Lesson 7.1: Consumer Protection

Standards and Benchmarks

See page 6.

Lesson Description

In this lesson, students learn about consumer protection agencies and laws. Students work collaboratively to identify possible problems associated with purchasing goods and services in the marketplace, brainstorm how they might deal with these problems, and are introduced to consumer protection laws, including those associated with credit use. To obtain answer keys for the handouts and assessment in this lesson, create an account on FederalReserveEducation.org.

Concepts

Investment
Risk

Objectives

Students will be able to:

- identify problems related to the purchase of goods and services.
- identify features of key federal legislation that help protect consumers in credit transactions.

Compelling Question

What protections exist for consumers?

Time Required

60 minutes

Materials

- Handout 7.1.1: Consumer Agencies and Organizations Websites, one copy for each student
- Handout 7.1.2: Consumer Credit Laws, one card for each group of 3 students
- Handout 7.1.3: Assessment Scenario, one copy for each student
- Blank sheets of chart paper, two sheets for each group of students
- Markers, one for each group of students
- Internet access

Preparation

- Cut out cards from Handout 7.1.2: Consumer Credit Laws.

Procedure

1. Ask the students if they have ever heard someone complain about business practices or purchases of goods or services? (*Answers will vary.*)

2. Explain that there are standard ways of effectively dealing with consumer complaints. For example, sometimes consumers purchase automobiles and other products that repeatedly fail to work properly, or that after being repaired, they fail again and again. To address these problems, states have passed laws, often referred to as "lemon laws", that go beyond the manufacturer's warranties. These laws protect consumers who purchase products that repeatedly fail to meet quality standards.

3. Divide the class into groups of two or three students.

4. Distribute a sheet of chart paper and a marker to each group of students.

5. Explain that each group is to divide its sheet of chart paper into three equal sections and label the individual sections with the following titles:

    1. Section 1: Complaints made before the purchase

    2. Section 2: Complaints made after the purchase

    3. Section 3: Complaints resulting from the use of credit

6. Allow 5 to 10 minutes for the students to brainstorm and list on the blank sheet of chart paper, complaints they have heard consumers make before they purchased a good or service.(*Students responses will vary, but their lists might include the following: advertising of the good or service is deceptive, they don't have enough information to make a good choice, they are worried about the quality of the good or service, they feel the cost of the good or service does not equate with the good or service, etc*.)

7. Discuss the following:
    a. What do you think the consumers you heard complaining could do in order to improve the situation they were in? (*They could decide not to purchase or postpone the purchase of the good or service until they were able to acquire more information concerning the future performance of the good or service. They could just not purchase the good or service. They could extend their search for alternative goods or services.*)
    b. How might they learn more about the good or service that they are considering purchasing before purchasing it? (*They could conduct research on the good or service through the Internet, talk to friends and colleagues who may have already made the*

purchase, subscribe to magazines like Consumer Reports in order to gain more unbiased information.)

8. Allow 5 to 10 minutes for the students to brainstorm and list on the chart paper complaints that they have heard consumers make after they purchased a good or service. (*Students responses will vary, but their lists might include the following: the good or service didn't do what it was advertised to do, the good or service was defective, the good or service did not last as long as it should have, the good was not safe, the directions included were inaccurate, etc*.)

9. Discuss the following:
   a. Do you feel the suggested ways for the consumer to learn more about the goods and services, mentioned above in procedure step 7a, could have helped the consumers you just mentioned avoid having to make those complaints after the purchase? (*Answers will vary, but they should have helped*.)
   b. What could have been done before the purchase to avoid problems? (*Gather information, ask friends and family, check reputation of business from a place like the Better Business Bureau,* Consumer Reports *magazine, read all the contract language, especially the guarantees and warranties*.)
   c. What do you think the consumer's responsibility is after buying the product or service? (*Follow directions for use, keep all receipts and documents related to the purchase, contact the business before seeking other help*)
   d. Have you heard of any agencies or organizations that help consumers with problems? (*Answers will vary*.) List ones the students suggest on the board. Ask what the agency's or organization's responsibilities are.

10. Distribute one copy of Handout 7.1.1: Consumer Agencies and Organizations Websites, to each student and another sheet of chart paper to each group. Assign a specific agency for each group to conduct research. Tell students their task is to design a poster or graphic organizer that illustrates and summarizes each of the following for the agency or organization:

    1. Purpose and responsibility of the agency or organization assigned

    2. Actions the agency can take for consumers

    3. Powers, if any, to solve consumer problems

    4. Steps for filing a complaint with this agency/organization

NOTE: This list only includes federal agencies and organizations. States also have their own divisions and departments dedicated to consumer protection. This is also not an exhaustive list.

11. Once the posters are finished, have each group display their poster and present their findings. Discuss the following:

a. Which of these seems to have the most power to solve consumer problems? (*Federal agencies have power to investigate and prosecute on behalf of many consumers, not just individuals. Federal government agencies such as the FTC, FDA, USDA, CPSC enforce laws for groups and make rules for businesses to follow rather than individual consumers*.)

b. What kind of remedies do they have? (*pressure on business to resolve the complaint, legal action on your behalf, shut down the business, publicize the problem*)

c. Why should you contact agencies, such as the BBB, related to your problem if they have no legal power? (*So that other consumers are given the negatives regarding a specific business's practices and not recommending them. Action can be taken such as placing the business on a warning list*.)

d. As a business person, why would you want to be a member of the BBB? (*Because consumers contact them for recommendations and as long as you observe good business practices, they will mention your business as one with whom they can expect good quality and satisfaction*.)

e. What is the highest cost to the consumer of filing a complaint? (*time*)

12. Tell students that consumers are also protected with credit products as well.

13. Distribute one card from Handout 7.1.2 to each group and tell students the card has information about one credit protection law. Explain to students, they will create a short skit that explains the law and perform in front of the class.

14. After each skit, give students in the audience a few minutes to turn and talk to one other student about the law and summarize it. Choose a student to share their summary with the whole class.

NOTE: It is less important that students know the exact laws but instead have a general understanding about what they are protected against.

Closure

15. Review the important points of the lesson by asking students:

    a. What are some responsibilities a consumer has when making a purchase? (*Reading the paperwork, keeping the receipts, guarantees and warranties, using it correctly, taking care of it properly*)

    b. What does a lemon law do? *(A lemon law protects consumers who purchase products that repeatedly fail to meet quality standards.)*

c. If there is a problem with a purchase, what is the first step in resolving it? (*Go to the seller first to see if he/she will address your complaints, give them a reasonable time to respond. If you have to call anyone regarding your issue, have all your information related to the purchase available*.)

d. If the problem is not solved, what do you need to do? (*Gather all your information like receipts, date of purchase, description of the problem, and decide which agency or organization would be most able to help you and report it*.)

e. What determines which agency should be contacted? (*the type of product, the issue with the product such as safety issue, defective parts, doesn't do what it's supposed to do, money losses by fraud from bank accounts, credit cards, checking scams*)

f. Why would a person contact an agency with no legal power? (*By lodging a complaint, the agency publicizes problems or can help other consumers by making recommendations like the Better Business Bureau does*.)

g. What are some credit practices that consumers are protected against? (*Answers will vary. Students might suggest being responsible for charges if credit cards are stolen, incorrect information in credit reports, being harassed by debt collectors, being denied a loan on the basis of race or gender, etc*.)

Assessment

16. Distribute one copy of Handout 7.1.3: Assessment Scenario to each student. Tell students they are to write a paragraph answering the question What Should They Do? Have the students complete the assessment. (See Answer Key for detailed grading guidance.)

Standards and Benchmarks

National Standards for Personal Financial Education

Standard 2: Spending

A budget is a plan for allocating a person's spendable income to necessary and desired goods and services. When there is sufficient money in their budget, people may decide to give money to others, save, or invest to achieve future goals. People can often improve their financial wellbeing by making well-informed spending decisions, which includes critical evaluation of price, quality, product information, and method of payment. Individual spending decisions may be influenced by financial constraints, personal preferences, unique needs, peers, and advertising.

Benchmarks: Grade 12

8. Federal and state laws, regulations, and consumer protection agencies (e .g ., Federal Trade Commission, Consumer Affairs office, and Consumer Financial Protection Bureau) can help individuals avoid unsafe products, unfair practices, and marketplace fraud.

Standard 5: Managing Credit

Credit allows people to purchase and enjoy goods and services today, while agreeing to pay or them in the future, usually with interest. There are many choices for borrowing money, and lenders charge higher interest and fees for riskier loans or riskier borrowers. Lenders evaluate creditworthiness of a borrower based on the type of credit, past credit history, and expected ability to repay the loan in the future. Credit reports compile information on a person's credit history, and lenders use credit scores to assess a potential borrower's creditworthiness. A low credit score can result in a lender denying credit to someone they perceive as having a low level of creditworthiness. Common types of credit include credit cards, auto loans, home mortgage loans, and student loans. The cost of post-secondary education can be financed through a combination of grants, scholarships, work-study, savings, and federal or private student loans

Benchmarks: Grade 12

11. Consumer credit protection laws govern disclosure of credit terms, discrimination in borrowing, and debt collection practices.

Handout 7.1.1: Consumer Protection Agencies and Organizations

- Better Business Bureau: “Better Business Bureau: Start with Trust.” (https://www.bbb.org/)
- Consumer Finance Protection Bureau: (https://www.consumerfinance.gov/)
- Consumer Product Safety Commission (Federal): “United States Consumer Product Safety Commission.” (https://www.cpsc.gov/)
- Federal Trade Commission: “Federal Trade Commission: Consumer Information.” (https://www.consumer.ftc.gov/)
- US Department of Agriculture: “USDA: United States Department of Agriculture.” (https://www.usda.gov/)
- U.S. Food and Drug Administration For Consumers: “U.S. Food and Drug Administration Consumer Information: Updates and information for staying safe and healthy.” (https://www.fda.gov/consumers)

Handout 7.1.2: Consumer Credit Laws (page 1 of 2)

Truth in Lending Act (TILA): This law makes lenders tell you all the costs and rules before you borrow money, including the interest rate (APR), fees, and how much you'll pay in total. Everything must be written clearly so you can compare different lenders and choose the best deal. For some home loans, you get three days to change your mind and cancel without penalty. This law stops lenders from hiding fees or tricking people into bad loans they don't understand.

Fair Credit Reporting Act (FCRA): This law controls the companies (called credit bureaus) that keep track of how well you pay your bills and debts. You have the right to see your credit report, fix any mistakes, and have wrong information removed within 30 days. Bad information like late payments usually comes off your report after 7 years, and bankruptcy comes off after 10 years. Credit bureaus can only share your information with people who have a good reason to see it, like a bank where you're applying for a loan. Employers need your permission before they can look at your credit report.

Equal Credit Opportunity Act (ECOA): This law says lenders cannot refuse to give you credit or a loan because of your race, color, religion, country of origin, sex, marital status, age (if you're old enough to sign contracts), or because you receive government assistance like food stamps. Everyone must be judged by the same rules when applying for credit. Lenders cannot ask if you plan to have children or assume you'll be less reliable because of your gender or whether you're married. If your application is denied, the lender must explain why in writing.

Fair Credit Billing Act (FCBA): This law protects you when there are mistakes on your credit card bills, like charges you didn't make, wrong amounts, or bills for things you never received. You must write to the credit card company within 60 days to report the error, and they must investigate and fix it within two billing cycles (usually 90 days). If someone steals your credit card and uses it, you only have to pay up to $50 of the charges. While the company investigates your complaint, they cannot report you as late to credit bureaus or hurt your credit score.

Handout 7.1.2: Consumer Credit Laws (page 2 of 2)

Electronic Funds Transfer Act (EFTA): This law protects you when you use electronic ways to move money, like ATM withdrawals, debit cards, direct deposit of paychecks, and automatic bill payments. If someone steals your debit card, you only lose $50 if you report it within two days, $500 if you report it within 60 days, but you could lose everything in your account if you wait longer than 60 days. Banks must give you receipts for transactions and monthly statements showing all your electronic transfers. Banks cannot force you to use electronic payments to get a loan, and they must help fix errors if you report them.
Fair Debt Collection Practices Act (FDCPA): This law stops debt collectors (companies hired to collect money you owe) from being mean, dishonest, or unfair. They cannot call you over and over to annoy you, threaten to hurt you, use bad language, or call before 8 AM or after 9 PM. They cannot call you at work if your boss doesn't allow it, and they cannot tell your family, friends, or neighbors about your debts. Within five days of first contacting you, collectors must send you a letter proving you owe the debt. You can write to them and ask them to stop contacting you entirely.
Fair and Accurate Credit Transactions Act (FACTA): This law helps protect you from identity theft (when someone steals your personal information to pretend to be you). You can get one free credit report every year from each of the three main credit bureaus by visiting AnnualCreditReport.com. If you think someone stole your identity, you can put a fraud alert or security freeze on your credit files so thieves can't open accounts in your name. Stores must cut off most of your credit card number on receipts so others can't see it. Companies must safely destroy your personal information when they don't need it anymore instead of just throwing it away.

Handout 7.1.3: Assessment Scenario

Buying Furniture
Given the following scenario, determine with which agency/organization to file a complaint. The agency must have the legal power to resolve the issue. Included must be the steps you need to take from the time of purchase through filing the complaint. Provide an explanation of why this is the best agency or organization to use.

Sandy and Phil were setting up their first apartment and needed to furnish it. They heard an advertisement that said a local furniture store was having a sale. They could get three rooms of furniture for $1500. When they went to the store they liked what they saw:

- Living room suite with 3 tables, sectional oversized sofa, love seat, one side chair, two lamps.
- Dining room with a table and 8 chairs
- Bedroom with head and footboard, dresser, vanity table, two lamps

All were on rugs that complemented the furniture and they thought they were part of the package deal. All the wood on the display furniture was solid walnut and cherry and they loved it.

Sandy and Phil then signed an installment plan contract that set up payments for a two-year time period. When the furniture was delivered, the woods were not solid but plywood with fake walnut and cherry stain. Additionally, there were no rugs.

When they called, the store manager said that they had signed a contract for the plywood with wood stain, not solid wood. He would be glad to sell them the solid wood sets for $5000 and the rugs for an additional $1500. The store claimed that the salesman had specifically told them that what they were buying was a cheaper grade of furniture. They say he had not. So their choice was to keep what was delivered to them or exchange it for the additional $3500.

What should they do?