates and unfair sales practices. At the same time, a contractual credit agreement stipulates consumer responsibilities. The consumer agrees to pay a specified amount at a certain time. If the consumer fails to meet these responsibilities, the penalties may be repossession of goods, garnishment of wages or a court judgment.

Consider credit contracts a serious obligation. Signing a credit contract is a promise to pay. Failure to live up to the contract terms can tarnish a credit history and close doors to future credit opportunities. Protect yourself by exercising your consumer rights and living up to your responsibilities.