**CHAPTER 25-CONSUMER LAW**

**TRUE/FALSE**

1. The Consumer Trade Commission focuses mainly on protection of consumers in the area of antitrust law.

2. The FTC can sue and prevent a business from continuing to violate FTC rules or impose a fine for each violation of these rules.

3. Consumer credit reporting agencies are unregulated governmental agencies.

4. If the FTC determines a business has violated the law, it will normally try to get the business to voluntarily stop the activity.

5. The Truth-in-Lending Act applies to private individuals who loan money.

6. "Bait and switch" tactics are not a violation of FTC rules if the consumer is given a choice of which product to buy.

7. Prime Products, Inc. was going to be able to ship the comforter Margaret ordered within three weeks instead of the seven days it had originally promised. Prime must cancel Margaret’s order and notify her that it can deliver within three weeks if she wants to reorder.

8. The Federal Trade Commission Act considers the terms “deceptive” and “unfair” to be synonymous when determining what practices should be prohibited.

9. Brett applies for a $30,000 loan to purchase a truck for his family’s use. This loan is subject to TILA disclosure requirements.

10. Employers must have written permission from job applicants to request a credit report.

11. Company policy of PushOne, Inc. is to block the company name and telephone number on potential customers’ Caller ID systems so they won’t know the call is from a telemarketer. This policy violates FTC rules.

12. The Equal Credit Opportunity Act makes it illegal for a lender to discriminate against a potential borrower because of race, national origin, religion, or sex, but it is permissible to treat a borrower differently if he or she is on welfare.

13. If you lease a car rather than buy one on credit, you have no statutory consumer protection.

14. The FTC may consider an act unfair if it simply violates public policy.

15. The Magnuson-Moss Warranty Act covers all consumer products regardless of their cost.

16. The Magnuson-Moss Warranty Act only covers face-to-face sales, not catalog or Internet sales.

**MULTIPLE CHOICE**

1. Nestles sold a drink called Boost Kid Essentials, which contained probiotics and claimed that Boost would prevent children from getting sick or missing school, assertions for

which the company had no evidence. The FTC ruled that:

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| a. | the advertising was not deceptive because it did contain probiotics which were good for the children’s health. |
| b. | the advertising was misleading, but was not likely to make a consumer really believe Boost Kids Essentials could keep their kid from getting sick. |
| c. | the advertising was deceptive, and the FTC required the company to specifically stop claiming such health benefits. |
| d. | None of the above |

2. The central issue in the *FTC v. Direct Marketing.* case involved:

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| a. | whether the writings and research of an individual. not a doctor were sufficient to support health claims. |
| b. | the scientific evidence necessary to make health claims. |
| c. | whether calcium had any curing effect at all. |
| d. | whether puffery was a valid defense to a deceptive trade practices claim |

3. The Dodd-Frank Wall Street Reform and Consumer Protection Act amended the TILA which requires:

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| a. | subprime loans be treated differently than regular home mortgages. |
| b. | subprime loans are no longer allowed. |
| c. | subprime loans must have a balloon payment to allow smaller monthly payments for at risk borrowers. |
| d. | Can charge a penalty for prepayment on adjustable rate mortgages. |

4. Millie ordered clothes from a mail order catalog. No time was specified as to when the goods would be shipped. In such a case the FTC requires that the company must ship the goods to Millie:

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| a. | within 3 business days after receiving the order. |
| b. | within 10 business days after receiving the order. |
| c. | within 30 days after receipt of the order. |
| d. | within a reasonable time and within time lines consistent with industry standards. |

5. Ron's Furnace Repair advertised it would inspect any homeowner's furnace for free. Janet had Ron's come to inspect her furnace. The servicewoman dismantled the entire furnace then refused to put it back together unless Janet paid her $250. The FTC considers such a practice to be:

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| a. | an unfair practice. |
| b. | a deceptive practice. |
| c. | an act that violates public policy. |
| d. | All the above. |

6. Mabel is a single 40-year-old who has borrowed money on numerous occasions. Her payment record has been good, except she has been delinquent in paying a few bills. Which of the following is true regarding credit information gathered on Mabel?

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| a. | Since Mabel has been delinquent, she waives her right to see the credit files. |
| b. | If Mabel is rejected for a loan because of the consumer report, the lender must tell her the source of the report. |
| c. | Mabel has a right to have the information regarding her delinquency in paying a few loans stricken from her credit record because her record has generally been good. |
| d. | Mabel's only legal remedy, if there is erroneous information in her credit file, is to report the problem to the FTC for enforcement. |

7. The Fair Debt Collection Practices Act prohibits which of the following practices?

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| a. | A debt collector falsely representing himself as a lawyer. |
| b. | A debt collector telephoning the debtor at 8:00 a.m. |
| c. | Visiting a debtor at work if the employer permits personal visits. |
| d. | Using neighbors to locate the debtor. |

8. Which of the following statements express the purpose of the Truth-in-Lending Act?

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| a. | To require lenders to charge a "reasonable" rate of interest. |
| b. | To help small business. |
| c. | To provide consumers with information necessary to make the best credit decision. |
| d. | To help lenders limit state laws. |

9. "Bait and switch" is:

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| a. | advertising a product for sale and then giving a rain check. |
| b. | placing the store brand and the national brand side-by-side in a store. |
| c. | selling the store brand at a lower price than the national brand. |
| d. | the act of advertising certain goods and then pressuring the customer to buy different, more expensive goods. |

10. If a consumer cancels a door-to-door sale within the required time, how many days does the seller have to return the buyer's money?

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| a. | Three. |
| b. | Ten. |
| c. | Twenty-one. |
| d. | Thirty. |

11. Marla applies for and receives a three-year loan through Sharkey Lenders for $5,000 at 27% APR.If the loan agreement violates the applicable usury statute, Marla may be able to keep:

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| a. | the interest that exceeds the usury limit. |
| b. | all of the interest on the loan. |
| c. | the interest *and* the $5,000. |
| d. | Any of the answer choices are possible, depending on where the loan was made. |

12. The Consumer Leasing Act requires a lessor to disclose in writing all EXCEPT:

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| a. | number of payments. |
| b. | penalties for late payments. |
| c. | lease rates of the competition. |
| d. | penalties for early termination. |

13. Grady receives a $12,940 credit card bill in the mail from a company with which he did not open an account. He fears he is a victim of identity theft. Does he have any recourse?

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| a. | Yes, under the Fair and Accurate Credit Transactions Act (FACTA), Grady can place an alert in his credit files using the National Fraud Alert System. |
| b. | Yes, under the Fair Credit Billing Act he may call the credit card company to complain about the bill, and the credit card company must investigate and correct any errors. |
| c. | Yes, under the Truth in Lending Act, Grady is liable only for the first $50 in unauthorized charges. |
| d. | No, he should have been more careful with his personal information so no one could have applied for credit in his name. |

14. Don received in the mail merchandise he never ordered. The package was addressed to him, and when he opened it he saw a brochure stating he could keep the products for only $19.95. If he chose not to keep the products he was instructed to mail them back within five days. Don:

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| a. | can keep and use the merchandise without having to pay for it. |
| b. | can keep the merchandise only if he pays the $19.95. |
| c. | must send the merchandise back within five days if he does not want it. |
| d. | None of the above is correct. |

15. Under FTC rules, a customer can cancel a door-to-door sales contract within:

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| a. | three business days of the sale. |
| b. | five business days of the sale. |
| c. | one calendar week from the date the sale was made. |
| d. | a “reasonable time” after the sale was made. |

16. The maximum rate of interest for credit transactions is established by:

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| a. | state law. |
| b. | federal law. |
| c. | the Federal Reserve Board. |
| d. | the FTC. |

17. The type of product that prompted passage of the Consumer Product Safety Act was:

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| a. | automobiles. |
| b. | children's toys. |
| c. | refrigerators. |
| d. | food products. |

18. John loans George money and they sign a written agreement whereby George will repay John in monthly installments. Is this loan subject to the Truth-in-Lending Act?

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| a. | Yes, if the loan is for more than $1,000. |
| b. | Yes, if John and George live in different states. |
| c. | No, if John is not in the business of offering credit. |
| d. | No, if John and George are related. |

19. Congress tightened oversight of credit card companies by enforcing the following::

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| a. | cannot increase interest rates on pending balances |
| b. | cannot charge late fees |
| c. | cannot allow a consumer to exceed his or her credit limit. |
| d. | cannot issue a credit card to someone under 21 unless the person is a student. |

20. Under the TILA, for subprime mortgage loans, a lender:

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| a. | may charge a prepayment penalty any time the loan is paid off before its due date. |
| b. | must not make loans with balloon payments. |
| c. | may not change the amount of the monthly payment during the period of the loan. |
| d. | may not consider the value of the home in determining the borrower’s ability to repay the loan. |

21. MoneyMaker Toy Company violated the safety standards set forth by the Consumer Product Safety Commission when it produced a toy gun that caused injury to hundreds of children. Because of MoneyMaker’s actions:

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| a. | the CPSC can impose civil penalties on the company. |
| b. | the CPSC can impose criminal penalties on the company. |
| c. | users can sue for damages, including attorney’s fees, if MoneyMaker knew it was violating a consumer product safety rule when it produced the guns. |
| d. | All of the answers are correct. |

22. Under the Fair Debt Collection Practices Act, a collection company is legally permitted to:

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| a. | call the debtor between 8 a.m. and 9 p.m. |
| b. | call acquaintances of the debtor to locate the debtor. |
| c. | contact the debtor at work if not prohibited by the employer. |
| d. | All of the above are permissible. |

**Fact Pattern 40-1**

John purchased $600 worth of clothes from Clothing Mart. He paid for the clothes with a credit card. When he received his statement, he sent the credit card company a check for $600. The credit card company mistakenly recorded his payment as $60. When John received his next statement, he noticed the $540 error and contacted the credit card company.

A few days later when he attempted to use his card to buy gasoline, he was told by the cashier that the card had been canceled and she was instructed to take his card. John was shocked, embarrassed, and angry. When he contacted the credit card company, it pointed out a provision in his initial contract for the card that stated the company could revoke his card privileges at any time with or without cause.

23. Such a provision within the credit card contract is:

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| a. | unconscionable. |
| b. | an illegal contract of adhesion. |
| c. | not binding, as a person cannot waive the statutory rights granted to him by federal credit card legislation. |
| d. | valid unless state legislation prohibits such clauses. |

24. What federal law applies to this particular situation?

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| a. | Truth in Lending Act. |
| b. | Fair Credit Billing Act. |
| c. | Fair Credit Reporting Act. |
| d. | Equal Credit Opportunity Act. |

25. Consumers have a right to:

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| a. | exclude as obsolete information about a bankruptcy discharge seven years previously. |
| b. | know the name of anyone to whom credit information has been supplied by a consumer reporting agency within the last three years. |
| c. | have their own version of a disputed credit situation included in their credit file. |
| d. | have their credit rating reviewed at least once a year. |

**ESSAY**

1. What are the three tests or elements used by the FTC to determine whether a particular act is an unfair trade practice?

2. Commonground Collections has been hired to collect past-due medical bills for Lakeview Physicians. List some activities that Commonground may *not* do pursuant to the FDCPA.

3. The Trimbles apply to Community Savings & Loan for an installment loan of $20,000 to remodel their bathroom. Discuss the disclosures Community is required to make.

4. Explain the difference between a debit and a credit card and discuss the potential liability for a lost or stolen card.

5. Richard received his credit card bill and noticed an error. He wrote to the company the next week, pointing out the error in his bill. Under the law, what is the credit card's obligation once it receives Richard's letter?

6. Brooke uses her credit card to purchase a lawn mower at the local “big box” hardware store, but when she tries to use the mower for the first time, she finds it is not self-propelled as advertised. Does she have any recourse?