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New APR definition proposed

by Gil Van Over

The Consumer Credit and Debt Protection Act is making its way through the legislative process and trying to be born as a federal law.

In its present form, there are three components that could have ramifications to the way indirect financing works today, including implementing a national interest rate cap.

In one of the ironies of life that some of us can appreciate, the bill is being sponsored by Representative Bobby Rush of Illinois, a state that does not have a state cap on interest rates that can be charged.

Restriction on Post-Sale Changes

First would be a restriction on post-sale changes in auto financing terms.

While at first this does not seem to apply to dealers, it could affect the dealer who is active in sub-prime financing. The post-sale changes being contemplated in the bill includes late charges, payment extensions or repayment modifications. The bill proposes that these charges be included in the interest rate, or APR calculation, and be capped at 36%.

I would imagine that this could handcuff the deep subprime lenders who are charging up to 29% (as I saw on a recent transaction). They will probably be less likely to start at an interest rate so close to the maximum allowable.

Right to Rescission

Next, the rule would implement a right to rescission requirement for auto transactions.

This would mean that the common misconception that consumers have about being able to bring a car back within three days would become a reality. I assume that smart dealers will hold the cars until the rescission period ends, just like mortgage lenders hold checks for three days.

Limit Dealer's Compensation

Finally, it would limit the auto dealer's compensation based on the interest rate or amount financed.

A limitation on dealer compensation may or may not affect the way you do business based on how you do business. Some dealers have already shifted the F&I office strategy to a product sales revenue source instead of relying on interest rate spread.

Gil Van Over is the President and founder of gvo3 & Associates, a nationally recognized F&I, Sales and Red Flag Rule compliance consulting and training firm (www.gvo3.com).

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