# Uniform Consumer Credit Code

## CONSUMER CREDIT IN COLORADO

The Uniform Consumer Credit Code (“UCCC”) regulates how much you can be charged for credit, restricts what can happen to you if you pay late, and defines what information must be provided to you before you commit to any credit transaction. The name of that law is the Uniform Consumer Credit Code ("UCCC"). This brochure highlights some of the UCCC's more important provisions.

While you have a duty to pay your debts, you also have certain rights:

- You have the right to be informed in advance about the costs of credit so that you may shop for the best deal;
- You have the right to use credit at rates that do not exceed the limits set by law;
- You have the right to cancel certain door-to-door contracts and certain real estate transactions;
- You have the right to cure occasional failures to make a payment when due; and
- You have the right to certain protections from creditors and collection agencies.

These rights will be discussed in detail in the pages to follow.

### What is *Consumer Credit?*

*Consumer credit* is a credit sale or loan which meets all of the following conditions:

- the credit is extended by a person who does so regularly;
- the borrower is an individual;
- the credit is primarily for a personal, family or household purpose, and not primarily for a business, investment or agricultural purpose;
- either a finance charge is made or the debt is payable in five or more installments; and
- the amount borrowed does not exceed seventy-five thousand dollars ($75,000) **or** the credit is secured by real estate.

Consumer credit is a *credit sale* if the seller of goods or services arranges or extends the credit, such as when an automobile dealer sells you a car and obtains financing for you. Consumer credit is a *loan* if a third-party lender, such as a bank or finance company, extends the credit.

Consumer credit may be either *closed-end* or *open-end.* With closed-end credit, you borrow a fixed amount for a set term and pay that amount back in installments with interest. The most common examples of open-end credit, sometimes referred to as revolving credit, are credit cards.

## Disclosures

The privilege of borrowing money to be repaid at a later date comes at a cost. This cost is called a finance charge, commonly known as interest. It is possible that on some loans you could end up paying more in finance charges than you borrowed in the first place.

Both the Federal Truth-in-Lending Act and the Colorado Uniform Consumer Credit Code require that the finance charge be disclosed to you in terms of a dollar amount and as an *annual percentage rate (APR).* The APR is the cost of credit expressed as a yearly rate of interest.

Creditors are required to disclose the cost of credit so that you can compare costs from different creditors. It is your responsibility to shop around for the best deal.

Below is a copy of a sample disclosure form. However, the creditor usually will not give you this disclosure until you are ready to sign the loan papers. You should begin your comparison shopping much sooner than that.

## The Cost of Credit

You can start shopping early by calling, writing or visiting different types of creditors and their websites. Ask the merchants or sellers what they will finance and at what cost. Contact banks, credit unions and finance companies to see who will give you the best deal. You may have to provide credit information. Depending upon the results of your investigation, you may decide that using credit is too expensive and perhaps will choose to wait awhile. If it is an option, you may decide to pay cash or to make a larger down payment in order to reduce the costs of credit.

**Example 1**

| | | | | |
|---|---|---|---|---|
| ANNUAL PERCENTAGE RATE 18% | FINANCE CHARGE $3,280.00 | Amount Financed $8,000.00 | Total of Payments $11,280.00 | Total Sale Price: Downpayment $2,000.00 $13,280.00 |

Your payment schedule will be:

| Number of Payments | Amount of Payment | When Payments are due |
|---|---|---|
| 48 | $235.00 | Monthly beginning 12/26/12 |

Assume that example 1 represents the terms upon which an automobile dealer would be willing to finance your used car purchase. Note the terms disclosed in the boxes, especially the *APR,* the *Finance Charge,* and the *Total of Payments.* Compare these terms to the terms offered by other creditors.

**Example 2**

After one phone call, you discover that your bank will loan you the $8,000 at an *APR* of 16 percent over four years. Your monthly payments would be reduced to $226.72 because the amount of the *finance charge* decreases as a result of the lower *APR.* Therefore, your *total payments* would be reduced to $10,882.67…a savings of almost $400!

**Example 3**

Another lender has told you that they will loan you the $8,000 at an *APR* of 17 percent over three years. Your monthly payments would increase to $285.22. However, the *finance charge* you will pay would be reduced to $2,267.92 due to the lower *APR* and the shorter term. This option would reduce your *total payments* to $10,267.92…over $1,000 in savings from Example 1!

If you can afford to make higher monthly payments, Example 3 will result in the greatest savings to you, and you will pay off your car 12 months earlier than you would have under the first two options.

**Example 4**

You can save even more money if you increase the *down payment* in Example 3 from $2,000 to $3,000 and borrow only $7,000. Assuming that the *APR* is still 17 percent, increasing the *down payment* will reduce your monthly payments to $249.57 and your finance charge to $1,984.62. You have saved almost $300 more!

The preceding examples demonstrate that there are a variety of ways to save money by shopping for the best credit terms. Some key credit terms to consider in your search for the best deal are the *APR,* the *finance charge,* and the *number* and *total of payments.* These terms can vary greatly from creditor to creditor, so it is up to you to be a smart comparison shopper.

You can lower the cost of credit yourself by increasing your *down payment* or asking for a shorter *term.* The best deal for you will depend upon what you can afford.

## Maximum Rates

The UCCC limits the amount of finance charges to:

**21** % on the total amount financed or:

> **36 %** on amounts up to $1,000, plus
> **21 %** on amounts over $1,000 to $3,000, plus
> **15 %** on amounts over $3,000.

**Payday loans** are short term loans to be repaid in six months.

Payday loans are defined by:

- 6 month-minimum loan term
- $500 maximum loan amount
- 3 permitted fees/ finance charges
  - $75 origination fee
  - Interest at 45%
  - monthly maintenance fee after 1st month of $7.50 per $100 loaned capped at $30 per month (5 fees on a 6-month loan)
- $292 total fees/finance charges on a $500, 6-month loan with 6 monthly installments
- 180% APR on a $500, 6-month loan

These are the highest rates that a creditor can charge. However, many creditors charge much lower rates. If you take the time to shop around, and if you have a sound credit history, you should be able to negotiate a lower rate. You should not borrow at the maximum rates unless absolutely necessary.

## Insurance

### Credit Insurance

When you buy something on credit or borrow money from a lender, you may be asked if you want to purchase *credit insurance.* This is insurance which will pay your debt if you die, become disabled or are involuntarily unemployed. If you purchase this insurance from a creditor, it can be expensive. You should first review your current insurance coverage to see if any additional coverage is necessary and consult your own insurance agent who may be able to offer you similar coverage at lower rates.

Under most circumstances, a creditor cannot require you to purchase credit insurance. A creditor cannot condition a lower rate or more favorable terms upon the purchase of credit insurance. Your decision to purchase credit insurance must be completely voluntary. Be prepared to say "no" if you do not want credit insurance.

### Property Insurance

*Property insurance* covers losses on damaged, lost or stolen property. A creditor can require you to maintain property insurance on personal or real property that you have pledged as collateral. For example, a creditor will most likely require that you have insurance (collision as well as liability) on your car in connection with an automobile loan. However, you cannot be required to purchase property insurance through the creditor.

If you already have property insurance (such as homeowner's, renter's or automobile insurance) which covers the collateral, you can have your insurance company add a *loss payable clause*. The loss payable clause will make the creditor a beneficiary on the policy. If you do not have property insurance, you should check with an insurance agent who can probably offer you coverage at a lower price than that offered by the creditor.

### Guaranteed Auto Protection

*Guaranteed auto protection* ("GAP") is very similar to insurance. In the event your vehicle is declared a total loss due to accident or theft, GAP will pay any deficiency between your insurance reimbursement and the balance outstanding on your loan at the time of the loss. If your vehicle depreciates in value faster than you are able to reduce the balance of your loan, GAP may reduce your risk of being left with a balance owing after your car has been totaled.

Like most insurance sold by the creditor, GAP products can be expensive. The creditor cannot require you to purchase GAP. As always, you should check with your own insurance agent to find out if similar, less costly coverage is available or necessary.

### Other Insurance

You may be offered the opportunity to purchase other insurance, such as standard life insurance, from the creditor. This life insurance is not *credit insurance* in that it does not pay off the balance of your loan in the event something happens to you. Rather, a standard life insurance policy will pay proceeds directly to your designated beneficiary. In most cases, the creditor will not require you to purchase other insurance. Once again, before agreeing to purchase any other insurance coverage from the creditor, check to see if your own insurance agent can offer you a better deal.

## Loans Secured by Real Estate

If you are shopping for a second mortgage or home equity loan, you may encounter the following costs or additional charges:

### Points

*Prepaid finance charges,* or *points,* are part of the finance charge but are usually financed or added to the principal balance at the time you take out your loan. A point is simply one percent of the loan amount.

To illustrate: Say a lender offers to loan you $8,000 at 16 percent interest for 36 months plus *2 points*.

| | |
|---|---:|
| Amount financed | $8,000 |
| Points ($8,000 x 2%) | $160 |
| Amount of loan | $8,160 |
| Interest | $2,168 |
| Total payments | $10,328 |

Your monthly payments would be $286.88, the APR would be 17.42 percent, and the finance charge would be $2,328 ($160 plus $2,168). Points are generally earned by the lender immediately and may not be subject to refund on prepayment.

### Variable Rates

You may run into variable rates in connection with some credit cards as well as on loans secured by real estate. With *variable* or *adjustable* rate credit, the interest rate can increase or decrease over the life of the loan. You should ask the following questions with respect to variable rate loans:

- when and by how much can the interest rate or finance charge change;
- is there any limit or cap on the amount by which the interest rate can be increased over the life of the loan;
- will increases in the interest rate result in increases in payments, negative amortization, or both; and
- has the initial interest rate been discounted, and, if so, by how much and for how long?

### Closing Costs

The following fees may be added to the amount financed on a loan secured by real estate if they are bona fide and reasonable in amount:

- fees for title examination, abstract of title, title insurance, property survey, and similar purposes;
- fees for preparing deeds, mortgages, and reconveyance, settlement, and similar documents;
- notary, appraisal, and credit report fees; and
- amounts required to be paid into escrow or trustee accounts if the amounts would not otherwise be included in the finance charge.

## Revolving Credit

*Revolving credit* is a plan under which the creditor will allow you to borrow amounts up to a set limit as you need the money. You may borrow funds, repay those funds, and borrow them back again. A finance charge will be computed from time to time on the unpaid balance. The most common example of revolving credit is a credit card.

Interest rates, annual fees, transaction fees, and other charges can vary widely from credit card to credit card. It is up to you to shop around for the best deal.

## Right to Cancel

Once you have signed a contract, you are legally bound by its terms. *You do not have the right to cancel* except under the following special circumstances.

### Home Solicitation Sales

You have until midnight of the third business day after you have signed an agreement to cancel a *home solicitation sale*. A home solicitation sale is a sale in which you sign the contract at your home, you have not negotiated the sale previously at a business, and you do not use a credit card.

**Loans Secured by Your Home**

If a creditor takes a security interest in your home, you have the right to cancel the agreement until midnight of the third business day after you sign the contract. This right to cancel is also known as your *right to rescind.* Your loan proceeds may not be disbursed until your right to rescind has expired. You may waive your right to rescind in certain emergency situations.

## Default

When you obtain credit, you promise to repay the creditor according to the agreement. If you fail to repay your debt or fall behind in your payments, the creditor may sue you or repossess any collateral in which you have given a security interest. You may have to pay collection costs and attorney fees.

**Right to Cure**

If you are late making a payment, the creditor must notify you in writing of your *right to cure* prior to repossessing collateral or accelerating the maturity of the unpaid balance demanding payment of the entire balance. You then have twenty (20) days from the date of default to pay all past due sums ("cure" the default), including late charges. However, if your loan consists of fewer than five installments or you are late more than once in any twelve month period (or more than twice in any twelve month period if the loan is secured by a mobile home), you do not have a right to cure.

Your right to cure exists only under the limited circumstance of your failure to make a payment on time. However, if you are late making a payment and your loan is unsecured or the creditor does not intend to repossess the collateral, notice of right to cure will not be given. If you are in default for any reason other than falling behind on your payments, such as failure to maintain property insurance on the collateral, the right to cure will not apply.

**Debt Collection**

You have an obligation to pay your debt. However, a creditor may not behave unconscionably in attempting to collect a debt. Unconscionable conduct includes the following:

- using or threatening to use force;
- communicating with you or your family frequently or at unusual hours with the intent to harass you;
- making fraudulent, deceptive or misleading representations; or
- causing or threatening to cause injury to your reputation or economic status by disclosing false information, communicating with your employer about a debt before obtaining a final judgment, disclosing information about your credit to a third party without a legitimate business need, or failing to disclose to a third party that a debt is disputed.

If your account is turned over to a collection agency, you are protected by the Colorado Fair Debt Collection Practices Act.

# The Informed Use of Credit

Be an informed consumer. Use credit wisely. Shop around for the best rates and terms. Consider increasing your down payment or shortening the term of your loan to lower the overall cost of credit. Be prepared to say "no" to extras, such as credit insurance, if you do not need or really want them. Make sure that you understand what you are signing, and remember that once you have signed on the dotted line, you are legally obligated under the terms of the contract.

Protect your credit rating and don't get in over your head. If you run into problems paying your debts, try to work things out with the creditor or seek help from a registered debt management company. A list of registered debt-management companies in Colorado is available at:
www.coloradoattorneygeneral.gov/dm

If you need legal assistance, contact a private attorney. If you suspect that a creditor has violated Colorado's credit laws, send your complaint to:

Colorado Department of Law
Consumer Protection Section, Uniform Consumer Credit Code
Ralph L. Carr Colorado Judicial Center
1300 Broadway, 6th Floor
Denver, CO 80203
720-508-6012 – Phone, 720-508-6033 – Fax
uccc@state.co.us
www.coloradoattorneygeneral.gov/uccc

If you think that a debt collector has violated the Colorado Fair Debt Collection Practices Act, send your complaint to:

Colorado Department of Law
Consumer Protection Section, Collection Agency Regulation
Ralph L. Carr Colorado Judicial Center
1300 Broadway, 6th Floor
Denver, CO 80203
720-508-6022 – Phone, 720-508-6033 – Fax
cab@state.co.us
www.coloradoattorneygeneral.gov/ca

If you have questions or complaints about credit reporting, contact a private attorney or:

Federal Trade Commission
Consumer Response Center
600 Pennsylvania Avenue NW
Washington, DC 20580
(877) FTC-HELP (382-4357)
www.ftc.gov

Consumer Financial Protection Bureau
P.O. Box 4503
Iowa City, IA 52244
(855) 411-CFPB (2372)
www.consumerfinance.gov/complaint/