

Buying On Credit

There are certain advantages to buying on time or credit. Often we can make large purchases only if we can spread the payments over an extended period of time. However, before going into debt on credit purchases, you should closely examine the terms of the credit transaction you propose to undertake. When you buy on credit, you are entitled to know how much interest you will have to pay. You also should be made aware of certain rights you have in the credit purchase.

Kinds Of Consumer Credit

The principal kinds of consumer credit plans are:

1) Direct Consumer Loans. This credit transaction is made between the buyer and a financier other than the seller of a product. For example, if you buy a new automobile, you may have the loan financed through your bank or credit union rather than through the dealer. Direct consumer loans are normally repayable in equal monthly installments.

2) Retail Installment Contracts. This type credit transaction is usually arranged for the purchase of large items. In many instances, the seller will assign your contract to a financial institution. You will then pay to that institution the installments called for by the contract.

3) Revolving Credit. This plan involves the issuance of a credit card, which establishes a "line of credit," that may be used whenever the card is presented. Bank credit cards may be used for making purchases as well as for obtaining "cash advances." Normally, a time period is granted during which no finance charge is added to the account. But this grace period applies only to purchases, not to any "cash advances."

4) "Budget" Accounts. This type of credit is usually offered by a department store and provides for payments to be made over a specified period of time. These accounts may or may not carry a finance charge.

How Much Does Credit Cost?

Federal law requires that complete and meaningful disclosure of credit terms be made before you sign a credit agreement. These terms are:

1. The cash price of the item;
2. The amount of any cash down payment and trade-in;
3. The unpaid balance of the cash price;

4. Miscellaneous charges, such as those required when a creditor desires to file and record the agreement with the probate judge;
5. The cost of group credit life and disability insurance, should you choose to obtain this coverage (a creditor is not permitted to require you to obtain coverage);
6. Unpaid balance and amount financed;
7. Finance charge;
8. Deferred payment price;
9. Annual Percentage Rate and Annual Percentage Yield;
10. Terms of payment, including the number, amount and due dates of each installment;
11. The total of payments;
12. "Balloon payments:" when a regularly scheduled payment is more than twice the amount of any other regularly scheduled payment;
13. A description of any delinquency charges;
14. A description of any security interests; and
15. A description of any prepayment penalty.

Under Alabama law any creditor, when extending credit with respect to a consumer credit sale, loan or lease other than open end credit, shall at that time furnish to the debtor duplicate copies of all instruments executed by the debtor in connection with the transaction. You are entitled to a copy of every instrument that you sign in connection with a consumer transaction.

Every credit sale contract, loan, note or lease shall contain the following, immediately above the space for the borrower's signature:

CAUTION--IT IS IMPORTANT THAT YOU THOROUGHLY READ THE CONTRACT BEFORE YOU SIGN IT.

You should always take the time to read the contract and ask any questions that you may have concerning the contract prior to signing it.

The "Cooling Off" Right

In the event you sign a contract for the extension of credit and then wish to have the agreement canceled, you should be familiar with the "cooling off" right which is provided by law.

A buyer has the right to cancel a home solicitation sale until midnight of the third business day following execution of an agreement or offer to purchase, which notice is effective when delivered or when deposited in the mail properly addressed

with postage prepaid.

Alabama law requires the seller's address to be shown on the contract. In order to have proof of proper cancellation, you should send the notice of cancellation to the seller at the address shown on the contract by certified mail, return receipt requested, with the correct postage paid. You should keep a copy of the notice and attach it to the "certified mail receipt" stamped by the post office and the return receipt itself when you get it back from the post office after the notice is delivered.

You should know that under Alabama law a home solicitation sale is a consumer credit sale of goods or services (other than farm equipment or motor vehicles), in which the seller or person acting for the seller engages in a personal solicitation of the sale at a place other than the seller's place of business and the buyer's agreement or offer to purchase is given to the seller or a person acting for the seller.

Repossession And Suit

When you fail to make the regularly scheduled payments as called for by your contract, the creditor has the right to repossess the goods and sell them in a commercially acceptable manner. When your property is repossessed, you are entitled to notice of any scheduled sale of your property and if the sale of your property does not satisfy your indebtedness in full your creditor may obtain a judgment against you for the remaining balance of the money owed unless the original cash price of the goods repossessed or surrendered was \$1,000.00 or less. If the original cash price is \$1,000.00 or less, the buyer is not personally liable to the seller for the unpaid balance of the debt and the seller is not obligated to sell the collateral.

Garnishment

If a judgment is obtained against you in the State of Alabama, your wages may be garnished to satisfy the judgment. If your wages are garnished in connection with a judgment of a consumer loan, consumer credit sales and consumer leases, the amount subject to garnishment shall not exceed the lesser of:

1. Twenty-five percent of your disposable income for that week; or
2. For any debt incurred after April 12, 1988, the amount by which your disposable income for that

week exceeds 30 times the federal minimum hourly wage in effect when payable.

In the event a garnishment is issued against your wages you should contact your employer immediately and make arrangements to have the proper amount withheld. Employers are required to promptly honor garnishments. To determine whether your wages or any portion thereof are exempt from garnishment, consult an attorney as soon as possible.

Fair Reporting Act

The Fair Credit Reporting Act, a federal law, prohibits credit reports which contain the following obsolete information: bankruptcies which occurred more than seven years before the date of the report; judgments entered more than seven years before the date of the report; records of arrest; indictments or convictions of a crime in which the disposition, release or parole occurred more than seven years before the report's date; and any other adverse items of information occurring more than seven years before the date of the report. Additionally, you, the consumer, have the right to add a statement to your credit report explaining or disputing any items reported therein.

Denial Of Credit

If your application for credit, insurance or employment is denied, and the basis for the denial is adverse information contained in a credit report which the creditor has obtained from a credit bureau, the creditor MUST inform you of the denial and MUST supply the name and address of the credit bureau from which the report was obtained. Thereafter, you may go to the credit bureau and request disclosure of information in your file.

If the credit is denied based upon information obtained from a source other than a credit bureau, the creditor must inform you of the denial and further inform you that upon your written request to the creditor, received within 60 days, the creditor will disclose to you the nature of the information used.

Other Laws That Can Protect Your Credit

In addition to the Fair Credit Reporting Act, three other laws exist which can help protect your credit:

The Equal Credit Opportunity Act prohibits discrimination in granting credit because of sex or

marital status;

The Fair Credit Billing Act provides for a method of resolving disputed charges and payments made on a credit account; and

The Fair Debt Collections Practices Act limits the methods creditors may use to collect on consumer debts.

Points To Keep In Mind

- Before signing any papers, ALWAYS read them carefully;
- Do not sign any paper containing terms you do not understand;
- Be certain that all blank spaces are filled in on any papers you sign and that the terms agreed upon are stated. Retain copies of all such papers;
- When contracting for home improvement work, be sure you want the work done BEFORE you sign anything. Within certain time limits, you can exercise your right to cancel if you are not satisfied with the terms of your contract. Do not sign a certificate of completion prior to the satisfactory completion of the work; and
- If you are dissatisfied with your purchase and are unable to resolve the dispute with the dealer, or if you receive any legal process from a finance agency or merchant, contact your attorney immediately so that your interest may be protected.

REMEMBER: Your attorney is the best person to ask about credit problems and you should consult your attorney prior to executing any legal contract which you do not fully understand.

This brochure, based upon Alabama law, is issued to inform, not to advise. It is distributed to help you obtain your rights under the law and is published by:

Alabama State Bar
415 Dexter Avenue
Montgomery, Alabama 36104
(334) 269-1515
November 2011

Consumer Finance or 'Buying on Time'



Published by

