

# Consumer Counselor

## Financial Information for Michigan Consumers

### Things to Be Aware of When Obtaining a Motor Vehicle Loan

Shopping for the right vehicle loan? The Department of Insurance and Financial Services (DIFS) is happy to provide helpful information when searching for that perfect new vehicle and/or loan.

When obtaining a vehicle loan you will sign a contract generally called a Retail Installment Contract. The contract must include Truth-in-Lending disclosures showing your payment schedule, finance charges, and annual percentage rate. You should never sign a contract that is incomplete or contains blanks. In addition, you are entitled to receive an exact copy of the contract, signed by both the buyer and the seller. If the dealer sells or assigns your contract to another party, the new party is required to give you written notice of where and when to make your payments. The contract also must state the allowable late fees, in the event of a late payment. By law, the late charge cannot exceed \$15.00 or 5% of the late payment, whichever is greater.

#### Fees

##### *Documentary Preparation Fee*

The Motor Vehicle Sales Finance Act (ACT) allows an Installment Seller (dealer) to charge a documentary preparation fee (commonly referred to as the "Doc Prep Fee") for completing the paperwork that is required when you purchase a new or used vehicle that will be secured by a finance agreement (auto loan). The Doc Prep Fee charged by a dealer should not exceed 5% of the cash price of the vehicle or the maximum amount permitted by DIFS, whichever is less.

The ACT allows for the maximum amount of the fee to be adjusted every 2 years. The Director of DIFS is responsible for reviewing this fee and will issue a new bulletin when the fee is adjusted. On January 13, 2023, the Director approved the current Doc Prep Fee of 5% of the cash price of the motor vehicle or \$260.00, whichever is less.

#### *Other Fees*

When you purchase a motor vehicle you may also be charged fees payable to the State of Michigan, a public official and/or notarization for filing or recording a lien on the certificate of title, and for satisfying and releasing the lien or encumbrance. These fees may include a license fee, title fee, registration transfer fee, sales tax, temporary registration fee, etc. For these fees the dealer is only allowed to charge you the actual fee incurred. Application fees and GPS location device fees are not permitted charges.

#### **Finance Charges**

Typically, the finance charges on car loans are calculated by using the simple interest method. Simple interest payments are determined by multiplying the daily interest rate by the number of days between payments. Therefore, when you make a payment on a simple interest loan it is first applied to all of the accrued interest and the remainder is applied toward the principal. Each month's interest is paid in full so it never accrues. If a simple interest loan is paid off early, there should not be any interest refund due to you from the finance company, as interest is not paid in advance. Michigan law limits the allowable finance charge to 25 percent for vehicle loans.

## **Insurance**

When you finance a car, the lender typically has requirements about insurance coverage for the vehicle in order to protect their interest in the property. For instance, the lender can require full insurance coverage on the vehicle over the course of the loan.

Credit Life and Credit Disability Insurance are optional insurance products that you can purchase when buying a new vehicle. A Credit Life policy would pay off all or some of your loan in the event of your death and a Credit Disability policy would make payments on the loan if you were to become ill or injured and cannot work. These optional insurance policies can be expensive and, if financed as part of the loan, they will increase your loan amount. If you pay the loan off early or you decide you want to cancel a Credit Life or Credit Disability policy, you may be able to receive a pro-rated refund for these policies. You should contact the dealer and/or the sales finance company to request the cancellation and inquire on any refunds you may be due.

## **GAP Waiver**

A Guaranteed Auto Protection (GAP) waiver is between the dealer/lender and the customer, which allows the lender to forgive all or part of the remaining debt in the event of a covered loss. With a GAP waiver, the lender agrees to extinguish the borrower's financial contractual obligation under terms of the loan.

## **GAP Insurance**

A GAP insurance policy is between the customer and an insurance company. GAP insurance generally covers the difference between what is owed on the vehicle and the actual cash value. Dealers often offer this insurance to their customers at the time of the purchase; however, you can also contact your insurance agent to see if a GAP policy can be added to your auto policy. If GAP is purchased through the auto dealer it is usually paid up front. For that reason, you may be eligible for a

refund if you sell, refinance, or pay your loan off early. Refunds are issued by the dealer so you will need to contact the dealer to inquire about the refund.

## **Spot Delivery**

The practice of "spot delivery" occurs when the buyer and dealer sign the installment sales contract and the buyer takes delivery of the vehicle "on the spot," prior to the seller obtaining financing from a lender. The dealer then may require the buyer to return the vehicle or sign a new contract if they are unable to obtain financing.

It is the position of DIFS that once a motor vehicle loan is closed and the buyer takes possession of the vehicle, the dealer cannot rescind the contract or request the return of the vehicle for any reason. Dealers are required to ensure all conditions related to the closing of an automobile purchase be met *prior* to the borrower's execution of the contract. If the dealer is unable to secure financing, the dealer must accept payments from the borrower until they can secure financing on the borrower's behalf. New loan documents should not need to be resigned nor should any terms of the contract change from the original terms.

In the event that a dealer requires you to return a vehicle, or sign a new contract, please feel free to call DIFS at 877-999-6442 for assistance.

## **About DIFS**

The mission of the Michigan Department of Insurance and Financial Services is to ensure access to safe and secure insurance and financial services fundamental for the opportunity, security and success of Michigan residents, while fostering economic growth and sustainability in both industries. In addition, the Department provides consumer protection, outreach, and financial literacy and education services to Michigan citizens. For more information please contact DIFS at 877-999-6442 or visit [www.michigan.gov/DIFS](http://www.michigan.gov/DIFS)