

April 25, 2006

Should You Accept Credit Card Down Payments?

By Gil Van Over

"Will you be paying your down payment by cash, check or credit card?" This is becoming the standard word track for some finance managers as they collect the down payments from customers. But beware of the credit card down payment: Whether it's a lease or retail transaction, the use of credit cards for down payments carries risks you should address before accepting these payments.

Potential violation of Dealer-Lender agreement. Many Dealer-Lender agreements contain language that prohibits borrowed down payments. A credit card, specifically one that permits the consumer to repay the obligation over time, is a borrowed down payment. The lender's remedy is for the dealer to pay off the account, which normally occurs if a vehicle gets repossessed.

Extended period for consumer dispute. Depending on the credit card used, the consumer may have up to 18 months to dispute the charge, which could result in the credit card company charging back the entire amount of the down payment. Talk about a powerful tool to give to a buyer's remorse consumer.

Cuts into profit margin. A standard 3 percent charge by the credit card company cuts into your profit margin. Larger down payments translate to a greater effect on your margin. o Potential violation of Truth-In-Lending Act. If your dealership adds the 3 percent fee to the vehicle's purchase price or to the amount charged (\$2060 for a \$2000 down payment), you may have a TILA violation.

In this example, the \$60 charge can be construed as a finance charge since it would not be charged on a cash transaction. The \$60 must be added to the interest to compute the total finance charge when calculating the Annual Percentage Rate.

Potential violation of Consumer Leasing Act. Regulation M permits the disclosure of a credit card, separate from cash, rebates and trade allowance, when disclosing how the lease starts are collected.

Limits may be a violation of your credit card agreement. Some credit card companies do not permit you to place a limit (other than the consumer's credit line) on the transaction amount that you will accept. I realize that many consumers want to use their affinity credit cards on as many transactions as possible to get the miles or points. I would use my credit card to buy an ice cream cone if the store would let me. Just beware of the risks you are taking on when you establish your credit card acceptance policy.

Published by [Dealer Communications](#).

Copyright © 2006 Horizon Communications Inc.. All rights reserved.

Information in this newsletter is provided by both proprietary and public sources. Dealer Communications makes no claims as to the accuracy of information provided by third party providers.

Powered by [IMN](#)