



TRUTH-IN-LENDING LAW DISCLOSURES AND CONNECTICUT CAR DEALERSHIPS

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ISSUE

Explain the disclosure requirements applicable to Connecticut car dealerships under federal and state Truth-In-Lending laws. The Office of Legislative Research is not authorized to give legal opinions and this response should not be considered one.

SUMMARY

In general, the federal Truth-In-Lending Act (TILA) and its implementing regulations (called [Regulation Z](#)) require car dealerships offering a loan to disclose to the consumer certain information, including the name of the creditor, the amount financed, and any finance charges.

Connecticut's Truth-In-Lending Act ([CGS § 36a-675 et. seq.](#)) implements the federal TILA and is substantially similar. (TILA is administered by the Federal Reserve Board (FRB). However, because the state has its own law, the Connecticut Banking Department, instead of the FRB, administers TILA.)

Dealerships that arrange financing for the consumer may "participate" in the lending process by increasing the rate offered by the lender. TILA does not require dealers to disclose their participation in an interest rate.

TILA

Applicability

TILA applies to any person or business that regularly offers credit to consumers and the credit is (1) subject to a finance charge or is payable in more than four installments and (2) primarily for personal, family, or household purposes (12 C.F.R. 226.1(c)).

Disclosures

TILA requires a creditor of closed-end credit (i.e., a loan in which the full amount is dispersed at once and which must be paid back at regular intervals) to clearly and conspicuously disclose to the consumer, the

1. identity of the creditor;
2. amount financed;
3. itemization of the amount financed;
4. finance charge, if any;
5. annual percentage rate (APR);
6. variable rate, if any;
7. payment schedule;
8. payment total;
9. demand feature, if any;
10. total sales price;
11. prepayments; and
12. late payment charges ([12 C.F.R. § 226.18](#)).

The disclosures must also contain information about security interests created by the loan, if any; insurance and debt cancellation charges; contract reference information; and any deposits the borrower may be required to maintain ([12 C.F.R. § 226.18](#)).

For many of these terms, including APR, amount financed, and finance charge, the disclosure must include a brief description (e.g., “the cost of credit as a yearly rate”).

Buy Rates vs. Contract Rates in Dealer-Arranged Financing

[Dealer-arranged financing](#) is the process by which a car dealership collects a consumer’s information and forwards it to prospective lenders who make offers based on the consumer’s creditworthiness. Dealers then present consumers with a lender’s offer.

According to the federal [Consumer Financial Protection Bureau](#), the “[buy rate](#)” is the interest rate a lender quotes to a car dealership for a specific consumer. Dealers may offer the consumer an interest rate higher than the buy rate. The rate presented by the dealer is called the contract rate. Dealer participation, often called a mark-up, is the difference between the buy rate and the contract rate. TILA does not appear to require that the mark-up be separately disclosed.

STATE LEGISLATION

[sHB 5297 \(2016\)](#), *An Act Concerning Interest Transparency*, would have required dealers to disclose dealer participation. Specifically, it would have required the disclosure of

1. the seller's annual finance charge;
2. the identity of the sales finance company that offers the lowest APR and the amount of that rate; and
3. any finance charge markup the seller imposes (i.e., the difference between the seller's annual finance charge and the APR offered by the finance company that acquires the contract).

The bill was reported favorably by the Banking and Transportation committees. The House did not take up the bill.

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