FEDERAL RESERVE BANK
OF NEW YORK

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CONSUMER GUIDE TO CREDIT PROTECTION LAWS

*To All Depository Institutions, and Others Concerned,
in the Second Federal Reserve District:*

Enclosed is a new booklet, entitled "Give Yourself Credit," which has been developed by the Federal Reserve Bank of San Francisco.

The booklet is designed to assist potential credit applicants, and to provide creditors with information they may use to improve their customers' understanding of credit transactions.

For further information or additional copies of this booklet, please contact:

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Give Yourself Credit!

A Consumer's Guide To Credit Protection Laws

This pamphlet was produced by the Federal Reserve Bank of San Francisco.
June 1981

INTRODUCTION

If you as a potential borrower are looking for a loan — or if you as a creditor want to help your customers better understand credit transactions — this booklet should be useful to you.

What is "credit"? What determines "creditworthiness"? What are your legal rights when you go to obtain credit? This booklet should help answer those questions, and help you choose among all the options available to borrowers.

To put this material in practical form, let's follow two typical loan applicants (called Gary and Lynn) through some of the credit transactions that they are apt to encounter. These include applications for credit cards, auto loans, home-mortgage loans, and home-improvement loans. The glossary at the back provides the reader with a set of definitions of common credit terms.

APPLYING FOR CREDIT

DO YOU KNOW WHAT INFORMATION IS USUALLY REQUESTED ON AN APPLICATION?

HAVE YOU EVER SEEN AN ADVERSE ACTION NOTICE?

IF YOU HAVE EVER BEEN DENIED CREDIT, DID YOU UNDERSTAND WHY?

DO YOU KNOW WHAT "PROHIBITED DISCRIMINATION" IS?

ARE YOU AWARE OF YOUR RIGHTS UNDER THE FAIR CREDIT REPORTING ACT?

Since most of us apply for credit infrequently, we are often uncertain about some aspects of obtaining credit. So, when we need credit, we may feel a little hesitant about approaching a bank, savings and loan, credit union or other creditor.

Let's begin by looking at the credit-application process. This involves the kinds of information usually asked on application forms, the reasons why loans are sometimes denied, how to correct a credit report, and so on.

Lynn is our first applicant. She has been working for several years at a local firm, earns an "average" salary, and has been living in the same apartment for two years. She has decided to buy a car and recently found one that meets her needs. But she doesn't have enough money for the entire purchase price. An obvious solution is to get a loan. Lynn already has one loan obtained through her college student-aid office, and two credit cards from local department stores, but she has never actually approached a bank loan officer to apply for credit.

Our second applicant is Gary. Unlike Lynn, he has never had credit of any type. He recently completed two years of military service and began his first civilian job — a job which requires frequent travel. After making his first business trip, he decided that traveling would be safer and easier if he had a credit card. Since almost everyone he knows has a credit card, he is confident that he too will be able to obtain one without difficulty.

Gary and Lynn live in the same city and work near the same bank. They each decide to stop at the bank during lunch hour, and meet each other while standing in line. Gary tells the receptionist that he would like to apply for a credit card. The receptionist hands him an application to complete and advises Gary to mail it back or return it personally. Being in a hurry to get back to work, he doesn't wait to discuss his application with a loan officer.

Lynn, who is next, asks to speak to a loan officer and states that she wants an automobile loan. The loan officer explains that the bank has various "terms and conditions" which Lynn must accept to obtain a loan. For example, the loan must be secured rather than unsecured. This means that if Lynn fails to make payments as agreed, the bank can take back (repossess) the car and sell it to satisfy the debt. The bank also requires a substantial downpayment and generally requires repayments to be made over three or four years. Since these terms seem fair, Lynn asks for an application form and leaves.

Lynn and Gary have each taken the first step toward getting credit, although they're seeking different types of credit. Lynn

is applying for **"closed end credit,"** which means that she is seeking a loan of a fixed amount. Gary, on the other hand, is applying for **"open end credit,"** which is credit that can be used from time to time as long as he doesn't exceed the limit set by the bank. So long as the total amount Gary has outstanding at any one time doesn't exceed this credit limit, the total amount he can borrow is virtually unlimited. Incidentally, he could also have applied for another common type of open end credit, the overdraft-checking plan, which lets the borrower obtain a loan by writing a check for an amount greater than the balance in the checking account.

The next step is for Gary and Lynn to complete their credit application forms. See pages 6-9 for a sample application form. **Please note that creditors are not required to use this form or any form in this pamphlet.** The information requested on an application is often the same regardless of where you live. But if you reside in a **community property** state (Arizona, California, Idaho, Louisiana, New Mexico, Nevada, Texas, Utah or Washington), a lender may ask about your marital status (and, if you are married, about your spouse) even though you may be applying for individual credit. Under community property laws, most income earned after marriage, by *either* husband or wife belongs to *both* of them. Therefore, as a married person living in a community property state, you can usually rely on your spouse's income as well as your own to obtain credit in your own name — and you usually don't need your spouse's signature on the application or the promissory note. In non-community property states, creditors generally may not ask you questions about your marital status when you apply for individual unsecured credit.

After reading the instructions, Gary begins to complete Section A, which asks for personal information, and Section D, which asks about his debts and assets. After supplying information about his employment, residency, age, and so forth, he turns to Section D. He leaves that section almost blank; he doesn't have much in the way of assets (things of value, such as real estate, automobiles, etc.) but, on the other hand, he doesn't have much in the way of debts either. He assumes the bank will consider him a good credit risk since he has a "clean slate." Finally, he gets to the question of credit references. Since he hasn't obtained credit in the past, he writes down his landlord's name and the name of his Army sergeant as character references. Gary confidently signs the application and mails it to the bank.

He would have been less confident, however, if he had realized what factors creditors consider when evaluating applications, such as length of employment and residence. While these may not seem relevant to Gary, banks and other creditors usually consider such factors to be reliable indicators of an applicant's "credit-worthiness." Since lenders can't extend credit to everyone, they must have some way of choosing among applicants. To aid in their decision-making, they generally rely on either "judgmental" or "credit-scoring" systems of credit evaluation.

With a **judgmental** system, a creditor develops a set of guidelines against which the applicant is judged. For example, a bank might require a certain length of residence and time on the job, a certain ratio of debts to income, a number of credit references, and a history of making payments when due. Failure to satisfy even a single guideline may result in denial of credit. But other factors, such as the maintenance of a large deposit account with the bank, may make up for certain deficiencies.

[Closed end, secured credit]

CREDIT APPLICATION

IMPORTANT: Read these Directions before completing this Application.

Check Appropriate Box

☐ If you are applying for individual credit in your own name and are relying on your own income or assets and not the income or assets of another person as the basis for repayment of the credit requested, complete Sections A, C, D, and E, omitting B and the second part of C.

☐ If this is an application for joint credit with another person, complete all Sections, providing information in B about the joint applicant.

☐ If you are applying for individual credit, but are relying on income from alimony, child support, or separate maintenance or on the income or assets of another person as the basis for repayment of the credit requested, complete all Sections to the extent possible, providing information in B about the person on whose alimony, support, or maintenance payments or income or assets you are relying.

Amount Requested $.................. Payment Date Desired .... Proceeds of Credit To be Used For..................

SECTION A—INFORMATION REGARDING APPLICANT

Full Name (Last, First, Middle): .... Birthdate: / /

Present Street Address: .... Years there: ....

City: .... State: .... Zip: .... Telephone: ....

Social Security No.: .... Driver's License No.: ....

Previous Street Address: .... Years there: ....

City: .... State: .... Zip: ....

Present Employer .... Years there: .... Telephone: ....

Position or title: .... Name of supervisor: ....

Employer's Address: ....

Previous Employer: .... Years there: ....

Previous Employer's Address: ....

Present net salary or commission: $.................. per .... No. Dependents: .... Ages: ....

Alimony, child support, or separate maintenance income need not be revealed if you do not wish to have it considered as a basis for repaying this obligation.

Alimony, child support, separate maintenance received under: court order ☐ written agreement ☐ oral understanding ☐

Other income: $.................. per .... Source(s) of other income: ....

....

Is any income listed in this Section likely to be reduced before the credit requested is paid off?
☐ Yes (Explain in detail on a separate sheet.) No ☐

Have you ever received credit from us? .... When? .... Office: ....

Checking Account No. .... Institution and Branch: ....

Savings Account No. .... Institution and Branch: ....

Name of nearest relative
not living with you: .... Telephone: ....

Relationship: .... Address: ....

SECTION B—INFORMATION REGARDING JOINT APPLICANT OR OTHER PARTY (Use separate sheets if necessary.)

Full Name (Last, First, Middle): .... Birthdate: / /

Relationship to Applicant (if any): ....

Present Street Address: .... Years there: ....

City: .... State: .... Zip .... Telephone: ....

Social Security No.: .... Driver's License No.: ....

Present Employer: .... Years there: .... Telephone: ....

Position or title: .... Name of supervisor: ....

Employer's Address: ....

Previous Employer: .... Years there: ....

Previous Employer's Address: ....

Present net salary or commission: $.................... per .... No. Dependents: .... Ages: ....

Alimony, child support, or separate maintenance income need not be revealed if you do not wish to have it considered as a basis for repaying this obligation.

Alimony, child support, separate maintenance received under: court order ☐ written agreement ☐ oral understanding ☐

Other income: $.................... per .... Source(s) of other income: ....

....

Is any income listed in this Section likely to be reduced before the credit requested is paid off?
☐ Yes (Explain in detail on a separate sheet.) No ☐

Checking Account No.: .... Institution and Branch: ....

Savings Account No.: .... Institution and Branch: ....

Name of nearest relative not living with Joint
Applicant or Other Party: ....

Relationship: .... Address: ....

SECTION C—MARITAL STATUS

Applicant: ☐ Married ☐ Separated ☐ Unmarried (including single, divorced, and widowed)
Other Party: ☐ Married ☐ Separated ☐ Unmarried (including single, divorced, and widowed)

SECTION D—ASSET AND DEBT INFORMATION (If Section B has been completed, this Section should be completed giving information about both the Applicant and Joint Applicant or Other Person. Please mark Applicant-related information with an "A." If Section B was not completed, only give information about the Applicant in this Section.)

ASSETS OWNED (Use separate sheet if necessary.)

Description of Assets	Value	Subject to Debt? Yes/No	Name(s) of Owner(s)
Cash	$		
Automobiles (Make, Model, Year)			
Cash Value of Life Insurance (Issuer, Face Value)			
Real Estate (Location, Date Acquired)			
Marketable Securities (Issuer, Type, No. of Shares)			
Other (List)			
Total Assets	$		

OUTSTANDING DEBTS (Include charge accounts, instalment contracts, credit cards, rent, mortgages, etc. Use separate sheet if necessary.)

Creditor	Type of Debt or Acct. No.	Name in Which Acct. Carried	Original Debt	Present Balance	Monthly Payments	Past Due? Yes/No
1. (Landlord or Mortgage Holder)	☐ Rent Payment ☐ Mortgage		$ (Omit rent)	$ (Omit rent)	$	
2.						
3.						
Total Debts			$	$	$	

(Credit References) Date Paid

1. $

2.

Are you a co-maker, endorser, or guarantor on any loan or contract?	Yes ☐ No ☐	If "yes" for whom?	To whom?
Are there any unsatisfied judgments against you?	Yes ☐ No ☐	Amount $	If "yes" to whom owed?
Have you been declared bankrupt in the last 14 years?	Yes ☐ No ☐	If "yes" where?	Year

Other obligations—(E.g., liability to pay alimony, child support, separate maintenance. Use separate sheet if necessary.)

SECTION E—SECURED CREDIT Briefly describe the property to be given as security:

and list names and addresses of all co-owners of the property:

Name **Address**

If the security is real estate, give the full name of your spouse (if any):

Everything that I have stated in this application is correct to the best of my knowledge. I understand that you will retain this application whether or not it is approved. You are authorized to check my credit and employment history and to answer questions about your credit experience with me.

Applicant's Signature	Date	Other Signature (Where Applicable)	Date

A **"credit-scoring" system,** in contrast, involves a computer-developed program where creditors assign numerical values to certain factors. For example, if an applicant has been living at the same address for five years, a bank might give that applicant fifteen points, but the applicant may not be assigned any points for this factor if he or she had been living there only a short time. If an applicant has both a checking and a savings account, he or she might get 10 points, but the number could drop to only five points for one account and 0 points for no account. (**Please remember: these are only examples.**) After the creditor assigns numbers to the various factors which appear relevant in determining "creditworthiness," it adds the total and approves the application only if the applicant's score exceeds a certain figure.

And now, back to Lynn. When she reads the instructions to her application, she realizes that she must complete several sections including a description of the auto she is buying (Section E), since it will serve as collateral for the loan. Supplying information about herself in Section A is easy, but she does notice the following portion of the application:

Alimony, child support, or separate maintenance income need not be revealed if you do not wish to have it considered as a basis for repaying this obligation. Alimony, child support, separate maintenance received under: court order __ written agreement __ oral understanding __

Other income: $________ per ________. Source(s) of other income: ________________

Is any income listed in this Section likely to be reduced in the next two years? Yes __ (explain in detail on separate sheet) No __

As this indicates, a credit applicant has a choice when it comes to providing certain income information — but if he or she wants to have this information included, the creditor can ask for further information which will indicate whether the payments have been made in the past and are likely to continue to be made in the future.

After completing Section D with information about her school loan and credit cards, and after listing her credit references and describing the auto she wishes to purchase, Lynn goes back to several questions she had skipped:

Are you a co-maker or guarantor on any loan or contract?	Yes __	If "yes" for whom?	To whom?
Are there any unsatisfied judgments against you?	Yes __ No __	Amounts $	If "yes" to whom owed?
Have you been declared bankrupt in the last 10 years?	Yes __ No __	If "yes" where?	Year

Although Lynn is not sure about the definition of "co-maker" or "guarantor," she presumes that the answer is "No" since she has never signed for a loan with anyone else. In this case she is right because a co-maker is basically a joint applicant on a loan, and a guarantor (or endorser) is someone who agrees to repay a loan if the applicant does not. Lynn also marks "No" beside the next two questions concerning unsatisfied judgments and bankruptcy. Unsatisfied judgment refers to a failure to pay money to someone else under a court order, and bankruptcy refers to a legal proceeding excusing an individual from his or her debts.

Having completed the application, Lynn mails it to the bank and awaits a reply.

Several days later, when she checks on the progress of her loan application, a loan officer tells her — much to her surprise — that the loan has been denied. The reason: her credit report indicates that she has a poor history of making loan payments.

Since Lynn has always paid her bills on time, she asks the loan officer to call the **credit-reporting agency** for an explanation. The loan officer explains that Lynn must clear up her credit history with the agency personally, but that the bank will be glad to reconsider her application if it receives a positive credit report.

Before Lynn leaves, the loan officer hands her a form, an **"adverse action notice,"** which has checked off "delinquent credit obligations" as the reason for the denial of the application. It also indicates the name and address of the credit-reporting agency which compiled the credit report. The adverse-action notice probably looked like the form on pages 12-13.

Before we go with Lynn on her visit to the credit-reporting agency, let's look in again on Gary. He has just received an envelope from the bank which contains, instead of a credit card, an adverse-action notice identical to the one Lynn received. In this case, though, different reasons have been checked: "Insufficient credit references" . . . "Length of Employment" . . . "Too short a period of residence" and "No credit file." This doesn't seem fair to Gary, particularly since he earns a substantial salary. He then reads the last portion of the notice, which states that creditors can't discriminate against applicants on a **"prohibited basis."** Since Gary feels his denial was unfair and discriminatory, he decides to visit the bank for an explanation.

The next day Gary discusses the denial with a loan officer and points out the section on discrimination. The loan officer agrees that it is illegal for the bank to discriminate on a **"prohibited basis,"** but explains that Gary's loan was not denied for any such reason — **because of age, sex, marital status, race, color, religion, national origin, receipt of public assistance income, or good faith exercise of rights under the Consumer Credit Protection Act.** It was denied simply because Gary has not established a credit history and, therefore, didn't satisfy the bank's credit standards. This, the loan officer states, is not an illegal reason.

ABC BANK

STATEMENT OF CREDIT DENIAL, TERMINATION, OR CHANGE

DATE January 12, 19xx

Applicant's Name: Lynn E. Jones

Applicant's Address: 123 Main Street
Anytown, US 91233

Description of Account, Transaction, or Requested Credit: Automobile Loan

Description of Adverse Action Taken:
Loan Denied.

PRINCIPAL REASON(S) FOR ADVERSE ACTION CONCERNING CREDIT

___ Credit application incomplete
___ Insufficient credit references
___ Unable to verify credit references
___ Temporary or irregular employment
___ Unable to verify employment
___ Length of employment
___ Insufficient income
___ Excessive obligations
___ Unable to verify income
___ Inadequate collateral
___ Too short a period of residence
___ Temporary residence
___ Unable to verify residence
___ No credit file
___ Insufficient credit file
X Delinquent credit obligations
___ Garnishment, attachment, foreclosure, repossession, or suit
___ Bankruptcy
___ We do not grant credit to any applicant on the terms and conditions you request.
___ Other, specify: ___

DISCLOSURE OF USE OF INFORMATION OBTAINED FROM AN OUTSIDE SOURCE

____ Disclosure inapplicable

X__ Information obtained in a report from a consumer reporting agency

Name: Anytown Credit Bureau

Street address: 456 First Street
Anytown, US 91234

Telephone number: (123) 456-7890

Information obtained from an outside source other than a consumer reporting agency. Under the Fair Credit Reporting Act, you have the right to make a written request, within 60 days of receipt of this notice, for disclosure of the nature of the adverse information.

Creditor's name: ABC Bank

Creditor's address: 789 Second Street
Anytown, US 91234

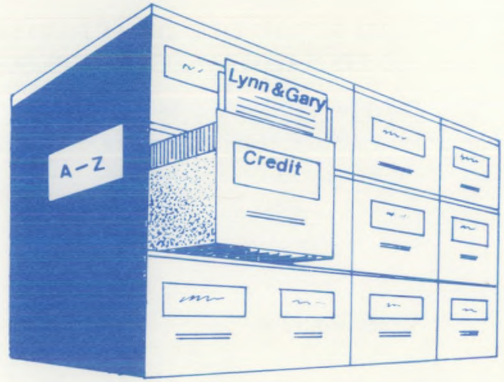
Creditor's telephone number: (123) 789-4560

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided that the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal agency that administers compliance with this law concerning this creditor is the Federal Reserve Bank of Anytown, 400 Third Street, Anytown, US 91234.

The loan officer goes on to explain some of the things meant by a **"prohibited basis."** For example, a person can't be denied credit because of age. Further, a person can't be denied a loan because he or she is too old to qualify for credit life insurance, although a lender can require realistic loan terms in such a case. In addition, it is illegal to deny a loan because of a person's race, color, or national origin.

A creditor also can't discriminate against someone because of sex or marital status. Among other things, this means that a creditor must allow a woman to choose the name which she wishes the account to be under (i.e., birth-given first name and birth-given last name, spouse's last name or a combined last name). In addition, the creditor mustn't ask a woman whether she intends to have children, and mustn't count her income for less than a man's because, for example, of an assumption that she will marry and leave the job market. Nor may a creditor require the **signature** of a husband on his wife's application for individual credit (or vice versa), although the husband may be asked to sign a security agreement if any community property or jointly owned property (joint tenancy or tenancy in common) secures the loan. Furthermore, if a husband and wife both use an account or if both are responsible for the debt, then a creditor must be able to report credit information in the name of *each* spouse concerning the account to other creditors or to credit-reporting agencies.

Finally, a creditor can't refuse credit to an individual because his or her income is from welfare, social security, or the like. But the individual must meet the institution's minimum income requirements, just like any other applicant. Nor can credit be denied because the individual has asserted any rights under Federal credit-protection laws.



After explaining the meaning of "prohibited discrimination," the loan officer again advises Gary that he must establish credit before the bank will grant him a credit card. For example, Gary might apply for a credit card with a department store, since a store's credit standards may be more lenient than a bank's. Or Gary could ask another "creditworthy" person, perhaps a friend or relative, to guarantee repayment of his credit card debts. In addition, Gary could take other steps to establish himself, such as opening savings and checking accounts. In fact, if he does set up a savings account, the bank might grant him a loan if he agreed that the bank could hold his savings account as security for the loan. He could then establish his creditworthiness by making the loan payments as agreed.

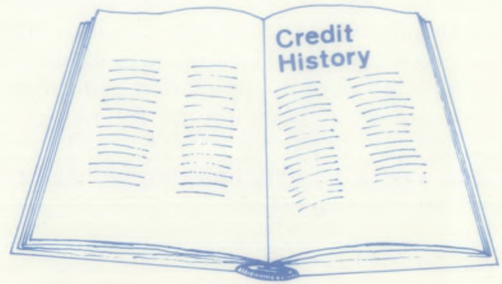
All of this information leads Gary to realize that getting started in the "credit world" requires effort on his part. His problem is typical among young people — and among older persons who have always believed in the "pay-as-you-go" system and have no credit established. But, as the loan officer explained, getting your first credit is not impossible — it just takes a little extra effort.

Meanwhile, Lynn has been reviewing with an employee of the credit-reporting agency the **credit report** which was sent to the bank. They discover that, rather than sending the bank a credit report on Lynn E. Jones, the agency sent a report on Lynn E. James, who does indeed have a poor record for making loan payments. Lynn then asks the agency to send a correct credit report to the bank, which the agency must do free of charge under the **Fair Credit Reporting Act.** With this error corrected, Lynn is confident that she will be granted her automobile loan.

The correction of this error might have been quite different if Lynn did not have the rights provided by the Fair Credit Reporting Act. For example, you as a borrower generally have the right to know the information contained in your credit file and its source, and you may obtain this data at no charge if you make a request within 30 days of a credit (or insurance, or employment) denial. In addition, you can insist that incomplete or inaccurate information be investigated and corrected, or you can have your version placed in the file. Further, most adverse information must be deleted from a credit file if it is more than seven years old, except information on bankruptcies which can be reported for ten years.

If you contact a credit-reporting agency within 30 days of a credit denial, you also have the right to have a corrected report, or the information about the dispute, sent free of charge to those who have already received a report.

We have followed Gary and Lynn through the initial steps of obtaining credit, and shown how Federal laws provide many protections to them and other consumers. **The laws of your state may give you additional rights.** Now let's follow our two loan applicants through a variety of common loan transactions that many of you are likely to experience. These include credit cards, auto loans, home-purchase loans and home-improvement loans.

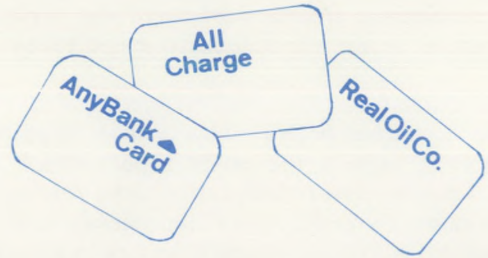


OBTAINING A CREDIT CARD

We've followed Gary through the process of applying for a credit card, and we've seen that he was turned down because of lack of credit references, no credit file, too short a period of employment, and too short a period of residence. All of these reasons point to the fact that Gary is not sufficiently "established" — not that he has mishandled credit in the past. As the bank's loan officer told Gary, he might qualify if he could provide a satisfactory **guarantor,** that is, some creditworthy person who is willing to guarantee repayment of Gary's obligations if Gary does not pay as agreed. Gary decides to ask his sister to sign, so she completes a credit application and submits it to the bank. All turns out well, because the following week Gary receives an envelope containing a credit card, a **"disclosure statement,"** and a notice telling him that he has been granted the credit limit he had requested.

Before Gary received his card, there were three matters that should have concerned him. First, how much is it going to cost him to use the card (**not all credit cards cost the same!**)? Second, what information will he receive about his purchases and payments? And third, what steps must he take if he feels that the bank made an error in his account?

The disclosure statement Gary received contains an explanation of the **costs** of using the credit card. These costs may include a fixed monthly or yearly charge for the credit-card account. There will also be a "variable" charge which is based upon the balance outstanding. This latter charge, the **"Finance Charge,"** is determined by multiplying the **"periodic rate"** times the balance subject to finance charges. (The periodic rate is the



portion of the annual percentage rate which applies to the time during which the balance is owing). Also, there may be **"per item"** charges included in the finance charge. Here is an example: If $100 is the outstanding balance subject to finance charges for the monthly billing cycle and the annual percentage rate is 18 percent, the periodic rate is 1.5 percent (18 percent divided by 12 months), and the finance charge for the month is $1.50.

The periodic rate and **annual percentage rate** are set forth in the disclosure statement. If different rates apply to different ranges of balances (or to cash advances as opposed to credit purchases), the various rates and the balances or transactions to which they apply will also be identified.

The disclosure statement may also tell Gary how his **minimum monthly payments** are calculated. The minimum payment usually will be a percentage of the outstanding balance. Of course, Gary can pay more; if he does, the finance charge will be reduced (finance charges can be avoided altogether if the entire balance is paid by a certain date unless there is no **"free ride"** period). Any late charges and any security interest taken by the bank will also be included on the statement. Finally, Gary will receive information concerning his right to dispute billing errors.

Some weeks after Gary begins using his credit card, he receives his first month's billing statement. (See pages 18-19.)

This **periodic statement** covers a monthly billing cycle ending the last day of February. Since this is the first month Gary had the credit card, he has no previous balance, and he owes no finance charges or late charges for unpaid prior balances. The statement reflects Gary's only purchase for the month, by indicating the date of the purchase, the name and address of the merchant, the date the bank "posted" the transaction to his account, and the amount of the purchase. Gary's minimum payment is $18.00 and is due on March 25. If there is a **"free ride"** period (see page 16), the **due date** should be at least 14 days after the statement is mailed to the customer.

If Gary has questions concerning any of these details, he may contact the bank at the address listed on the statement. Also, his statement includes a lower portion which he should detach to accompany the payment. This helps assure that Gary's payment will be credited to the correct account.

There is one more question: How will he go about correcting any errors that he believes have been made in his account? The rules for **billing-error resolution** place responsibilities both on Gary and on the bank. Suppose that his $450 credit incorrectly shows up on his statement as $480. When Gary receives his monthly statement, he discovers the error. What should he do in this situation? The answer lies in the notice that is usually entitled, "In Case of Errors or Inquiries About Your Bill," which he should have received along with his credit card. In fact, he should receive that notice at least once a year or in summary form with each statement.

Gary has the initial responsibility to inform the bank of any error. He must notify the bank *in writing* within 60 days after the billing statement is mailed; he should write to the address given on his monthly statement. Gary must tell the bank his name and account number, what he believes to be in error, his reasons for that belief, and the dollar amount of the suspected error. Having taken these steps, Gary need not pay the part of the bill in dispute, but must pay the remainder. In our example, he would be obligated to pay the $450 (in full or in installments) that he knows is owed, but not the $30 that he believes to be in error.

At this point the responsibility shifts to the bank. It must acknowledge Gary's letter within 30 days (unless it corrects the error before that time). Within 90 days, the bank must either correct Gary's account or tell him why the bank believes the bill is correct. While the alleged error is being investigated, the bank may not take any action to collect the disputed portion of the account (or any finance charges on the disputed amount). The bank also can't report Gary to a credit bureau as being

Sunny California Bank

RETAIN THIS STATEMENT FOR YOUR RECORDS

Sunny California Bank

SUNNY BANKCARD STATEMENT

ACCOUNT NUMBER	NAME	THIS MONTH'S STATEMENT DATE
123-45678-90	Gary	2 28 xx

Send Inquiries To:
Sunny California Bank
P. O. Box 123
San Francisco, CA 94___

FINANCE CHARGE CALCULATION

	AMOUNTS SUBJECT TO CHARGE		COMPONENTS OF FINANCE CHARGE	
PERIODIC CHARGE ON AVERAGE ADJUSTED DAILY BALANCE OF	.00	=	.00	
TRANSFER & CHECK SERVICE FEE ON TRANSACTIONS OF	.00	=	.00	
CASH ADVANCE FEE ON TRANSACTIONS OF	.00	=	.00	
TOTAL OF AVERAGE ADJUSTED DAILY BALANCE, CASH ADVANCES AND TRANSFER AND CHECK SERVICE TRANSACTIONS ON WHICH COMPONENTS OF FINANCE CHARGE WERE CALCULATED	.00		.00 ↑ FINANCE CHARGE	18.00 % ↑ ANNUAL PERCENTAGE RATE

ACCOUNT ACTIVITY

PREVIOUS BALANCE	.00
LESS: PAYMENTS	.00
LESS: CREDITS	.00
SUBTOTAL	
PLUS DEBITS: NEW CREDIT EXTENDED	450.00
PLUS DEBITS: FINANCE CHARGE	.00
PLUS DEBITS: LATE CHARGE	.00
NEW BALANCE	450.00

CREDIT STATUS

YOUR CREDIT LIMIT IS	800.00
YOUR CREDIT AVAILABLE IS	350.00

YOUR PAYMENT DUE DATE IS

3 25 xx

TO AVOID IMPOSITION OF ADDITIONAL PERIODIC CHARGES PAYMENT OF THE "NEW BALANCE" MUST BE RECEIVED BY THE CARD CENTER BY THIS DATE. MINIMUM PAYMENTS NOT RECEIVED BY THIS DATE WILL BE PAST DUE

FOR BILLING INFORMATION CALL
(415) 456-7890
FROM 8:30 A.M. to 4:00 P.M.
MONDAY THROUGH FRIDAY

POSTING DATES	REFERENCE NUMBERS	DESCRIPTIONS	TRANSACTION DATES (If Available)	DEBITS	PAYMENTS AND CREDITS
2/10	987654321	Local Clothiers San Francisco CA	2/6	450.00	
080004-0049-838388 STATEMENT NUMBER		NOTICE: SEE REVERSE SIDE FOR IMPORTANT INFORMATION		450.00 TOTAL DEBITS	.00 TOTAL PAYMENTS AND CREDITS

SUNNY CALIFORNIA BANK
(Reverse Side)

FINANCE CHARGES

The FINANCE CHARGE shown on the reverse is the total of any Cash Advance Fee, Transfer and Check Service Fee and Periodic Charge imposed during the billing cycle. The Cash Advance Fee is 2.5% of the total of the Cash Advance transactions shown on the statement. The Transfer and Check Service Fee is 2.0% ($1.50 minimum) of the total Transfer and Check Service transactions shown on the statement. If a Periodic Charge is shown on the statement, it was determined by multiplying the Average Daily Balance (including current transactions) by a monthly periodic rate of 1.5%, which corresponds to an ANNUAL PERCENTAGE RATE of 18%. To get the "average daily balance" we take the beginning balance of your account each day, add any new purchases (and advances/loans), and subtract any payments or credits (and unpaid finance charges). This gives us the daily balance. Then, we add up all the daily balances for the billing cycle and divide the total by the number of days in the billing cycle. This gives us the "average daily balance."

MINIMUM MONTHLY PAYMENT SCHEDULE

If Your New Balance is	Your Minimum Payment Will Be
Under $10	Amount of new balance
$10 to $250	$10 plus any past due minimum payments - not to exceed new balance
Over $250	4% of new balance plus any past due minimum payments - not to exceed new balance

IN CASE OF ERRORS OR QUESTIONS ABOUT YOUR BILL

If you think your bill is wrong or if you need more information about a transaction on your bill, write us (on a separate sheet) at P. O. Box 123, San Francisco, CA 94___, as soon as possible. We must hear from you no later than 60 days after we sent you the first bill on which the error or problem appeared. You can telephone us, but doing so will not preserve your rights.

In your letter, give us the following information:

* Your name and account number.
* The dollar amount of the suspected error.
* Describe the error and explain, if you can, why you believe there is an error. If you need more information, describe the item you are unsure about.

You do not have to pay any amount in question while we are investigating, but you are still obligated to pay the parts of your bill that are not in question. While we investigate your question, we cannot report you as delinquent or take any action to collect the amounts you question.

SPECIAL RULE FOR CREDIT CARD PURCHASES

If you have a problem with the quality of goods or services that you purchased with a credit card and you have tried in good faith to correct the problem with the merchant, you may not have to pay the remaining amount due on the goods or services. You have this protection only when the purchase price was more than $50 and the purchase was made in your home state or within 100 miles of your mailing address.

delinquent on the credit-card account for not paying the disputed $30.

If the bank made a mistake, it must correct Gary's account so that he does not have to pay the wrong amount or any finance charges on it. Gary must also be notified of the correction. If the bank determines that no error occurred, it must explain why to Gary. Having complied with these procedures, the bank may consider the error resolved.

If Gary is like most credit-card users, he will never have to resort to these error-resolution procedures. He can probably reconcile most questions that come up without ever contacting the bank if he keeps copies of all the slips he receives when he makes credit-card purchases. However, when he does believe that an error has been made, he should remember that he has the right to have the matter investigated, and the responsibility to bring it to the bank's attention promptly.

FINANCING AN AUTOMOBILE

When we last saw Lynn she was straightening out her credit rating with the credit bureau. Although she chose to seek bank financing for her new car, she could've tried other sources of financing as well. For example, **the auto dealer could have offered to arrange financing.** In this case, the lender may be a company which is tied in with the dealership, or the dealer may arrange the loan through a bank. In either case, there are three parties involved in the transaction: the buyer, the dealer and the lender. The buyer applies for the loan at the dealership, and receives a written statement of the charges and other aspects of the loan. The dealer sends the application to the lender, who decides whether or not to make the loan. If the lender decides to extend the credit, the buyer makes the loan payments directly to the lender. The auto dealer will be paid by the lender, and will no longer be involved in the transaction. However, the lender may reserve the right to seek payment from the dealer if the buyer fails to make required payments. This is called making the loan "with recourse."

After shopping around, Lynn has decided on the car of her choice. The dealer has quoted her a total price of $8,000. Lynn has no trade-in but decides to use $2,000 of her savings as a downpayment, which means she needs to borrow $6,000. The auto salesman wrote this information on a sales contract which Lynn took with her when she set out to find financing.

When Lynn first applied for a loan, she discussed loan terms with the bank lending officer. (Loan terms will vary, depending on the policy of the creditor.) The officer told her that the bank's policy was to lend only 80 percent of the total price of a new car. Lynn showed the officer her copy of the **sales contract,** indicating that she had agreed to make a $2,000 or 25 percent downpayment on the $8,000 car, so this requirement will cause her no problems. Although the bank is willing to make 48-month loans on new autos, Lynn chooses a 36-month repayment schedule, since she feels that she can afford the higher payments and knows she will not have to pay as much interest if she pays off the loan at a faster rate. Finally, the loan officer tells her that the bank is currently making auto loans at an annual percentage rate of 18 percent.

Before she signs a note or other contract promising repayment, the lending officer hands Lynn a **"Truth-in-Lending Disclosure Statement."** (See pages 22-23.) Since she is not yet committed to accepting the loan, she may use the information contained in the statement to help her compare the costs of borrowing from various lenders.

The disclosure statement gathers together all of the most important information about the loan. For example, the **"Finance Charge"** is the sum of all the costs of a credit, including all charges which Lynn must pay before and during the term of the loan. In Lynn's case, the disclosed finance charge consists of the interest she will pay for the three-year loan period.

Although interest commonly is the largest part of the finance charge, there may be **other charges** included. For example, Lynn might have been required to pay a credit report fee.

A **credit report fee** typically reflects the cost to the creditor of obtaining a credit report on an applicant; this cost is usually

TRUTH IN LENDING DISCLOSURE STATEMENT (LOANS)

ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate.	FINANCE CHARGE The dollar amount the credit will cost you.	Amount Financed The amount of credit provided to you or on your behalf.	Total of Payments The amount you will have paid after you have made all payments as scheduled.
%	$	$	$

You have the right to receive at this time an itemization of the Amount Financed.

☐ I want an itemization. ☐ I do not want an itemization.

Your payment schedule will be:

Number of Payments	Amount of Payments	When Payments Are Due

Insurance

Credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless you sign and agree to pay the additional cost.

Type	Premium	Signature
Credit Life		I want credit life insurance. ____________ Signature
Credit Disability		I want credit disability insurance. ____________ Signature
Credit Life and Disability		I want credit life and disability insurance. ____________ Signature

You may obtain property insurance from anyone you want that is acceptable to (creditor). If you get the insurance from (creditor), you will pay $____________.

Security: You are giving a security interest in:

☐ the goods or property being purchased.
☐ (brief description of other property).

Filing fees $ __________ **Non-filing insurance** $ __________

Late Charge: If a payment is late, you will be charged $__________/__________% of the payment.

Prepayment: If you pay off early, you

☐ may ☐ will not have to pay a penalty.
☐ may ☐ will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

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e means an estimate

passed on to the customer. This type of fee is most often paid at the beginning of the loan ("up front"). Charges paid "up front" reduce the amount of money being borrowed because they are either paid separately in cash ("out of pocket") or deducted from the loan proceeds (the amount of money requested). In either case, these fees are called **"Prepaid Finance Charges."** After deducting prepaid finance charges from the loan proceeds, the amount of money actually available or that will be paid to the borrower (or, in this case, directly to the car dealer) is the **"Amount Financed."**

The **"Total of Payments"** would also appear on the disclosure. This figure is the sum of the amount financed and the finance charge. If Lynn makes her monthly payments on time, this is the entire amount she will pay the bank.

The **"Annual Percentage Rate"** (APR) is perhaps the single most important item shown on the disclosure statement. By relating the finance charge to the amount financed, it provides a single percentage figure which borrowers may use to compare the costs of obtaining a loan from various financial institutions.

The effect of the annual percentage rate upon the finance charge and the monthly payment amount can be clearly seen by comparing two loans, both for $6,000 for 36 months, at annual percentage rates of 15.00 percent and 20.00 percent:

	15.00% APR	20.00% APR
Amount Financed	$6,000.00	$6,000.00
Finance Charge	1,487.64	2,027.28
Total of Payments	7,487.64	8,027.28
Monthly Payments	207.99	222.98

The 5-percent difference in the annual percentage rate thus translates into a difference of $15 every month in the payment amount.

Lynn's disclosure statement provides her with other helpful information: how much she will have to repay each month, how many payments she will have to make, and the date each payment is due, and so forth.

For most auto loans, the credit is secured by a **"security agreement"** covering the vehicle purchased. The borrower thus agrees that the lender may recover or **"repossess"** the auto if the loan is not repaid as agreed or if the borrower breaks any other agreement such as a promise to keep the car insured. The lender is often labeled a "lienholder" or "legal owner" of the auto, despite the fact that the borrower has possession of the vehicle. Holding a security interest helps assure the lender that the loan will be repaid. Lynn's disclosure statement must identify the security interest, which means that the auto will be shown as securing the loan.

The disclosure statement will also show any charges which the lender imposes for **late monthly payments** or for **early repayment** of the loan. Sometimes the creditor offers (but usually does not require) **insurance** to pay off the bank in the event of the borrower's death or disability. If Lynn chooses to obtain such optional insurance through the bank, she must sign a separate authorization space on the disclosure statement.

Lynn also will have to obtain accident insurance on the car. The bank will want to have its name shown on the policy as a "payee" if the auto is damaged, since the bank is really part-owner of the car until Lynn finishes paying for it. The disclosure statement informs her that she must have insurance, but that she may obtain it from a source of her choosing.

Finally, if Lynn has been investigating credit costs at several institutions, the information she has received on their disclosure statements should help her decide where she can get the best financial deal.

The Leasing Alternative:

As an alternative to purchasing a car, Lynn may wish to consider a lease. Leasing has several potential advantages over purchasing, including a smaller down payment, lower monthly payments, and possible tax benefits if the vehicle is used for business purposes. On the other hand, if Lynn leases, she will not own the auto at the end of the lease term, at least not without paying more money.

Lynn decides she wants to find out more about leasing and pays a visit to a consumer-leasing company. (Leases are also frequently arranged by banks and auto dealerships.) The leasing-company salesman asks her to fill out an application similar to the one she filled out for an auto loan. Automobile lessors often impose stricter credit standards than auto-sales firms. Frequently they require an excellent credit history, as well as longer length of residence and longer time on the job.

Lynn returns to the lessor several days later and learns that her application has been approved. The leasing company tells her that since she plans to lease the car for more than four months and will not be using it for business, the transaction is controlled by the **Federal Consumer Leasing Act.** Under this law, Lynn is entitled to receive a written statement of the costs associated with the lease before she agrees to go through with the transaction. She must also be informed of how any liability outstanding at the end of the lease term will be determined. Since she is anxious to do some comparison shopping, Lynn asks the person at the leasing company to give her an explanation of the items on her disclosure statement.

First, Lynn wants to know how much she will be required to pay at the beginning of the lease. These charges commonly include the down payment (called the **"capitalized cost reduction"** in leasing transactions), any trade-in allowance, and any security deposit, monthly payment or other charges that the leasing company requires to be paid in advance. The disclosure statement lists and totals these various charges.

Next, Lynn is concerned with the size of her **monthly payments.** Her disclosure statement indicates the amount of the *basic* monthly payment and the total amount and number of these payments over the life of the lease. It also spells out other payments that she may make to the leasing company, such as insurance payments, registration fees, and maintenance-contract fees to keep the auto in good repair. Lynn may be able to save money by comparing these charges for different makes and models of cars, and for different financial institutions, dealerships and consumer-leasing companies. The total amounts of **license, registration and similar fees** which must be paid over the lease term are included in the lease disclosure statement; so are the total **insurance premiums** if the leasing company provides such insurance.

If Lynn believes she may return the car before the lease term ends, she will be interested in the conditions and charges for

early termination. Or if she thinks she may purchase the car at the end of the lease, she will want to have an **option to purchase** included, and will want to know what the purchase price will be.

If Lynn is not going to buy the car, she may have to pay the leasing company the difference between the actual value of the car at the end of the lease term and the amount the company originally estimated would be the final value of the car. A difference could arise if Lynn uses the car more than expected or if it was damaged when returned. Lynn should know that the Consumer Leasing Law contains provisions to prevent an extremely large payment at the end of the lease term and to protect her from being treated unfairly at that time. The standards for wear and use and the estimated value at termination must be explained in the disclosure statement. With limited exceptions, Lynn can't be required to pay more than **three times** the amount of her monthly payment if the auto's actual value at the end of the lease term is less than the original estimate. If Lynn disagrees with the final value the leasing firm places on the vehicle, she has the right to have a professional appraiser establish the value which could be obtained by selling the vehicle. This amount then takes the place of the value assigned by the lessor.

A lease plan such as this is often called an **"open-end" lease,** since the lessee (Lynn) may have some liability at the end of its term. If Lynn has a **"closed-end" lease,** on the other hand, she will not be responsible for the difference between actual and estimated value at termination. However, her monthly payments may be somewhat higher under a closed-end lease plan.

Whichever option she chooses, Lynn will have to maintain **insurance** on the auto. Her disclosure statement will show the types and amounts of insurance required, as well as the total premium cost if the leasing company (lessor) provides coverage for her. Lynn and the leasing company will also have to agree on who will bear the responsibility for maintaining the vehicle, as spelled out in the disclosure statement. Now, after seeing all this information, Lynn has all the facts and figures she needs to choose the arrangement which will best fit her needs and (most importantly) her budget.

FINANCING A HOME PURCHASE

Let's look in now at Gary and Lynn several years later. Gary by now has obtained all the credit cards he needs, and Lynn's new car is no longer new. Meanwhile, their chance meeting in the bank line has blossomed into romance, and they have married and are now ready to purchase their first home. They have both worked for several years to save a downpayment. After a great deal of looking, they have selected a home that appears to fit their budget.

The house they want has been vacant for some time, needs a lot of work, and is located in a run-down neighborhood. However, the house is reasonably priced and they feel that they could make it into a comfortable home. After giving the real-estate agent a deposit, Gary and Lynn stop at a local savings-and-loan association to apply for a mortgage loan (they also considered applying at a local bank).

Gary and Lynn first ask the S&L loan officer whether or not the savings and loan is making home-mortgage loans. However, they could also have found the answer by looking at the **Community Reinvestment Act (CRA) Statement** which should be available to the public at each branch. The statement includes a listing of all the types of loans that a particular bank or savings-and-loan association is prepared to make in the community.

However, the creditor may not always be able to make a particular type of loan. Although the CRA Statement lists the types of loans the institution usually makes, economic and other market conditions sometimes may temporarily restrict the amount of money the creditor can lend for certain types of credit, such as for long term mortgage loans. When these conditions occur, creditors may say "There is no 'mortgage money' available at the moment." although lesser amounts (e.g., for shorter term automobile purchases) may be available. After market conditions improve and the creditor again has "mortgage money" to lend, the institution will be able to resume making this type of loan.

The loan officer gives Gary and Lynn an application to be filled out. (See pages 28-31 for a sample.) They notice that it differs from the applications they have filled out in the past, because it requests information about their **race, sex and national origin.** When they ask about this, the loan officer explains that Federal law requires creditors to ask for this information in connection with loans to purchase residential real estate. However, borrowers don't have to answer these specific questions, and the S&L won't consider such information when it decides whether to approve or deny the loan. Information of this type is simply used by Federal regulatory agencies to monitor compliance with Federal law.

[Residential real estate mortgage loan]

RESIDENTIAL LOAN APPLICATION

MORTGAGE APPLIED FOR	☐ Conventional ☐ FHA ☐ VA ☐ ______	Amount $______	Interest Rate ____%	No. of Months	Monthly Payment Principal & Interest $______	Escrow/Impounds (to be collected monthly) ☐ Taxes ☐ Hazard Ins. ☐ Mtg. Ins. ☐ ______

Prepayment Option

1. SUBJECT PROPERTY

Property Street Address	City	County	State	Zip	No. Units

Legal Description (Attach description if necessary.)	Year Built

Purpose of Loan: ☐ Purchase ☐ Construction-Permanent ☐ Construction ☐ Refinance ☐ Other (Explain)

Complete this line if Construction-Permanent or Construction Loan	Lot Value Data Year Acquired ____	Original Cost $______	Present Value (a) $______	Cost of Improv. (b) $______	Total (a + b) $______	ENTER TOTAL AS PURCHASE PRICE IN DETAILS OF PURCHASE.

Complete this line if a Refinance Loan			Purpose of Refinance	Describe Improvements [ ] made [ ] to be made
Year Acquired	Original Cost $	Amt. Existing Liens $		Cost: $______

Title Will Be Held In What Name(s)	Manner in Which Title Will Be Held

Source of Down Payment and Settlement Charges

This application is designed to be completed by the borrower(s) with the lender's assistance. The Co-Borrower Section and all other Co-Borrower questions must be completed and the appropriate box(es) checked if ☐ another person will be jointly obligated with the Borrower on the loan, ☐ the Borrower is relying on income from alimony, child support, or separate maintenance or on the income or assets of another person as a basis for repayment of the loan, or ☐ the Borrower is married and resides, or the property is located, in a community property state.

2. BORROWER			3. CO-BORROWER		
Name	Age	School Yrs.	Name	Age	School Yrs.

Borrower

Present Address No. Years ______ ☐ Own ☐ Rent

Street ______

City/State/Zip ______

Former address if less than 2 years at present address

Street ______

City/State/Zip ______

Years at former address ☐ Own ☐ Rent

Marital Status	☐ Married ☐ Separated ☐ Unmarried (incl. single, divorced, widowed)	Dependents other than listed by Co-borrower: No. / Ages

Name and Address of Employer	Years employed in this line of work or profession? ______ years Years on this job ______ ☐ Self Employed

Co-Borrower

Present Address No. Years ______ ☐ Own ☐ Rent

Street ______

City/State/Zip ______

Former address if less than 2 years at present address

Street ______

City/State/Zip ______

Years at former address ☐ Own ☐ Rent

Marital Status	☐ Married ☐ Separated ☐ Unmarried (incl. single, divorced, widowed)	Dependents other than listed by Borrower: No. / Ages

Name and Address of Employer	Years employed in this line of work or profession? ______ years Years on this job ______ ☐ Self Employed

Position/Title	Type of Business	Position/Title	Type of Business

Social Security Number	Home Phone	Business Phone	Social Security Number	Home Phone	Business Phone

4. GROSS MONTHLY INCOME

Item	Borrower	Co-Borrower	Total
Base Empl. Income	$	$	$
Overtime			
Bonuses			
Commissions			
Dividends/Interest			
Net Rental Income			
Other† **(Before completing, see notice under Describe Other Income below.)**			
Total	$	$	$

5. MONTHLY HOUSING EXPENSE

	Present*	Proposed
Rent	$	
First Mortgage (P&I)		$
Other Financing (P&I)		
Hazard Insurance		
Real Estate Taxes		
Mortgage Insurance		
Homeowner Assn. Dues		
Other:		
Total Monthly Pmt.	$	$
Utilities		
Total	$	$

6. DETAILS OF PURCHASE

a. Purchase Price	$
b. Total Closing Costs (Est.)	
c. Pre Paid Escrows (Est.)	
d. Total (a+b+c)	$
e. Amount of Mortgage	( )
f. Other Financing	( )
g. Present Equity in Lot	( )
h. Amount of Cash Deposit	( )
i. Closing Costs Paid by Seller	( )
j. Cash Reqd. For Closing (Est.)	$

7. DESCRIBE OTHER INCOME

⇩	B–Borrower C–Co-Borrower	**NOTICE: † Alimony, child support, or separate maintenance income need not be revealed if the Borrower or Co-Borrower does not choose to have it considered as a basis for repaying this loan.**	Monthly Amount
			$

8. IF EMPLOYED IN CURRENT POSITION FOR LESS THAN TWO YEARS COMPLETE THE FOLLOWING

B/C	Previous Employer/School	City/State	Type of Business	Position/Title	Dates From/To	Monthly Income
						$

9. THESE QUESTIONS APPLY TO BOTH BORROWERS

If a "yes" answer is given to a question in this column, explain on an attached sheet.	Borrower Yes/No	Co-Borrower Yes/No
Have you any outstanding judgments?		
In the last 14 years, have you been bankrupt?		
Have you had property foreclosed upon or given title or a deed in lieu thereof?		
Are you a co-maker or endorser on a note?		
Are you a party in a law suit?		
Are you obligated to pay alimony, child support, or separate maintenance?		
Is any part of the down payment borrowed?		

	Borrower Yes/No	Co-Borrower Yes/No
Do you have health and accident insurance?		
Do you have major medical coverage?		
Do you intend to occupy the property?		
Will this property be your primary residence?		
Have you previously owned a home?		
Sale price of previously owned home	$	$

* All Present Monthly Housing Expenses of the Borrower and Co-Borrower should be listed on a combined basis.

This statement and any applicable supporting schedules may be completed jointly by both married and unmarried co-borrowers if their assets and liabilities are sufficiently joined so that the statement can be meaningfully and fairly presented on a combined basis; otherwise separate statements and schedules are required. If the Co-Borrower section was completed about a spouse, this statement and supporting schedules must be completed about that spouse also.

☐ Completed Jointly ☐ Not Completed Jointly

STATEMENT OF ASSETS AND LIABILITIES

10. ASSETS		11. LIABILITIES			
		Indicate by (*) those liabilities that will be satisfied upon sale of real estate owned or upon refinancing of property.			
Description	Cash or Market Value	Creditor's Name, Address, Account Number	Acct. Name if Not Borrower(s)	Mo. Pmt. and Mos. left to pay	Unpaid Balance
Cash Deposit Toward Purchase Held By	$	Instalment Debts (include "revolving" charge accounts)		$ Pmt./Mos. /	$
Checking and Savings Accounts (Names of Institutions/ Acct. Nos.)				/	
				/	
				/	
Stocks and Bonds (No./description)		Automobile Loans		/	
				/	
Life Insurance Net Cash Value					
Face Amount ($)		Real Estate Loans			
SUBTOTAL LIQUID ASSETS	$				
Real Estate Owned *(Enter Market Value from Schedule of Real Estate Owned)*					
Vested Interest in Retirement Fund		Other Debt, Including Stock Pledges			
Net Worth of Business Owned *(Attach Financial Stat.)*					
Automobiles (Make and Year)				/	
Furniture and Personal Property		Alimony, Child Support, and Maintenance Payments (Owed To)			
Other Assets (Itemize)					
		TOTAL MONTHLY PAYMENTS		$	
TOTAL ASSETS	A $	NET WORTH (A minus B) $		TOTAL LIABILITIES	B $

SCHEDULE OF REAL ESTATE OWNED (If Additional Properties Owned Attach Separate Schedule)

Address of Property (Indicate S if Sold, PS if Pending Sale or R if Rental being held for income)		Type of Property	Present Market Value	Amount of Mortgages & Liens	Gross Rental Income	Mortgage Payments	Taxes, Ins. Maintenance and Misc.	Net Rental Income
			$	$	$	$	$	$
TOTALS			$	$	$	$	$	$

12. LIST PREVIOUS CREDIT REFERENCES

B–Borrower C–Co-Borrower	Creditor's Name and Address	Account Number	Purpose	Highest Balance	Date Paid

List any additional names under which credit has previously been received ______

AGREEMENT: The Undersigned applies for the loan indicated in this application, to be secured by a first mortgage or deed of trust on the property described herein, and represents that the property will not be used for any illegal or restricted purpose and that all statements made in this application are true and are made for the purpose of obtaining the loan. Verification may be obtained from any source named in this application. The original or a copy of this application will be retained by the lender, even if the loan is not granted.

Borrower's Signature ______ Date / / Co-Borrower's Signature ______ Date / /

VOLUNTARY INFORMATION FOR GOVERNMENT MONITORING PURPOSES

If this loan is for purchase or construction of a home, the following information is requested by the Federal Government to monitor this lender's compliance with Equal Credit Opportunity and Fair Housing Laws. The law provides that a lender may neither discriminate on the basis of this information nor on whether or not it is furnished. Furnishing this information is optional. If you do not wish to furnish the following information, please initial below.

BORROWER: I do not wish to furnish this information (initials)

Race/National Origin

☐ American Indian, Alaskan Native **SEX** ☐ Female ☐ Male
☐ Asian, Pacific Islander ☐ Black ☐ Hispanic ☐ White
☐ Other (specify)

CO-BORROWER: I do not wish to furnish this information (initials)

Race/National Origin

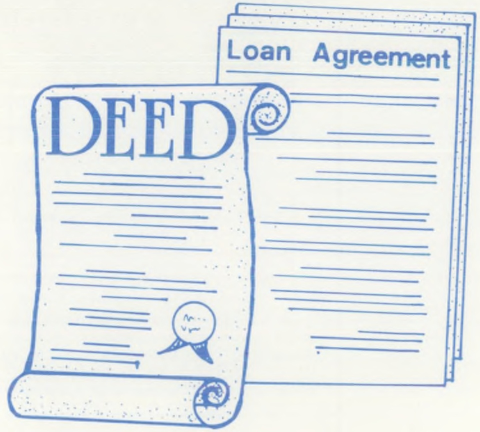
☐ American Indian, Alaskan Native **SEX** ☐ Female ☐ Male
☐ Asian, Pacific Islander ☐ Black ☐ Hispanic ☐ White
☐ Other (specify)

FOR LENDER'S USE ONLY

After Lynn and Gary have completed the application, the loan officer explains that the savings and loan (or bank) will finance 80 percent of the property's appraised value, but will also charge a 1-1½ percent loan fee (called **"points"**). The loan officer then gives them a copy of a pamphlet called **"Special Information Booklet."** This booklet explains the many other costs that Gary and Lynn may have to pay during the process of obtaining financing and of transferring the property, commonly called the **"settlement"** or "closing" process. Settlement costs include various fees — for property appraisal, for title examination and title insurance, for loan charges, and for initial payments of interest, taxes and property-insurance premiums. The loan officer also provides Lynn and Gary with a written estimate of most of the costs that they'll have to pay in connection with the loan closing. However, these costs are only estimates, and may differ somewhat from the actual costs.

By providing the special information booklet and the closing-cost estimates, the loan officer is complying with the **Real Estate Settlement Procedures Act (RESPA).** This law is intended to take some of the mystery and surprise out of the process of closing a real-estate transaction, and to give buyers advance notice of how much money they will need to complete a sale.

The loan officer also furnishes Lynn and Gary with a "Truth-in-Lending Disclosure Statement." This statement provides information concerning the loan as a whole, not just closing costs. This information includes the **"Amount Financed"** — the total amount of credit provided to Lynn and Gary or on their behalf. "On their behalf" refers to amounts that the lender will pay to others for Lynn and Gary, such as fees for the appraisal, credit report and title examination. However, it does not include the S&L's 1-1½ percent loan fee, since this fee is withheld from the loan and thus reduces the credit actually provided.



The disclosure statement also tells Gary and Lynn how much their loan will cost them. This is expressed as a percentage of the amount financed — the **"Annual Percentage Rate" (APR).** The APR takes into account the various costs imposed as a condition to the loan, whether they are "loan fees" (which are collected in advance or withheld from the loan), or "interest" (which is paid over the term of the loan). With this information, Gary and Lynn can shop around and compare APR's quoted by different lenders in order to choose the best deal. **If they only compared basic interest rates, they might make a poor choice,** since one lender might charge a lower rate of interest while collecting such a large advance loan fee that its true loan cost would actually be higher than someone else's.

Lynn and Gary find some other useful information on the disclosure statement, such as the total number of payments they must make. However, since they are still in the early stages of applying for the loan, they must understand that the information on the statement is only an estimate; it could change before they actually obtain the loan.

One week later, the savings and loan notifies Lynn and Gary that its appraised value of their house doesn't support the loan amount they requested. Lynn and Gary become worried that the S&L might be **"redlining"** — that it's using arbitrary appraisal policies to avoid making loans in the neighborhood where they wish to live. Redlining could occur when a lender refuses to make loans in a certain area because of the neighborhood's dilapidated property, or low-income status, or racial or ethnic mix.

However, after calling the loan officer, Lynn discovers that the property appraisal was lower than she expected because the roof of the house was in worse condition than she had thought. The savings and loan, however, is willing to make the loan if she and Gary come up with another $1,000 for the down payment. This seems reasonable to them, and so they ask Lynn's family to help them with additional funds.

The loan officer also says that the property they have chosen is located in a flood-hazard area, so that they must purchase **flood insurance** before the loan can be made. Flood insurance protects both the lender and the borrower if the property is damaged by flood. The policy itself may be obtained through a local insurance agent in a manner similar to fire and property insurance. Flood insurance is required by Federal law whenever property is located in an area that the government believes to be flood-prone.

After Lynn and Gary make arrangements for insurance coverage, title examination, and various other items, closing day finally arrives. Before the legal papers are signed, however, they receive a **"Uniform Settlement Statement"** which lists the exact costs that they and the seller of the house have agreed to pay and the amount of each payment. (Lenders often require that insurance premiums and real property taxes be paid "into escrow." Thus, Lynn and Gary's actual monthly payments could include these items.) This statement includes precise amounts for the closing costs previously estimated. The couple will also receive a Truth-in-Lending disclosure statement if they hadn't already received one, or if the amounts previously disclosed have changed substantially. (As of April 1982, a Truth-in-Lending disclosure statement must be provided within three days of receipt of the application.)

They have already examined the various statements and disclosures pertaining to the loan, so these new documents contain no surprises. They can, therefore, sign the legal papers which obligate them to undertake what will probably be the largest purchase of their lives. With the papers signed, Gary and Lynn receive the keys to their new home and are ready to move in.

OBTAINING A HOME-IMPROVEMENT LOAN

Five years have now passed since Gary and Lynn purchased their home. In the meantime, they have had one child and are expecting another. In order to have ample room in the house, they have decided to borrow money to add a room and furnish it before the baby is born. Their income has gradually risen, so they feel that they can afford to take on additional monthly payments. A new bank has just opened in the neighborhood, and Lynn and Gary decide to make an application there.

The loan officer explains that banks normally make home-improvement loans with the property being improved serving as collateral, meaning that if Gary and Lynn do not repay as agreed, the property could be foreclosed and sold to satisfy the debt. Since they still owe money to the savings and loan for their home mortgage, the bank would take a second security interest, called a **"second trust deed"** or **"second mortgage."** Gary and Lynn realize that the value of their home has increased during the five years since they bought it. The difference between its present value and the amount they still owe is called their **"equity"** in the home. This is important, because the bank will loan no more than a fixed percentage of the borrower's equity — although that percentage varies among different lenders.

After reviewing their application, the lending officer tells them that they should have no problem getting the additional money, because their equity is adequate to support the amount they want to borrow. With Gary's and Lynn's salary combined, they should be able to repay the second mortgage without difficulty.

The bank officer informs them that they can return the following week to sign the papers. This will give the bank time to get an updated appraisal and title report and to prepare the legal documents. Flood-insurance requirements again apply. However, if they had previously purchased the maximum coverage in connection with their home mortgage, they wouldn't need additional flood coverage at this time.

The bank officer also tells Gary and Lynn that after they sign the papers, they must still wait three more business days before they can get their money. This is because a Federal law gives them the **"Right of Rescission,"** the right of a consumer to cancel (within three business days) a transaction that results in a security interest in the consumer's home. (Congress passed this law to stop a practice followed by some unscrupulous contractors, who would persuade a borrower to sign a second mortgage and then foreclose on the mortgage if the borrower refused to pay for shoddy work.) This law does not apply to home-purchase loans, so Lynn and Gary didn't have to wait the three days when they were borrowing money for their home. Where the loan is intended to finance home improvement, vacation, bill consolidation or other such purposes, the rescission or "cooling-off" period must be complied with — unless the money is needed right away to meet a "bona fide personal financial emergency."

When Gary and Lynn return to the bank to sign the legal documents, they will receive copies of a notice regarding the purpose and effects of the three-day rescission period, as well as instructions on how to cancel the transaction if they choose to do so. Also at this time, they each receive a disclosure statement similar to the one they received when they purchased their home. After signing the necessary documents, and after waiting for the end of the three-day waiting period, Gary and Lynn receive their money and prepare to add the new addition for their new addition.

A FINAL WORD

We have followed Gary and Lynn from their initial entry into the credit world through some common credit transactions — from applying for a credit card to getting a home-improvement loan. With them, we have also learned about credit standards, about the types of information creditors may and may not request, and about important terms that borrowers should know, such as finance charge or annual percentage rate.

This booklet has been designed to assist both lenders and borrowers by helping consumers to become better informed about credit. But although intended as a general overview of *consumer* rights under Federal law, it should not be relied on by *creditors* or *consumers* as a "definitive" statement of law.

For more information about any of the transactions, credit terms and laws described in this booklet, contact the consumer-affairs office at your nearest Federal Reserve Bank.

GLOSSARY

Acceleration
The creditor's right to demand immediate payment in full if a borrower defaults.

Annual Percentage Rate (APR)
The finance charge for a full year, expressed as a percentage which reflects all costs of the loan.

Appraisal
A report setting forth an opinion or estimate of value.

Billing Cycle
The time interval (usually a month) between regular periodic billing statement dates.

Billing Error Statement
A statement furnished to the customer which explains how to report mistakes in a periodic statement and how to ask for further information about items in the statement.

Capitalized Cost Reduction
In leasing contracts, an amount equivalent to a down payment.

Charge Account
A line of credit that may be used repeatedly, usually with a specific limit.

Check Guarantee Card
A guarantee of an individual's check, up to a certain limit.

Closed End Credit
A loan or other fixed amount of credit, generally with fixed payment amounts and intervals (opposite of Open End Credit).

Collateral
Property which the borrower pledges to the creditor to assure loan repayment, and which is subject to seizure if the customer does not repay the loan (or defaults on any other promise he or she makes).

Consumer Leasing Act
A Federal law which requires disclosure of important lease terms and costs in leasing of property to individuals for personal, family or household purposes (the law also regulates advertising for such leases).

Community Reinvestment Act
An act designed to encourage banks and savings and loans to help meet the credit needs of their communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution.

Consumer Credit Reporting Agency
A company which assembles credit and other information on consumers, and which supplies the information to others.

Credit Life and Disability Insurance
Insurance taken out in connection with a credit transaction. Usually the debt will be paid off if the insured person dies, or payments will be made while the borrower is disabled.

Credit Report
Information about an individual consumer's credit history that is submitted by the credit bureau to creditors (or employers or insurance companies) on request.

Creditor
A person or firm that extends credit by loaning money, by selling property or goods on credit, by furnishing credit cards or the like.

Credit Standards
Standards established by a creditor that a consumer must meet in order to borrow money, get a credit card, or buy on credit.

Deed of Trust
A type of security instrument conveying title in trust to a third party covering a particular piece of property.

Direct Financing
A term usually used in auto financing. It means that the buyer obtains a loan directly from a lender.

Disclosure Statement
A statement containing information lenders must give borrowers before a credit contract is signed. Included in this statement are such things as the finance charge, the annual percentage rate, loan fees and insurance premiums. Similar statements are required in lease transactions.

Encumbrance
Anything that affects or limits the title of property, such as mortgages, leases, easements, or restrictions.

Escrow
A portion of a mortgagor's monthly payment held by the lender to pay such things as taxes, hazard insurance, mortgage insurance and other items as they become due.

Equity
The difference between the fair market value of property and current indebtedness.

Fair Credit Reporting Act
A Federal law providing consumers access to information contained in their credit reports, and providing a means of correcting errors in such reports.

Finance Charge
The cost to the consumer for borrowing money or buying on credit, expressed in dollars and cents as required by the Truth in Lending Act. It includes not only interest, but also various other charges.

Guarantor
A person who agrees to pay a debt of another if that person does not.

Judgmental Credit System
A system under which a creditor makes a credit decision based on its credit standards and judgment of the borrower's creditworthiness. (In contrast, a *credit-scoring system* is relatively mechanical because numerical values are assigned to various factors. The credit decision is based on whether or not the borrower meets the minimum credit "score.")

Late Charge
An additional charge a borrower is required to pay, as penalty for failure to pay a regular installment when due.

Lease Agreement
A written document containing the conditions under which the possession and use of real and/or personal property are given by the owner to another for a specific period and for a specific amount.

Lien
A legal claim of one person on the property of another as security for a debt.

Lienholder
The person who holds legal claim on another person's property as security for a debt.

Line of Credit
An agreement by a bank or other financial institution to extend credit up to a certain amount for a certain time to a specific borrower.

Open-End Credit
A credit plan under which the borrower obtains funds from time to time, and under which the creditor usually assesses finance charges on outstanding balances (commonly referred to as credit-card or revolving-charge accounts).

Overdraft Coverage
A line of credit permitting a person to write checks for more than the account balance, with interest charged on the amount borrowed.

Periodic Statement
A statement sent, usually on a monthly basis, to consumers with open-end accounts, reflecting the current balance, charges and payments made since the previous statement, the interest rate, and the amount of interest charged.

Points
A one-time charge assessed by the lender to increase the yield on a mortgage loan. One point is equal to one percent of the principal amount of the note.

Prohibited Bases
Reasons for which a creditor may not deny credit. They include race, color, religion, national origin, sex, marital status, age (if the applicant is of legal age to sign a contract), receipt of income from any public-assistance program, or good-faith exercise of any right under the Consumer Credit Protection Act (which includes the Truth-in-Lending Act, among other consumer protection laws).

Real Estate Settlement Procedures Act (RESPA)
A Federal law that provides for disclosure of charges involved in closing a residential real-estate loan.

Recourse
Responsibility of a dealer involved in a consumer loan to make repayment if the purchaser fails to make the required payments to the lender.

Repossession
The creditor's reclaiming or taking back of property (such as an automobile or appliance) if the buyer fails to make payments as agreed, or otherwise defaults.

Rescission
The right of a consumer to cancel (within three business days) a transaction that results in a security interest in the consumer's home. (There is no right to rescind a loan that finances the purchase of the home.)

Revolving Credit
The same as Open-End Credit.

Second Mortgage
A real-estate mortgage junior, or in second place, to another mortgage.

Security Agreement
An agreement between a lender and a debtor which gives the lender a security interest.

Security Interest
Any interest in property, real or personal, that secures payment of a debt or performance of an obligation.

Federal Reserve Banks

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P.O. Box 1731
ZIP 30301
(404) 586-8500

BOSTON, Massachusetts
600 Atlantic Avenue
ZIP 02106
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