

Credit Scams, Contracts, and the Law

Kathy Prochaska-Cue, Extension Family Economist
Sandy D. Preston, Extension Educator

This NebGuide outlines how to avoid falling target to a credit scam.

If credit use is less than perfect, you may find yourself a target for a potential scam either via telephone or the Internet. Or you may be tempted by television advertising promising “We can erase your bad credit — 100 percent guaranteed,” “Create a new credit identity — legally,” or “We can remove bankruptcies, judgments, liens and bad loans from your credit file forever!” Fraud artists commonly target consumers with less-than-perfect credit histories with promises of easy credit, guaranteed loans or, for a fee, cleaning up a bad credit report.

Credit Repair Clinics

So-called “credit repair clinics” and “credit doctors” offer to erase a bad credit report for several hundred dollars. But there is nothing these companies or anyone else can do to remove accurate and timely negative information in a credit file as stated by the federal Fair Credit Reporting Act. Generally this means information stays on your file for seven years. One exception is for Chapter 7 bankruptcy when information remains for 10 years. So, with a credit repair clinic you pay the fee and then find out information cannot be legally removed.

Always get all promises from any company promising to help you improve your credit history in writing. Check out the company with the Better Business Bureau and the Consumer Protection Division of the Nebraska Attorney General, (402) 471-2682. If you’ve already been victimized, contact the Nebraska Attorney General and the National Fraud Information Center, (800) 876-7060.

Reviewing the Credit Contract Before Signing

You will be asked to sign a contract whenever you open any new credit account. This contract is legally binding in court. Always review the contract before signing. Check to see that the following information is clearly stated:

- cash price
- amount of down payment or trade-in value and remaining balance
- total amount of finance charge
- Annual Percentage Rate (APR) of interest charged
- any other charges not included in the cash price
- number, dollar amount and due dates of payments
- charge for late payment
- description of collateral held by the creditor

If you do not understand any part of the contract, ask someone from the company to explain it to you. You are obligated to fulfill your credit responsibilities as stated in the contract once you sign it.

When You Borrow

When you borrow, you promise to:

- pay back the amount of money you borrowed, plus the finance charge
- pay back your debt regardless of any personal crisis or unexpected situation
- make payments on time
- keep any item that has been used as collateral until all payments have been made
- take responsibility for any loss of value of the item you bought on credit if it has to be returned to the creditor

Credit Laws Protecting Consumer Rights

Several laws have been passed which protect consumer credit rights.

Truth in Lending (1969) establishes the Annual Percentage Rate (APR) as a way to compare interest rates and total dollar cost of credit from different lenders. It also sets the liability limit for unauthorized use of credit cards at \$50. If you report a card missing before any charges are put against it within two days of loss or theft, you are not liable for anything.

Fair Credit Reporting Act (1971) gives consumers the right to know what information is contained in their credit files and who has asked for that information. If you have been turned down for credit, you have 60 days to get a free copy of your credit report. If you find inaccurate information, request in writing that it be investigated. In most cases, you will receive a response within 30 to 45 days. After hearing from the reinvestigation, if you disagree add a 100-word explanation telling your side of the story to your credit file.

Fair Credit Billing Act (1973) requires creditors to credit accounts with payments on the date received. This act also protects consumers against billing errors on credit card statements. If you find an error, notify the creditor immediately. Follow up by notifying the creditor in writing. Just a phone call doesn't protect your rights. Your letter must reach the creditor within 60 days of the date the statement was mailed. Keep a copy of the letter you send and send via registered mail with a return receipt requested. The card issuer must acknowledge your letter within 30 days after receiving it and resolve the problem within 90 days. In the meantime, you don't have to pay for the item in dispute, but you must pay for the rest of your account. If you are correct, the disputed charge and any resulting interest will be subtracted from your bill.

Equal Opportunity Credit Act (1975) prohibits discrimination in lending based on sex, race, national origin, religion, age, marital status or income source. Credit information must be reported in both names on joint accounts. This act also gives women the right to obtain and keep credit in their own names after marriage, and gives both married partners the right to have someone other than their spouse co-sign a loan for them.

Fair Debt Collection Practices Act (1978) outlines how and when debt collectors can contact you. According to this law, creditors cannot call consumers before 8 a.m. or after 9 p.m., make numerous repeated calls during the day, call at work if personal calls are forbidden by the employer, use false or deceptive means to collect a debt such as using false names or claiming to be a government official or attorney if they are not, use abusive or obscene language, or threaten violence or criminal activity against your family or property.

Additional information about these credit laws is available from the Federal Trade Commission, (877) FTC-HELP or on the Web at www.ftc.gov.

Where to Complain

If you have a complaint about a credit bureau or reporting agency, write to the Consumer Response Center, Federal Trade Commission, Washington, D.C., 20580 or file a complaint online at www.ftc.gov.

Keys to Wise Credit Use

- Know your credit rights as guaranteed by law.
- Avoid any credit repair scheme.
- Completely destroy credit offers that come in the mail since they include your name and address. Completely destroy outdated credit cards and any statements.

Resources Used in This Publication

Federal Trade Commission (2002, June). Credit, ATM and debit cards: What to do if they're lost or stolen. Washington, D.C.: FTC

Federal Trade Commission (2005, March). Credit and your consumer rights. Washington, D.C.: FTC

Garman, E. T. and Fogue, R. E. (2006). Personal finance (8th ed.). Boston, MA: Houghton Mifflin Co.

This publication has been peer-reviewed.

UNL Extension publications are available online at <http://extension.unl.edu/publications>.

**Index: Financial Management
Credit and Debt**
Issued November 2007

Extension is a Division of the Institute of Agriculture and Natural Resources at the University of Nebraska–Lincoln cooperating with the Counties and the United States Department of Agriculture.

University of Nebraska–Lincoln Extension educational programs abide with the nondiscrimination policies of the University of Nebraska–Lincoln and the United States Department of Agriculture.

© 2007, The Board of Regents of the University of Nebraska on behalf of the University of Nebraska–Lincoln Extension. All rights reserved.