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Hold checks and credit cards

by Gil Van Over

Many business decisions you make on a daily basis involve navigating the risk/reward river. Whether to accept hold checks and credit card down payments are two such issues.

Credit card down payments *may* violate your dealer-lender agreement on a retail transaction if the lending institution perceives it as a borrowed down payment. Check your agreement.

Hold checks on retail financed deals are deferred down payments that must be disclosed according to Reg Z. The deferred down must be collected within 60 days and you cannot charge interest on the deferred down payment. Unfortunately, most of the lending institutions will not accept retail installment sales contracts with deferred down payments, so a dealer's acceptance of hold checks without disclosing them on the RISC is technically a Reg Z violation.

Now the flip side.

Many of your competitors are accepting hold checks and credit card down payments. Your sales staff would climb the highest mountain and yodel forever if you ban the acceptance of these two items.

Some of your customers insist on using a credit card in order to get additional miles or affinity points of some sort.

Your credit card company may prohibit you from limiting the amount that can be charged, up to the customer's limit.

There is no easy answer to this question. As a compliance consultant, I will always err on the conservative side and advise clients to stay within the strictest limits of the statutes. As a businessman, I understand the necessity to gauge the risk taken for the reward granted.

Gil Van Over is the President and founder of gvo3 & Associates (www.gvo3.com). He can be reached at gil@gvo3.com.

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