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Business and Personal Law



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Business and Personal Law

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Treasure Hunt



Business and Personal Law: Real-World Connections contains practical information about the U.S. legal system. The trick is to know where to look to access all the information in this book. If you go on the treasure hunt with your teacher, you will discover how this textbook is organized and how to get the most out of your reading and study time. **Let's Start!**



1 How many units and chapters does this textbook have?

2 What part of the textbook will help you practice your essay-writing skills?

3 Where can you find out about the rights of minors?

4 What are the three book features that give you real court case examples?

5 Where can you learn about your rights and duties when you rent an apartment?

6 Where can you find out about business laws in foreign countries?

7 What academic skill will you practice in Chapter 4, Section 4.1, Assessment?



8 Where can you access additional *Business and Personal Law* resources as you study?




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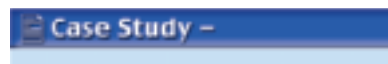
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Study law with real cases: Step out of the classroom and into the world.

Studying law is about learning concepts and rules. It is also about understanding how the rules apply in real life. *Business and Personal Law* shows you how the law works with real court cases in every chapter and unit.

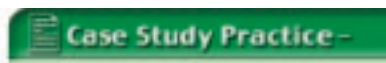
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Credit and Debt

Legal Briefs

Avoid Student Loan Debt

Think creatively, search for value, and borrow smart.

College is expensive. There's no denying that. But there are ways you can keep the costs down. Here are four strategies to keep student loan debt under control:

- Before taking out a student loan, consider other options including scholarships and grants, paid internships, work study or part-time work, working for a year and saving money, or receiving help from your parents or other family members.
- Choose the right school. Weigh the tuition costs against the academic program. Look at state schools, not just private ones, which tend to be more costly.
- Think creatively. Do you need to start at a four-year university? Can you take your first two years at a local junior college and live at home to save on room and board? What about other types of higher education such as technical schools? Look into online courses offered by many colleges.
- Go federal before considering a private loan. Generally, federal loans have lower interest, but do investigate the different types of student loans: Direct Subsidized and Direct Unsubsidized Loans; Direct PLUS Loans; and Federal Perkins Loans. Choose the one that best suits you and your budget.



Buying on Credit Some purchases are too expensive to pay for in cash and you need to use credit. *What is the maximum percentage of your monthly income that should go to making credit payments, according to financial experts?*

What You'll Learn

- ◆ Define the main types of credit.
- ◆ Explain what a secured transaction is.
- ◆ Describe how a security interest is created.
- ◆ Identify the main types of collateral.

Why It's Important

You need to know what your legal obligations are when you borrow money or obtain credit.

Reading Guide**Before You Read**

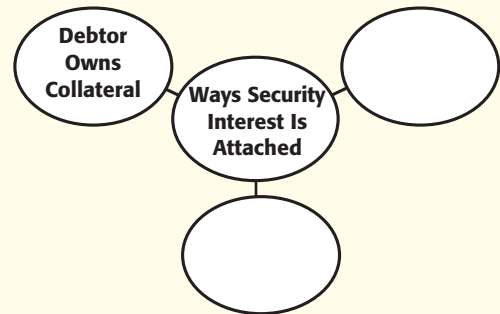
Connect Have you ever used a credit card or borrowed money to buy something you could not afford?

Focus on Ideas

To borrow money or buy on credit, you need to own something of value.

Take Notes

Go to connectED.mcgraw-hill.com to download a graphic organizer you can use to take notes as you read this section.

**Key Terms**

You will learn these legal words and expressions in this chapter. You can also find these terms in *Black's Law Dictionary* or in an online legal dictionary.

- | | |
|------------|---------------------|
| • credit | • secured loan |
| • creditor | • collateral |
| • debtor | • security interest |
| • interest | • default |

**Academic Vocabulary**

You will find these words in your readings and in your tests. Look them up in a dictionary and familiarize yourself with them.

- | | | |
|----------|------------|-------------|
| • assets | • acquired | • effective |
|----------|------------|-------------|

Credit

What is a possible financial solution if you really need to buy something and you do not have enough money?

Credit is an arrangement in which you receive cash, goods, or services now and pay in the future. The **creditor** is the party who sells the goods on credit or lends the money. The **debtor** is the party who buys the goods on credit or borrows the money. **Interest** is a fee creditors charge for lending money or extending credit.

The amount of interest you pay depends on the amount of the loan or purchase, the length of time it takes to pay back the money, and the interest rate. The longer you take to pay off a loan and the larger the amount of the loan, the more you have to pay in interest.

Open-End Credit

Open-end credit is credit that can be increased by the debtor by continuing to purchase goods or services on credit, up to a certain limit. You are given a line of credit—a maximum amount of money available to you. Credit cards issued by a bank, such as Visa and MasterCard, and charge cards for a particular store, such as Macy's and Target, are examples of open-end credit.

Closed-End Credit

Closed-end credit is credit given for a specific amount of money, which cannot be increased by making additional purchases. Buying a vehicle, a house, a refrigerator, or a couch for a fixed amount and paying for it in monthly installments is an example of closed-end credit.



As You Read

Predict What can happen if you are unable to repay a loan?



Business ETHICS

Necessary Guarantors and Sureties

You are the owner of a local major appliance store that sits on the border of two states. As normal practice, you allow your customers to buy items on credit, while retaining a security interest in the appliance. However, through your personal experience, you feel that residents from your neighboring state are more likely to default on their loans than the residents in your own state. After talking to fellow business owners, you discover that one option would be to require buyers from the neighboring state to have a guarantor or a surety when they sign a credit agreement with you.

Critical Thinking: Should you require buyers from a neighboring state to have a guarantor or surety?



Obtaining Credit

If you borrow money, how can the creditor be sure the money is not lost?

To obtain credit or a loan, you need to fill out an application from a store, bank, or other financial institution. Lenders will usually check into your credit history, your income, and your **assets**, to determine if you are a good credit risk. Lenders also need security—a way of getting their money back in case the borrower does not pay.

Secured Transactions

A **secured loan** is a loan which is backed up by property that the creditor can take if the loan is not repaid. **Collateral** is the property that is offered as a security interest. A **security interest** is a creditor's right to use collateral to recover a debt. Main types of collateral are consumer goods, fixtures, equipment, inventory, and farm products.

A security can be created by the creditor possessing the collateral. It can also be created by the debtor signing


a security agreement that identifies the collateral. The lender who holds the security interest is called the secured party.

If a debtor defaults, the secured party may take the collateral and sell it at a public auction or private sale. **Default is failure to make timely payments on a loan.** Different types of collateral have different laws with regard to default. There are more conditions when a debtor defaults on something as major as a home loan than when a debtor defaults on a car loan.

An unsecured loan does not require any collateral. However, because the risk is much greater to the creditor, the interest on an unsecured is usually much higher than on a secured loan. Unsecured loans are usually available only to well-established businesses or customers.

Attachment of Security Interest A security interest is said to attach when it is legally enforceable by the secured party. Attachment occurs when:

- The debtor owns the collateral.
- The secured party transfers something of value, such as money or goods, to the debtor.
- The secured party either takes possession of the collateral or signs a security agreement.

 **Credit Score** Once you start using credit cards, paying bills, and borrowing money, credit reporting agencies collect financial information on you and assign you a credit score. *Why is your credit score important?*

Vocabulary You can find vocabulary definitions in the **Key Terms** glossary and **Academic Vocabulary** glossary in the back of this book.

Security agreements may contain provisions that include future advances of credit. Future advances of credit allow the debtor to get additional credit in the future that is secured by the same collateral, such as a house.

In a transaction for the sale of goods, the security interest attaches to the actual individual goods. In contrast, when the security interest is on inventory, which are all the things you own, the security interest attaches to the inventory as a whole, including new inventory that comes and goes from a business. The inventory is what is called after-acquired property, since the property was **acquired** after the credit agreement was entered into.

Example Good Health Grocers bought ten cases of a special health food from a wholesaler on credit. The security agreement signed by the grocer contained a clause covering all future goods the grocer bought. In this way, all replacement goods were covered by the original security agreement as the grocer's inventory was continuously sold and restocked.



Reading Check

Interpret What is secure about a secured loan?



Case Study – Fifth Third Bank/Visa v. Gilbert



Critical Thinking *Can an unemancipated minor be liable for unauthorized charges she made on her father's credit card?*



Your Reading

Note key facts in the text below and look up words you do not understand. Restate difficult ideas in your own words. Go back and reread the text quickly to make sure you did not miss any important detail. Now, you are ready to formulate an opinion.

Necessary Expenses? John Gilbert was having domestic problems and no longer wanted to have a joint credit card account with other members of his family. On May 9, 1983, he canceled his Visa credit card, and on June 6, 1983 he applied for a new one from Fifth Third Bank. The credit card application included a space for additional authorized users. Mr. Gilbert left it blank.

The application was approved and fifteen days later, one credit card was issued with Mr. Gilbert's name on the front. The card was sent to Mr. Gilbert's business address. During the next month, approximately \$1,300 in charges were made on the card. When Mr. Gilbert got his statement in the mail, he notified Visa that all \$1,300 were unauthorized charges.

Visa then conducted an investigation and determined that the charges were made by three people. Mr. Gilbert admitted to charging \$90. His married daughter, Christine, charged \$85. His unemancipated daughter, Ann (who lived separately with her mother), charged the remaining \$1,125. Visa then sued to recover the amount from Ann.

Fifth Third Bank v. Gilbert, 478 N.E.2d 1324 (Ohio Mun. Ct. 1984)



Go to ConnectEd.mcgraw-hill.com for more case study practice.

Perfection of Security Interest When a security interest attaches, it is **effective** only between the debtor and creditor. To be effective against the claims of any other creditors, a creditor must perfect the interest. A security interest is perfected when the secured party has done everything that the law requires to give the secured party a greater claim than anyone else has.

A security interest can be perfected in three ways:

- attachment alone for consumer goods bought in a store
- filing a financial statement in a public office for most other items
- possession of the collateral (such as with a pawn shop)

Example When Jane bought a truck, the dealer took a security interest in the vehicle. To protect the dealer's rights in the vehicle, notice of the security interest would be written on the back of Jane's certificate of title to the truck.

After You Read

Summarize Who are the various parties to credit?



Guarantors and Sureties

A loan can be protected by having another party stand behind the loan to guarantee it will be repaid. There are two types of parties who can guarantee a loan: guarantors and sureties. A guarantor, sometimes referred to as a secondary party, agrees to pay off a debt only if the debtor defaults. A surety, sometimes called a primary party, agrees to pay off a debt outright, just as the debtor would have.

There are certain defenses guarantors and sureties can use when called upon to pay back a loan. These include that the debtor has already paid back or released the debt, their own minority, insanity, or bankruptcy.

SECTION 11.1 ASSESSMENT

Self Check

1. Give some examples of open-end credit and closed-end credit.
2. What are the main types of collateral?
3. What are future advances of credit?

Academic Connection

English Language

Arts The history of credit and banking goes

back at least 4,000 years to ancient Egypt. The Egyptians used a type of banking called the giro system, in which grain was deposited in state-run storehouses and could be used to pay off debts. In medieval Italy, loans and other banking transactions were conducted in large open areas where each merchant would work from a bench, or *banco*,

which is where we get the word *bank* from.

Go on the Internet or to a library and look up how these first banks worked and write a brief description of them.

Critical Thinking

Credit and Debit How is a credit card different from a debit card?

Credit and You

SECTION 11.2

Reading Guide



Before You Read

Connect Do you have a department store charge card? If so, you are familiar with having credit.

Focus on Ideas

Credit cards, charge cards, car loans, and student loans are types of credit.

Take Notes

Go to connectED.mcgraw-hill.com to download a graphic organizer you can use to take notes as you read this section.

Advantages of Credit

Finance Large Purchases

Disadvantages of Credit



Key Terms

You will learn these legal words and expressions in this chapter. You can also find these terms in *Black's Law Dictionary* or in an online legal dictionary.

- finance charge
- annual percentage rate (APR)



Academic Vocabulary

You will find these words in your readings and in your tests. Look them up in a dictionary and familiarize yourself with them.

- involved
- unauthorized
- subsidized

What You'll Learn

- ◆ Define finance charge and annual percentage rate.
- ◆ Describe the advantages of using a credit card.
- ◆ Determine how to obtain student loans.
- ◆ Recognize the warning signs of debt problems.

Why It's Important

There are things you need to know if you want to finance a car, get a credit card, or take out a student loan.

As You Read

Predict What is an APR?



Financing Your Future

What are some things you might need and that might cause you to borrow a large amount of money?

You will need to use credit to finance many things from short-term goals, such as buying a computer, to long-term goals, such as buying a house (see **Figure 11.1**). To build up credit for long-term goals, you need to set priorities, start with small purchases, and stay within your credit limit and income.

Buying a Vehicle

What can you do if you cannot afford to buy a car with cash?

You will probably buy many automobiles in your life. The law that applies to these purchases comes from several different sources. Because cars are considered goods, the Uniform Commercial Code (UCC) applies to their sale. If you buy a car for personal purposes, both federal and state consumer protection laws apply. In addition, if you finance the car, special laws regulate credit.

If you want to buy a car, you should first find out how much you can afford. This depends on your savings, monthly earnings, living expenses, and the amount of your debt.

Financing a Vehicle

When buying a car, you can save money by paying cash because car loans require you to pay interest. Offering to pay cash also puts you in a better position to negotiate a lower price. If you need to borrow money, you can save by shopping around. Federal law requires lenders to disclose the finance charge and annual percentage rate (APR) to borrowers. **The finance charge is the cost of the loan in dollars and cents. The annual percentage rate (APR) is the true interest rate of the loan.**

Before you sign any documents, you should know the following information:

- the exact price you are paying for the vehicle
- the amount you are financing
- the finance charge
- the APR
- the number and amount of payments
- the total sales price (the sum of the monthly payments plus the down payment)

Dealers sometimes offer very low financing rates for specific models but may not negotiate. They also may require a large down payment. As a result, it is sometimes better to pay higher financing charges on a car with a lower price or to buy a car that requires a smaller down payment.

Figure 11.1 Financing Future Goals



Buying a house is a major long-term financial commitment that involves making a large down payment and obtaining a mortgage loan from a bank with a repayment schedule of 15, 20, or 30 years.



Financing a trip is a relatively short-term financial goal that usually involves savings or a short-term loan, depending on how big the trip is.

Buying a car is a more short-term commitment that you can finance through savings or a loan that takes three or four years to pay off, depending on whether you buy a new or used car.



Your future goals might involve long-term or short-term financial commitments. *What are some immediate financial goals you have?*



Global Law

German Lemon Law

As a member of the European Union, Germany was recently directed to change its laws on the sales of tangible property, including the sales of vehicles, to better protect the consumer. Previously, dealers of automobiles could provide little or no warranty as to the condition of used vehicles it sold. Now the consumer has the benefit of Germany's own lemon law.

- 1** All German dealers must warrant used cars for a minimum of one year. Unfortunately, this applies only to dealerships and does not apply to private sales of used cars.
- 2** The dealer is responsible for any defect determined to have been present at the time of sale. There is no protection for damage done during normal wear and tear on a vehicle. For example, worn brake pads are probably not warranted. The determination is normally done by an independent third-party appraiser.

- 3** The claim must be filed within one year of the purchase of the vehicle. There is no additional time period for the filing of claims. Claims can only be filed during the one-year period.
- 4** The European Union directive applies to all mobile property. A European Union directive that required member states to pass statutes providing for consumer protection also applies to other sales of goods. Therefore, not only is there a one-year warranty on cars, but on other items such as televisions and motor homes.

Across Cultures: European Union Protections

Although this example details the German law, the European Union directive applies to all member countries of the European Union. Those countries must also pass similar warranty laws for their citizens.

Critical Thinking: *What are the benefits and detriments of having a mandatory one-year warranty on all goods?*

Defective Vehicles

Some cars continually have mechanical problems. The seller may be liable on any of the following grounds:

- breach of an express warranty, if a guarantee was made and not kept
- breach of warranty of merchantability, if the seller was a dealer and the car was not fit to drive
- fraud or breach of an express warranty, if the seller made any statements about the car that were not true
- breach of the state consumer protection law, if the vehicle was for non-business use

Using Credit Cards

What are some of the costs of using credit?

When you use a credit card, you are borrowing money. The interest rate and late-payment fees can be very high unless you pay your bill by the due date. You can go deeply into debt, even bankrupt, if you do not use your credit card carefully. In order to make a wise decision when purchasing on credit, you must consider all the fees and costs **involved**.

Example Tim charged many items on his credit card, up to its \$2,000 limit. Each month he pays \$40 on the account, the minimum required by the card issuer. The interest rate is 19 percent. If Tim maintains the same payment rate, it will take him 33 years to erase the debt. He will pay \$7,000 in interest on the \$2,000 that he borrowed to make his purchases. Tim could save a lot of money by doubling his monthly payments and making every effort to bring the account balance down to zero as soon as possible.

There is an advantage to using a credit card if you have a dispute involving a purchase. You do not have to pay the bill for the disputed item. Instead, notify the credit card issuer by telephone immediately. The issuer must put the disputed amount on hold and send you a form to fill out explaining the dispute. The card issuer will attempt to resolve the dispute and inform you of the results. If the problem is not corrected and the credit card issuer brings suit, you may use as a defense the fact that unsatisfactory goods or services were received.

Another advantage of using a credit card arises if the card is stolen. You may have to pay up to \$50 of **unauthorized** charges made before you notify the credit card issuer of the loss. You are not, however, responsible for charges made after the issuer has been notified.

Example Tara lost her credit card but did not notify the card issuer for a week. Meanwhile, someone who found the card had charged a purchase of \$175 with it. Tara will have to pay \$50 toward this unauthorized purchase. If she had notified the card issuer before the illegal purchase happened, however, she would not have had to pay anything.

Student Loans

What can you do if you cannot afford to pay for college?

Education costs are on the rise and do not seem to be slowing down. For most people, going to college requires careful planning in order to pay the costs of tuition and basic living expenses.

A common way of financing your education is through student loans. There are two types of student loans, government loans and private loans.

Government Student Loans

The federal government is an enormous student loan lender. Under the Direct Loan Program, money is lent to students based on need. When a student applies to college, he or she fills out a FAFSA, or Free Application for Federal Student Aid. This application asks detailed information about the student and his or her family. The government then makes a determination about how much money it can loan the student. The figure is also based on the amount necessary to attend a specific college.



Reading Check

Explain Is it better to pay cash for electronic goods or buy them on credit?



Legal Talk

Dispute: *v* To question the truth and validity. From Latin *disputare* = to examine.

Resolve: *v* To find a solution; to solve. From Latin *resolvere* = to untie.

Vocabulary Builder Look up the words *dispute* and *resolve* in the dictionary. Break them down into and define their root words.

Figure 11.2 Ways to Build and Protect Your Credit

- ☒ Open a checking or savings account, or both.
- ☒ Apply for a local department store credit card.
- ☒ Take out a small loan from your bank.
- ☒ Make payments on time.

Be aware that a creditor must:

1. Evaluate all applicants on the same basis.
2. Consider income from part-time employment.
3. Consider the payment history of all joint accounts, if this accurately reflects your credit history.
4. Disregard information on accounts if you can prove that it does not affect your ability or willingness to repay.

Be aware that a creditor cannot:

1. Refuse you individual credit in your own name if you are creditworthy.
2. Require your spouse to cosign a loan. Any creditworthy person can be your cosigner if one is required.
3. Ask about your family plans or assume that your income will be interrupted to have children.
4. Consider whether you have a telephone listing in your name.



Firm Foundation If you want a good credit rating, you must prove you can use credit wisely. *Why is it a good idea to apply for a local department store credit card or a small loan from your bank?*

Within the Direct Loan Program, there are two types of government loans, **subsidized** and unsubsidized. If you receive a subsidized loan, the government pays the interest on the loan while you are in school. However, with an unsubsidized loan, the student remains responsible for the interest that accrues on the loan while in school. Under both loans, the student will pay interest on the loan after graduation. For more information visit the U.S. Department of Education Web site.

Private Student Loans

Private student loans are similar to other consumer loans. They are offered by banks across the country. The amount of money offered is based on the cost of tuition at your specific school. The interest rate on private loans is usually higher than on government loans, and students are responsible for the interest that accrues, even while the student is in school. Private education loans are also available to parents who want to take out loans to pay for their children's education.

Student Loan Repayment

Student loans in most circumstances must be repaid. There are a few exceptions. Student loans can be discharged in bankruptcy, but only in cases of extreme hardship. The government will discharge some or all of a student loan debt for students who enter special job programs after they graduate. These programs, such as AmeriCorps

and the Peace Corps, usually require students to work in the health, education, or public safety field in an underdeveloped community for a certain period of time.

Warning Signs of Debt Problems

How can you tell if you have credit problems?

It is important to use credit wisely to build a good credit rating and to avoid getting heavily into debt early in life (see **Figure 11.2**). Here are some of the warning signs that you may be in financial trouble:

- You make only the minimum monthly payment on credit cards or have trouble paying even that much. The total balance on your credit cards increases every month.
- You miss loan payments or often pay late.
- You receive second or third payment due notices from creditors.
- You borrow money to pay off old debts.
- You exceed the credit limits on your credit cards.
- You have been denied credit because of a bad credit rating.

If you experience two or more of these warning signs, it is time to rethink your financial priorities.



After You Read

Summarize Identify the advantages and disadvantages of using credit.

SECTION 11.2 ASSESSMENT

Self Check

1. On what grounds can a seller be liable for selling a defective vehicle?
2. What can you do if you have a dispute involving a purchase on a credit card?
3. What is the difference between a subsidized and an unsubsidized student loan?

Academic Connection

Mathematics You want to buy a used car from a dealer for \$8,400. The dealer requires a 20% down payment and you will have

to finance the rest with a car loan. Use two different methods to figure out how much you will have to finance.

CONCEPT Problem Solving: Use a Variety of Appropriate Strategies to Solve Problems

One method is to multiply the percent of the down payment by the total cost to find out the amount of the down payment. Then subtract the amount of the down payment from the total cost. Another method is to subtract the percent of the down payment from 100% to find out the

percent of the amount you will have to finance, then multiply that by the total cost of the car.



For more math practice, go to the Math Appendix.

Critical Thinking

Disadvantages of Credit

Advantages of using credit are that it is convenient, you can pay for expensive items over time, and it contributes to the growth of the economy. What are some of the disadvantages of using credit?

Chapter 11 Review and Assessment

Summary

Section 11.1 Understanding Credit

- ◆ Open-end credit is credit that can be increased by continuing to purchase goods or services on credit. Closed-end credit is credit given for a specific amount of money.
- ◆ A secured loan is a loan which is backed up by property, called collateral, that the creditor can take if the loan is not repaid.
- ◆ A security interest is created by the creditor possessing the collateral for a loan, or by the debtor signing a security agreement that identifies the collateral.
- ◆ The main types of collateral are consumer goods, fixtures, equipment, inventory, and farm products.

Section 11.2 Credit and You

- ◆ Before you sign any documents to buy a vehicle, you should know the exact price you are paying, the amount you are financing, the finance charge, the APR, the number and amount of payments, and the total sales price.
- ◆ When you use a credit card, you are borrowing money. You can go deeply into debt, even bankrupt, if you do not use your credit card carefully.
- ◆ There are both government and private loans available to students. To apply for government student loans, students fill out a FAFSA, or Free Application for Federal Student Aid.

Vocabulary Builder

1 On a sheet of paper, use each of these terms in a sentence.

Key Terms

- | | | |
|------------|---------------------|--------------------------------|
| • credit | • secured loan | • default |
| • creditor | • collateral | • finance charge |
| • debtor | • security interest | • annual percentage rate (APR) |
| • interest | | |

Academic Vocabulary

- | | | |
|------------|-------------|----------------|
| • assets | • effective | • unauthorized |
| • acquired | • involved | • subsidized |

Key Points Review

Answer the following questions. Refer to the chapter for additional reinforcement.

- 2 What is the difference between open-end credit and closed-end credit?
- 3 What is a secured loan?
- 4 What are the three ways a security interest is attached?
- 5 What is the difference between a guarantor and a surety?
- 6 What are the six things you need to know before you sign a document to buy a vehicle?
- 7 What are a finance charge and an APR?
- 8 What are some advantages to using a credit card?
- 9 What are the different types of government loans available to students?

Standardized Test Practice

- 10 Read the following excerpt from the Federal Reserve Board on how to use your credit card and complete questions 1 and 2.

The first step in choosing a credit card is thinking about how you will use it.

- If you expect to always pay your monthly bill in full (and other features such as frequent flyer miles don't interest you) your best choice may be a card that has no annual fee and offers a longer grace period.
- If you sometimes carry over a balance from month to month, you may be more interested in a card that carries a lower interest rate (stated as an annual percentage rate, or APR).
- If you expect to use your card to get cash advances, you'll want to look for a card that carries a lower APR and lower fees on cash advances. Some cards charge a higher APR for cash advances than for purchases.

1. When you choose a credit card, you should be more concerned about

- A the credit card features
- B who the credit card issuer is
- C what the credit limit is
- D what the interest rate is

2. If you expect to pay your credit card bill in full every month, you should choose a credit card that offers a

- A lower fee for purchases
- B lower cash advance fee
- C longer grace period
- D lower interest rate



Test-Taking Strategies

Formulate your own answer before reading the options when answering multiple-choice questions.



Apply and Debate

Read the following scenarios. Get together with other students in pairs or groups of three and take a position on each scenario. Debate your position in class with students taking the opposite position or prepare a written argument justifying your position.

11 Collateral

Wilson purchased a used computer from Jana for \$400. He did not know that Jana had purchased the computer through a loan company and had not been making her payments on time. The loan company decided to repossess the computer.

You Debate *Can the loan company repossess the computer from Wilson?*

12 Lemon Laws

Tomas purchased a new car from a local dealer. Within two months he began to have several minor mechanical problems. Although the repairs were not major, Tomas felt that since there were so many of them, the car fell under the lemon law.

You Debate *Is Tomas entitled to get his money back for the car?*

13 Credit Cards

Quinton, a seventeen-year-old college freshman, was offered a credit card and accepted. He quickly ran up charges until he was unable to afford the payments. Just prior to his eighteenth birthday he attempted to get out of his contract with the credit card company because he was a minor when he received the credit card.

You Debate *Can Quinton get out of his debt with the credit card company?*

14 Credit Limit

Travis has reached the limit on his credit card and cannot make the monthly payments. He receives an offer in the mail for another credit card and is considering getting the other card to pay off some of the debt on his current card.

You Debate *Should Travis use the second card to pay off some of the first card?*

15 Student Loans

Levar was accepted to the college of his choice but did not qualify for a grant or scholarship. He makes money working a part-time job, but not enough to pay for all his expenses. He can cover the rest by taking out a student loan, which he will have to pay back later, or by using his credit card, which he can pay off on a monthly basis.

You Debate *Is Levar better off taking out a student loan or using his credit card?*



S. Olsson / PhotoAlto

**Case Study Practice – Patzka v. Viterbo College**

16 The Price of Credit Mariann Patzka was enrolled at Viterbo College in Wisconsin. She incurred debt in the amount of \$3,530.16 during her first semester. At that time, Ms. Patzka was not informed of any fees she could be charged if she did not pay in full by the first day of classes. Interest charges came to \$2,253.55, making the total amount due \$5,783.71. Ms. Patzka paid \$1,509.55 to Viterbo College, but still owed \$4,274.16.

Viterbo College assigned the debt to a collection agency, Security Credit. Prior to doing so, the College assessed Ms. Patzka a collection fee of 33% (\$1,410.47), making the total amount due \$5,684.63. Ms. Patzka made payments to Security Credit in the amount of \$4,284.63. Ms. Patzka now argues that she does not owe the remaining \$1,400 because her account was an open-end credit account and she was never informed of the potential charges and fees when credit was extended as required under the Federal Fair Debt Collection Practices Act.

Source: Patzka v. Viterbo College, 917 F.Supp.654 (W.D. Wis. 1996)

Practice Does Ms. Patzka need to pay the remaining \$1,400?

17 Ethics **Application**

Breach of Trust? Arjang's parents gave him a credit card to use for textbooks, supplies, and in case of an emergency. When he was short of cash, he used the credit card to buy a new computer game at the campus bookstore. Since the purchase would show up as computer software, his parents would assume the purchase was a required school supply and he would not have to ask their permission.

- ◆ Was Arjang's purchase of the computer game without his parent's permission ethical? Why or why not?

18 Think back to the Legal Briefs feature you read at the beginning of the chapter. Then conduct research to investigate these types of federal loans: direct subsidized and direct unsubsidized Loans. Write a brief explanation that explains the difference.

