Consumer Credit Role Play

This role play is designed to introduce students to the following aspects of consumer credit:

- the criteria which determine an individual's creditworthiness
- the legal rights of consumers when applying for credit.

The subject of the role play is a married couple's request for a home improvement loan. Other characters involved are: a loan officer, a credit bureau employee, employers of the loan applicants and a previous landlord. Students who are assigned the roles of loan applicants and creditor should receive only their respective role descriptions and not those of the other characters.

The loan officer first interviews the applicants and then consults the other characters to obtain information necessary to make a decision about the loan. The loan applicants should leave the room while the other characters are being consulted since, in reality, the couple would not be present during such investigations.

After the loan officer decides whether to extend credit and informs the applicants of the decision, the class discusses the outcome of the role play. Questions are suggested below. Once students have tried the role play, they can use the basic format to improvise additional loan requests and credit interviews.

To prepare for the role play, students should investigate consumers' rights when applying for and using credit. The loan applicants, in particular, are responsible for seeing that they are treated fairly by knowing their credit rights.

Two federal credit laws are relevant: the Equal Credit Opportunity Act and the Fair Credit Reporting Act. The first bars discrimination in granting credit and thus establishes what factors creditors can and cannot legally consider in their decisions. The second regulates the use of credit bureau reports and gives the consumer access to his file and the right to have erroneous data corrected.

(Pamphlets and a film explaining the basics of these and other consumer credit laws are available upon request to the Boston Fed; titles and information about how to order are given at the close of the article.)

ROLES

Janet and Peter Gardner

It is the middle of winter, and the furnace in the Gardners' home just broke down completely. A new furnace will cost $2,000, a sum which the Gardners, a young couple with one child, cannot afford on their savings alone. Thus they are jointly applying for a loan of that amount. They want to make a downpayment of $250 and to repay the rest in 24 monthly installments.

Both of the Gardners are employed. For the past five years, Peter has worked as an assembly-line technician at the local plant of the Chrome Corporation, an automobile manufacturer. His income after taxes is $12,000 per year. Janet is an assistant editor with the Metropolitan Publishing Company, where she has worked for the past four years. Since the birth of the Gardners' child seven months ago, Janet has switched from a full-time to a part-time schedule. She is currently earning $5,000 per year after taxes and plans to resume working on a full-time basis in five months.

The Gardners bought their home for $30,000 one year ago; they owe monthly mortgage payments of $450, including property taxes. They also jointly owe $100 per month on a car loan, $50 per month on credit card accounts and another $50 per month on a loan for new furniture.
For three months after the Gardners' baby was born, Peter Gardner was temporarily laid off by the Chrome Corporation. He collected unemployment compensation, but since Janet Gardner had just started working part-time, their joint income was substantially reduced during this period. As a result, the couple could not afford to meet their debt obligations other than mortgage payments during these three months. They contacted their creditors and arranged to catch up with the payments once Peter Gardner returned to work, as they have since done.

Sally Gillespie

A loan officer, Ms. Gillespie is responsible for deciding whether to accept the Gardners' loan request. To make that decision, Ms. Gillespie needs to ascertain both if the Gardners have the ability to repay debt, and if they have in the past demonstrated willingness to do so.

To evaluate their application, Ms. Gillespie must obtain information from the Gardners themselves, their employers, a previous landlord and the Nationwide Credit Bureau. Specific questions to be asked concern the couple's capacity, character and collateral.

First, do the Gardners have the capacity to repay the debt? How much is their monthly income? How steady is their income? How much are their monthly expenses? Can they afford to take on more debt?

Second, are the Gardners' characters such that they can be trusted to repay the loan? What does the credit bureau report indicate about the couple's prior experience using credit? Do their employers consider them dependable? How long have they held their current jobs, and how likely are they to continue? How long have they lived at their present address? Did their previous landlord find them trustworthy as tenants?

Third, can the Gardners offer any collateral—something of value, such as savings or property—to secure the loan in case they fail to repay?

Maxwell Butterfield

Mr. Butterfield is an employee of the Nationwide Credit Bureau, which collects and supplies information about consumers' credit histories. The most recent update to the Gardners' file indicates a delinquency: the couple missed three monthly installments due on an automobile loan. Previously, they had paid the car loan installments on time. Nationwide's records also show that seven months ago the Gardners arranged with their creditors to revise the terms of paying back a home furnishing and credit card loans. Finally, the credit bureau report indicates that the couple has always made their mortgage payments on time.

John Mahoney

Mr. Mahoney is manager of the Chrome Corporation plant where Peter Gardner is employed. He considers Mr. Gardner a steady and reliable employee.

Mr. Gardner was temporarily laid off because the plant was shut down for several months. The closing was the first in four years. Mr. Mahoney stresses that he himself is not involved in decisions on closing the plant, but, if asked, he is willing to give his opinion on the possibility of a future shutdown. Declining automobile sales forced the recent closing, but in current months sales have been strong. Mr. Mahoney's business outlook, however, is not entirely optimistic; he has read too many forecasts of a downturn in the economy.

Ruth Thornton

Ms. Thornton is director of the Metropolitan Publishing Company's editorial department. She finds Ms. Gardner unusually capable and dependable and thus was glad to arrange a part-time schedule for Ms. Gardner after her baby's birth. As far as Ms. Thornton is concerned, Ms. Gardner may return to work on a full-time basis whenever Mr. Gardner chooses—the sooner, the better, in Ms. Thornton's opinion.

James Rodericks

Mr. Rodericks rented an apartment to the Gardners for four years before they bought their own home. They always paid their rent on time and took excellent care of the apartment.

Mr. Rodericks was not only the Gardners' landlord but also their neighbor: his own home is next door to the two-family house he rents. Mr. Rodericks' job selling computer components causes him to be frequently away from home on business. When the Gardners moved next door, Mr. Rodericks knew he could always trust them to keep an eye on his home while he was travelling. For example, during one of his business trips, Janet Gardner noticed an unfamiliar car in his driveway. She called the police, who arrived to find two burglars removing the stereo system from Mr. Rodericks' living room.

DISCUSSION QUESTIONS

- If you think the Gardners should be given the loan, what makes them creditworthy?
- If you feel the loan should be denied, what makes the couple a poor credit risk? Would you consider granting credit under different terms, for example, a larger downpayment or a higher rate of interest?
- If the loan officer in the role play turned down the Gardners' request, did they find out why? Why is it important to do so? Is the loan officer's reason for denying credit a legitimate one under the Equal Credit Opportunity Act? Does it raise any issues under the Fair Credit Reporting Act?
- Suppose a creditor rejects the Gardners' application because he or she does not consider Ms. Gardner's income reliable. The creditor assumes that Ms. Gardner is soon likely to stop working and to devote herself full-time to raising a family. Do the Gardners have a complaint under the Equal Credit Opportunity Act? If so, how should they pursue the grievance?
- Suppose a creditor denies the Gardners' request because their credit bureau report indicates a recent delinquency, although, in fact, the Gardners arranged with their creditor to postpone the car...
loan payments, which they have since made. Under the Fair Credit Reporting Act, what action can the Gardners take to protect their credit rating?

**MATERIALS**

Consumer Handbook to Credit Protections Laws—a 46-page pamphlet available without charge upon request to Department of Consumer Affairs and Regulations, Federal Reserve Bank of Boston, Boston, MA 02106.

Credit Points—a 22-page pamphlet available without charge upon request to Bank and Public Information Center, Federal Reserve Bank of Boston, Boston, MA 02106.

To Your Credit—a 15-minute, 16mm color film available on a free-loan basis upon request to Bank and Public Information Center, Federal Reserve Bank of Boston, Boston, MA 02106.

### Museums Moving to Waterfront

Come summer, the Boston Fed will have two new neighbors across Fort Point Channel: the Museum of Transportation and the Children’s Museum. By July, both institutions will have moved from their current locations to the old Congress Street Wharf, soon to be renamed Museum Wharf.

The museums will share a 19th century brick warehouse built originally for the woolen trade, an industry which once flourished on Boston’s waterfront. The Children’s Museum will occupy the lower floors of the six-story building; a giant, exterior glass elevator will carry visitors up to the Museum of Transportation.

The “city” is the subject of the two largest new exhibits currently under construction at Museum Wharf. The Children’s Museum is assembling “City Slice,” a cross section of a city street, above and below ground, complete with a three-story house, sewers and a manhole. The Museum of Transportation is building “The Wheels of Time,” which traces the development of transportation in Boston since the 1600s. The visitor takes a walking tour through ten historical settings, each representing the mode of transportation dominant in that era.

A grand opening of the warehouse is scheduled for July 1 through 4, 1979. When totally completed sometime in 1980, the Museum Wharf complex will also include a mini-park, a firehouse museum, restaurants and shops.

In February, the Federal Reserve Bank of Boston received a shipment of over two million new one-dollar coins, which will be issued to the public during July 1979. A likeness of Susan B. Anthony, a 19th century women’s rights crusader, appears on the front of the coin; the reverse shows an eagle landing on the moon. The coin has an 11-sided inner border on both sides, and its diameter is just over one inch—a little larger than that of a quarter.

The Anthony coin is both smaller and lighter than the current Eisenhower dollar coin. As a result, the Treasury Department says, the new coin is not only cheaper to produce but also more likely to circulate successfully. The Treasury could save as much as $23 million per year if the public is willing to substitute the new coin for the one-dollar bill. Although the cost of producing the coin (3¢) is more than that of a dollar bill (1.8¢), a dollar bill circulates for only 18 months before it wears out and must be replaced, whereas one of the new dollar coins will last for 15 to 20 years.
New England Update

CONNECTICUT

The Connecticut Joint Council on Economic Education is assisting teachers from Bloomington High School to develop units on economic and career education for use in history classes. When completed this June, the units will be available upon request to the council; if you are interested, call Edward Hamblin at (203) 486-2327.

MAINE

Beginning March 27, the Maine Council on Economic Education will hold in Jay, Maine, a ten-week course on curriculum development in economics. For further information, call Robert Mitchell at (207) 581-7067.

MASSACHUSETTS

From July 9 through 20, the Business History and Economic Life Program, Inc. will hold in Weston, Massachusetts, a workshop entitled, "The Role of Business in Contemporary American Society." The workshop will focus on using the case method to teach high school economics. For further information, call (617) 437-3840.

NEW HAMPSHIRE

The New Hampshire Department of Education has prepared a report on the assessment it conducted last year of 2,400 local students' economic knowledge and attitudes toward American business. To obtain a copy of the report, call Carter Hart at (603) 271-3609.

RHODE ISLAND

The Rhode Island Center for Economic Education announces that applications are now being accepted for the 1978-79 Old Stone Bank Incentive Awards Program. Cash prizes totalling $1,800 will be awarded to teachers (K-12) who have developed innovative materials for teaching economics. To obtain an application, call Agnes Johnson at (401) 456-8037.

VERMONT

Beginning July 9, Econ Trek, the Vermont Economic Education Project, will hold a two-week course at the University of Vermont. The course will concentrate on techniques for teaching economics at the elementary and secondary levels. For further information, call Malcolm Severance at (802) 656-4017.

JOINT COUNCIL

From April 25 through 28, the Joint Council will hold in Newport, Rhode Island, a conference for teachers who coordinate Developmental Economic Education Programs (DEEPs). The Rhode Island Center for Economic Education is assisting the Joint Council in planning the conference.

Fed Update

• The latest art exhibition at the Boston Fed is entitled, "19th Century American Realism: The Amherst College Collection." Among the 50 artists represented in the collection are Winslow Homer, John Singer Sargent, Thomas Eakins and Eastman Johnson. The exhibition is open to the public, at no charge, from 10:00 am to 4:00 pm, on each business day until April 20.

• From June 25 through 27, the Boston Fed will hold, at the Bank, a workshop for secondary teachers. The workshop will cover methods and materials for teaching topics in economic, consumer and career education. If you are interested in attending, please send your name, address and telephone number, no later than April 15, to Debbie

the LEDGER

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"The Evening Newspaper," by Eastman Johnson

Bloomberg, Public Services, Federal Reserve Bank of Boston, Boston, MA 02106.