

Does your Credit Application Need a Tune-Up?

When a customer sits down at the finance desk in your dealership, the first step is to take some basic information about them. But, the credit application isn't just about obtaining identifying information. Federal law requires certain disclosures to appear in a credit application. And there are still other disclosures that, while not required, are recommended. A credit application should include the following disclosures:

Alimony, Child Support, and Separate Maintenance: If your credit application asks whether an applicant is receiving alimony, child support, or separate maintenance payments, your application must also state that the applicant isn't required to reveal such income, unless the applicant wants to rely on that income in the determination of creditworthiness. That is, the credit application must explain that, unless the applicant wants to use alimony, child support, or separate maintenance to qualify for credit, the applicant doesn't have to list those amounts.

Credit Report: The Fair Credit Reporting Act allows persons to pull credit reports for "permissible purposes," including allowing creditors to obtain a credit report on applicants applying for credit. The submission of an application (even if the creditor doesn't tell the customer his credit is being pulled) or a separate express written authorization allows a creditor to pull a credit report. Even though the application itself allows the creditor to pull the applicant's credit, including a statement in the application authorizing a credit report puts the applicant on notice that you will be checking their credit and may help avoid misunderstandings.

Telephone and Text Message Authorization: Providing a cell phone number on a credit application constitutes consent to receive calls and text messages for account-related messages. These include servicing and collection calls. Even though it's not required, it's a good idea to include a disclosure explaining that by providing a cell phone number in connection with the application, the customer consents to receive account-related communications. If the creditor will engage in

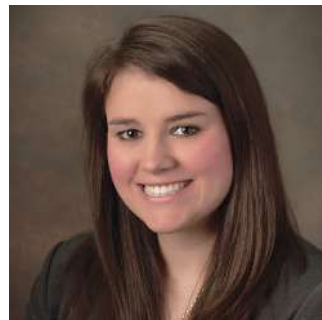
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any marketing whatsoever by placing calls or sending text messages to a cell phone (e.g., calling the customer to sell an extended warranty), the Telephone Consumer Protection Act requires that a creditor must first obtain the customer's prior express written consent. This can be done by including a specific disclosure in the application, along with a place for the customer to initial or sign, indicating they want to receive marketing calls and texts. However, the customer is not required to agree to receive marketing calls and must be able to apply for credit without signing such consent.

References: Consider revising your application to include a statement explaining when references will be contacted. The CFPB has cited companies for failing to inform customers that their references will be contacted for collections purposes, even though the Fair Debt Collection Practices Act allows creditors to contact references for the purposes of obtaining location information about a customer.

The credit application is the first document you put in front of your customer. You don't want the transaction to be a lemon – that is, faulty from the start. Give your credit application a multi-point inspection today, and make sure it includes these important federal disclosures.

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