

Department of Financial Institutions



Consumer Credit Guide

Some ways we use credit:

- Using a charge card to make purchases at department stores, gasoline stations, and restaurants;
- Buying a car or furniture using an installment plan;
- Signing a mortgage or deed of trust when buying a house; or
- Borrowing money from a bank, credit union, or other lenders for vacations or to meet unexpected medical expenses.

Before applying for credit, ask for all information the lender has about the credit you are considering. It is important to understand the information below before you commit yourself to a credit obligation.

Charges: Generally, in Arizona, there is no maximum interest rate on loans except for certain loans made by a small loan company, or title lender. The maximum legal rate is 10% per annum if the interest rate is not stated in writing. There are various methods a lender may use to calculate interest; however, a lender is not permitted to compound the interest (charge you interest on interest) on installment loans.

Unless expressly prohibited by law, lenders may collect a service charge, a carrying charge, or other charges instead of interest. Lenders may add these charges along with interest. The Truth in Lending Act requires lenders to total all such charges, including interest, which is called the "finance charge." Lenders must also list the loan's Annual Percentage Rate ("APR").

The Truth in Lending Act enables borrowers to know the finance charge, which is the amount of money a borrower will pay to obtain credit, and the APR, which provides a way of comparing credit costs despite the dollar amount of those costs or the length of time over which the borrower will make payments. Both the finance

charge and the APR must be prominently displayed and disclosed on all lender forms.

Lenders may also charge borrowers additional fees such as: fees they pay to another party for filing or recording a document in a public office, appraisals, credit reports, lien filings, examinations, acknowledgement documents securing a loan, preliminary title reports, or title insurance policies. These fees must also be disclosed by lenders.

Typically, if you miss a scheduled payment by its due date, or fail to pay the full amount due, lenders may charge late fees. If a loan account becomes seriously past due or if a borrower defaults, lenders may refer accounts to collection. Lenders may add additional charges, such as collection fees, attorney fees, and/or court expenses.

Insurance Coverage: Many lenders offer credit or collateral insurance that will pay debts after a death, disability, or job loss. Lenders have the right to be insured, but they may not force you to buy insurance. If a lender requires insurance, the law allows borrowers to offer existing life insurance, disability income, insurance, or property damage insurance. Collateral insurance, especially the type purchased from a lender, can be expensive. If you do not want it, be prepared to say "No." If a lender requires insurance, be prepared to offer the lender other coverage from a company or agent authorized to do business in Arizona. Credit life and disability insurance is sold by a lender, but it is not required.

Consumer Protection: State and federal laws provide consumers with safeguards.

Penalty provision. Lenders cannot charge more than the stated maximum rate of interest. A credit contract may become a zero interest contract if the interest rate you are charged is

higher than the legally prescribed rate. The law allows you to sue to receive punitive damages and to recover court costs and attorney fees if you have suffered any loss because of an interest overcharge or other violations of law.

If you cannot pay. If you "default" on a loan or fail to make your payments as agreed, lenders must give you written notice that you have defaulted and you must be given time to "correct" the default or to catch up on payments. However, there is no pre-notice required before repossession on collateral loans

If you do not resolve delinquency issues and cannot make payments as required, lenders can continue charging interest on the unpaid outstanding balance and they may add additional fees for late charges, collection expenses, attorney fees, and court costs.

Lenders can also repossess collateral, sell it, and apply the proceeds to loan balances. If the money from the sale is insufficient, you may be liable to pay the lender for the difference. This is called a deficiency that may be enforced by the lender suing you.

Where to obtain credit: It pays to compare costs and services. All lenders are selective in granting credit. The Federal Equal Credit Opportunity Act protects you from discrimination and provides certain legal remedies. It is illegal for lenders to deny you credit because of your race, color, national origin, sex, marital status, religion, or age. This law does not, however, change the basic standard of credit worthiness applied by lenders about your ability to repay debts.

If you are turned down for credit: Under the Equal Credit Opportunity Act, Regulation B, a lender must, within a reasonable time, notify you in writing about a credit denial, along with the reason why. You can request a written statement for the denial reasons within 60 days

of the date you were denied credit. The lender has 30 days to provide a written statement to you. If you are unable to resolve the issue to your satisfaction, you can request help from the appropriate supervisory agency listed in the brochure "Who Do We Regulate?"

If you are past due on paying a debt: The Fair Debt Collection Practices Act provides, among other things, a basic national standard of conduct for professional collectors and prohibits certain collection tactics. Generally, the only debt collectors covered by this law are independent, or "third party" collectors who collect debts for others. The law does not cover credit grantors collecting their own accounts or attorneys who collect for their clients.

If you challenge the validity of a debt in writing within 30 days of the collector's first notice, the collector should cease collection efforts until verification is received from the creditor. Once the creditor has responded, the collector must verify the debt to you in writing. If the creditor is unable to verify the debt, the collector should cease collection efforts.

Debt collectors cannot make threats of violence, use obscene language, make harassing telephone calls, call at known inconvenient times, impersonate government officials or attorneys, obtain information under false pretenses, collect more than is legally due, misuse post dated checks, or hold debtors up to public ridicule.

Collectors are also prohibited from discussing your debt with third parties such as neighbors, friends, or employers unless the collector has your permission or the court's consent. If you believe you have been subjected to unethical collection tactics, you should immediately contact the manager or owner of the collection agency involved. If the owner or manager is unresponsive, you should consider contacting the original credit grantor, an attorney, or the appropriate supervisory agency. The best procedure is to first attempt to work out the problem with the collectors.

Arizona and the federal government have adopted various licensing and regulatory requirements to

protect consumers against "unscrupulous" or "unqualified persons" holding themselves out as having the capacity, knowledge, and qualifications of a lender. These statutes impose a number of duties on licensees; they must deal openly, fairly, and honestly in their business conduct. Violators are subject to having their licenses suspended or revoked and may be criminally prosecuted.

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