

Requiring Buyers to Buy Service Contracts? Read This.

Thomas B. Hudson of Hudson Cook writes on the firm's **website** that a frequent question he encountered when speaking at industry conferences concerns whether a credit buyer can be required to buy a service contract.

In the context of auto sales, he explains, requiring a service contract in connection with the credit sale of a vehicle does not violate the federal Truth in Lending Act and Regulation Z.

"But the fact that federal disclosure laws don't prohibit the practice doesn't mean that the practice is not affected by them. In this case, the key to the application of federal law is the word 'require.' When a dealer requires a service contract in financing transactions, but not in similar cash transactions, the charge for the service contract must be treated as a finance charge, added to other finance charges and included in the APR calculation. That's pretty basic," Hudson writes.

Read the article.