

Consumer Credit Laws and Your Business

Certain federal laws apply if your business extends credit to customers.

If your business grants credit to customers (allows customers to pay at a later date), you must comply with laws affecting credit sales to consumers.

1. The Truth in Lending Act

This federal law helps customers know what they're getting into. It requires you to disclose your exact credit terms to credit applicants and regulates how you advertise consumer credit. Among the items you must disclose to a consumer who buys on credit are the following:

- the monthly finance charge
- the annual interest rate
- when payments are due
- the total sale price (the cash price of the item or service, plus all other charges), and
- the amount of any late payment charges and when they'll be imposed.

2. The Fair Credit Billing Act

This federal law tells you what to do if a customer claims you made a mistake in your billing. The customer must notify you within 60 days after you mailed the first bill containing the claimed error. You must respond within 30 days unless the dispute has already been resolved. You must also conduct a reasonable investigation and, within 90 days of getting the customer's letter, explain why your bill is correct or else correct the error.

If you don't follow this procedure, you must give the customer a \$50 credit toward the disputed amount -- even if your bill was correct. Until the dispute is resolved, you can't report to a credit bureau that the customer is delinquent.

Example:

Ron notifies CompuCo that he wasn't properly credited for a payment he sent in on his computer purchase. Under the Fair Credit Billing Act, CompuCo must acknowledge Ron's notice within 30 days. And within 90 days, CompuCo must either agree with Ron and correct his account or, after conducting a reasonable investigation, send Ron a letter explaining why the company feels his bill was correct. While this is happening, Ron doesn't have to pay the disputed amount. And he can't be penalized for withholding payment. During this period, CompuCo can't tell a credit reporting agency that this is a delinquent bill. CompuCo can charge

interest on the disputed amount, but if Ron turns out to be right, the interest must be dropped.

State laws may also deal with billing disputes. Generally, if a state law on this subject conflicts with the federal statute, the federal statute will control -- but there's one exception: a state law will prevail if it gives a consumer more time to notify a creditor about a billing error. For example, as explained above, the federal law gives a consumer 60 days after receiving a bill to notify you of a billing error. If a state law gives a consumer 90 days to notify you, the consumer will be entitled to the extra 30 days.

In addition to telling you how to handle billing disputes, the Fair Credit Billing Act requires you, in periodic mailings, to tell consumers what their rights are.

3. The Equal Credit Opportunity Act

You may not discriminate against a credit applicant on the basis of race, color, religion, national origin, age, sex or marital status. The Act does leave you free to consider legitimate factors in granting credit, such as the applicant's financial status (earnings and savings) and credit record. Despite the prohibition on age discrimination, you can reject a consumer who hasn't reached the legal age for entering into contracts.

4. The Fair Credit Reporting Act

This federal law deals primarily with credit reports issued by credit reporting agencies. It's intended to protect consumers from having their eligibility for credit thwarted by incomplete or misleading credit report information. The law gives consumers the right to a copy of their credit reports. If they see an inaccurate item, they can ask that it be corrected or removed. If the business reporting the credit problem doesn't agree to a change or deletion or if the credit bureau refuses to make it, the consumer can add a 100-word statement to the file explaining his or her side of the story. This becomes a part of any future credit report.

5. The Fair Debt Collection Practices Act

This federal law addresses abusive methods used by third-party collectors -- bill collectors you hire to collect overdue bills. Small businesses are more directly affected by state laws that apply directly to collection methods used by a creditor.

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