

## 12.1 Credit Protection Laws

### Chapter 12 Credit Protection and Bankruptcy

#### What You'll Learn

- Define repossession and garnishment
  - Describe the federal laws that regulate consumer credit
  - Discuss your rights under the Consumer Credit Protection Act, the Fair Credit Reporting Act, and the Fair Credit Billing Act
  - Explain the purpose of the Equal Credit Opportunity Act and the Fair Debt Collection Practices Act
- You need to know the laws that protect you from creditors when you borrow money or use credit.

#### Key Terms

- Repossession
- Garnishment
- Usury law
- Consumer Credit Protection Act
- Fair Credit Reporting Act
- Equal Credit Opportunity Act (ECOA)

- Fair Debt Collection Practices Act (FDCPA)
- Fair Credit billing Act

#### Academic Vocabulary

- Dominant
- Exceed
- Impersonate

#### Section 12.1 Credit Protection Laws

The government has established laws to \_\_\_\_\_ the rights of both creditors and \_\_\_\_\_ of credit.

Creditors have the right to \_\_\_\_\_ on debts, including:

- Repossession of \_\_\_\_\_
- Garnishments of \_\_\_\_\_

**Repossession** is when a creditor \_\_\_\_\_ property on which it has a \_\_\_\_\_ claim, or lien, as payment for a debt.

Options after:

- Keep
- Sell
  - If 60% or more was paid toward debt then the person repossessing must \_\_\_\_\_ and provide any surplus to the debtor

This usually consists of the property bought on credit or put up as \_\_\_\_\_ for a loan, such as a \_\_\_\_\_, house, or furniture.

**Garnishment** is when a creditor legally claims \_\_\_\_\_ of a worker's \_\_\_\_\_ as payment for a debt.

Garnishment cannot be more than \_\_\_\_\_ percent of a worker's weekly take-home pay.

The rules in VA:

- Ordinary debt – 25%
- Child support
  - Has \_\_\_\_\_ and child maximum 50%
  - Supporting others but happened more than 12 weeks ago maximum 55%
  - \_\_\_\_\_ supporting others 60%
  - Not supporting others and is \_\_\_\_\_ than 12 weeks prior 65%

There are several laws that \_\_\_\_\_ users of credit, including:

1. The Consumer \_\_\_\_\_ Protection Act
2. The \_\_\_\_\_ Credit Reporting Act
3. The \_\_\_\_\_ Credit Opportunity Act
4. The Fair \_\_\_\_\_ collection Practices Act
5. The Fair Credit \_\_\_\_\_ Act

**The Consumer Credit Protection Act**, also called the \_\_\_\_\_ in Lending Law, requires creditors to tell borrowers the \_\_\_\_\_ costs and \_\_\_\_\_ of credit, such as the interest rate and finance charges.

**The Fair Credit Reporting Act** gives people the right to \_\_\_\_\_ what is in their credit reports.

National credit reporting agencies:

- [www.annualcreditreport.com](http://www.annualcreditreport.com)
  - Equifax
  - Trans Union
  - Experian

**The Equal Credit Opportunity Act** makes it \_\_\_\_\_ for banks and businesses to deny a person credit on the \_\_\_\_\_ or race, gender, marital status, age, or disability.

Reasons can deny:

- \_\_\_\_\_ income
- \_\_\_\_\_ current debts
- \_\_\_\_\_ payment record

You are entitled to know \_\_\_\_\_ for denial of credit

**The Fair Debt Collection Practices Act** makes it illegal for debt collectors to threaten, \_\_\_\_\_, or use fraudulent methods against debtors.

**The Fair Credit Billing Act** requires creditors to correct \_\_\_\_\_ that have been brought to their attention.

If you \_\_\_\_\_ an error or fraudulent charge on a bill to a creditor, you do not have to \_\_\_\_\_ the amount and the creditor may not put it on your credit report.

- You must notified them:
  - within \_\_\_\_\_ days
  - In writing
    - \_\_\_\_\_ name
    - Account number
    - \_\_\_\_\_ in question
- You must pay any \_\_\_\_\_ disputed amount

**Credit Repair Organizations**

- \_\_\_\_\_ charge you until services have been performed
- Must tell you about your \_\_\_\_\_ rights
- Must provide \_\_\_\_\_ contract that detail services they will perform, including:
  - \_\_\_\_\_ long will take

- Total cost of service
- Any guarantees they offer
- Must include \_\_\_\_\_-day grace period to cancel services at no charge

### **12.1 Wrap Up:**

1. A creditor cannot garnish wages for more than which percent of take-home pay?
  - a. 10
  - b. 15
  - c. 25
  - d. 30
2. If you report an error on a bill you do not have to pay the amount and the creditor cannot put it on your credit report.  
  
True or False
3. What are two things creditors can do if a debtor defaults on a debt?
4. Under the Consumer Credit Protection Act, what must creditors tell consumers?
5. What are debt collectors prohibited from doing under the FDCPA?
6. Why do you think debtors need laws to protect them from creditors?

## **12.2 Bankruptcy Laws**

### **Chapter 12 Credit Protection and Bankruptcy**

#### **What You'll Learn**

- Identify and discuss alternatives to bankruptcy
- Distinguish between the different types of bankruptcy
- Explain the difference between voluntary and involuntary bankruptcy
- Identify debts which cannot be discharged by bankruptcy

You will need to know the laws about bankruptcy if you ever find yourself unable to pay off your debts.

#### **Key Terms**

- Bankruptcy
- Voluntary bankruptcy
- Involuntary bankruptcy
- Chapter 7 bankruptcy
- Chapter 11 bankruptcy

- Chapter 12 bankruptcy
- Chapter 13 bankruptcy

#### **Academic Vocabulary**

- Alternative
- Petition
- Discharge

In the past, \_\_\_\_\_ who could not pay their debts were thrown into debtor's \_\_\_\_\_.

Today, people who cannot pay their debts are \_\_\_\_\_ by bankruptcy laws.

**Bankruptcy** is a legal process by which debtors can erase or \_\_\_\_\_ their debts and start over again financially.

- Purpose:
  - \_\_\_\_\_ in business and repay debt
  - \_\_\_\_\_ themselves from the debt
- Avoid Bankruptcy
  - Stop using credit cards \_\_\_\_\_ to debit cards
  - Contact creditor and \_\_\_\_\_ payment plan
  - Consolidate \_\_\_\_\_ loans
  - \_\_\_\_\_ counseling

There are \_\_\_\_\_ main types of bankruptcy, named for the chapters of the federal Bankruptcy Code that describes them.

- Voluntary – \_\_\_\_\_ files for bankruptcy
- Involuntary – \_\_\_\_\_ begin the proceedings instead of debtor
  - At \_\_\_\_\_ 3 creditors must file petition if debtor has 12 or more creditors
  - Combined debt exceed \$ \_\_\_\_\_

**Chapter 7 bankruptcy (liquidation)**, also called \_\_\_\_\_ bankruptcy, allows individuals to discharge \_\_\_\_\_ their debts.

Must do the following:

- Get credit \_\_\_\_\_ from a nonprofit agency before filing bankruptcy
- Have a family income \_\_\_\_\_ the state's average family income
- Provide \_\_\_\_\_ tax return for the most recent tax year
- Complete a course in \_\_\_\_\_ management after filing for bankruptcy

**Chapter 11 bankruptcy (reorganization)** allows businesses to \_\_\_\_\_ their financial affairs and stay in business.

- Reorganization plan is \_\_\_\_\_
- Percentage of creditors must \_\_\_\_\_
- If plan \_\_\_\_\_ company continues
- If not business will be forced to \_\_\_\_\_

**Chapter 12 bankruptcy (family farmers)** allows family farmers and fishing businesses to create a debt \_\_\_\_\_ plan so they can stay in business.

- Must receive more than \_\_\_\_\_ of total income from farming or fishing
- 50% of debt must result from fishing or \_\_\_\_\_

**Chapter 13 bankruptcy (repayment plan)** allows individuals to reorganize their \_\_\_\_\_ and create a plan to \_\_\_\_\_ them back over time.

Over a \_\_\_\_\_ year period:

- Creditors cannot continue collection proceedings
- Must be able to do repayments of \$ \_\_\_\_\_ a month for 5 years
- To keep \_\_\_\_\_ must pay full loan amount

Some debts \_\_\_\_\_ be eliminated by bankruptcy, including:

- Debts resulting from \_\_\_\_\_
- Back \_\_\_\_\_
- \_\_\_\_\_ loans

- Child \_\_\_\_\_ and alimony

### Administration of Debtor's Estate

- Trustee will be appointed to \_\_\_\_\_ debtor's property, or estate
- Cash distribution:
  - \_\_\_\_\_ debts
  - Administrative cost
  - Wages
  - Benefit plans
  - \_\_\_\_\_ and support
  - Taxes
  - Unsecured debts

A bankruptcy filing remains on a credit report for \_\_\_\_\_ years.

You also \_\_\_\_\_ file for bankruptcy again for as long as \_\_\_\_\_ years, depending on the type of bankruptcy.

### 12.2 Wrap Up:

1. The type of bankruptcy that allows individuals to discharge their debts is:
  - a. Chapter 7
  - b. Chapter 11
  - c. Chapter 12
  - d. Chapter 14

2. Debts on student loans can be eliminated by bankruptcy.

True or False

3. A bankruptcy filing remains on a credit report for:
  - a. 5 years
  - b. 7 years
  - c. 10 years
  - d. 20 years
4. What are some alternatives to bankruptcy?
5. What are the differences between voluntary and involuntary bankruptcy?
6. What is the difference between declaring Chapter 7 and Chapter 13 bankruptcy?
7. How much money do you think someone should owe before declaring bankruptcy?