

February 20, 2007

## **What Compliance Looks Like: Truth in Lending Act**

We continue our navigation through our series of columns to describe what compliance looks like. Up today: The Truth in Lending Act.

The Truth in Lending Act (TILA) is the federal law that regulates the manner in which creditors advertise and disclose terms of consumer credit. Regulation Z (Reg Z) is the rule based on TILA that the Feds use to administer the law. In general, Reg Z applies to each business that offers or extends credit when four conditions are met:

1. The credit is offered or extended to consumers;
2. The offerings or extension of credit is done regularly;
3. The credit is subject to a finance charge or is payable by a written agreement in more than four installments; and
4. The credit provides limitations for loans that have rates above specified amounts.

Reg Z requires that creditors provide consumers with TILA disclosures “before consummation of the transaction” and “in a form that the consumer may keep.” The NADA recommends that dealers do the following to ensure compliance with this Reg Z timing requirement:

1. Give the customer a copy of the unsigned credit contract with TILA disclosures and ensure they have meaningful opportunity to review the document before signing it.
2. Allow the customer to keep the document if they do not sign it at that time.
3. Give customers who do sign the credit contract with the TILA disclosures a copy of the document immediately after they sign it.

Part 226 of the Truth in Lending Act states the following information must be disclosed for each closed-end credit transaction.

- The identity of the creditor making the disclosures;
- The “amount financed,” under that term;
- A separate written itemization of the “amount financed”;
- The “finance charge,” using that term;
- The payment schedule;
- The ‘total of payments’ using that term;
- If a credit sale, the “total sale price,” using that term;
- The effects of prepayment;
- The amount or percent of late charges;
- The itemization of certain insurance premiums for exclusion from the finance charge;

Under Regulation Z, credit insurance premiums for credit life, accident and health or loss-of-income insurance may be excluded from the finance charge if the following conditions are met:

- The creditor does not require the insurance coverage;

- The premium for the initial term of insurance coverage is disclosed. If the term of insurance is less than the term of the transaction, the term of insurance also shall be disclosed;
- The consumer signs or initials an affirmative written request for the insurance after receiving the disclosures.

Technical TILA violations are sometimes programmed into the dealership management system. Specifically, whenever a premium or fee is paid to others and the dealer retains a portion of the premium or fee, this fact must be disclosed. This disclosure must include the name of the company the premium is remitted to, what the premium is for (service contract, credit life, gap, etc.) and the amount of the premium.

Finally, charges that are assessed to credit customers and not to cash customers are to be included in the APR calculations. Subprime acquisition fees meet this definition and must be taken as a cost of good sold and not passed along to the customer.

Gil Van Over is the President and founder of gvo3 & Associates ([www.gvo3.com](http://www.gvo3.com)).

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