

## CREDIT AND LEASE CONTRACT DISCLOSURE OBLIGATIONS

The new Motor Vehicle Dealers Act obligates dealers to “ensure” the person who is providing vehicle financing to a consumer has provided that consumer with complete cost of borrowing information, as required by the *Consumer Protection Act, 2002* (“CPA”). For example, if you assist a consumer in arranging financing for their vehicle purchase or lease, then it is your responsibility to ensure the person providing financing furnishes the consumer with compliant credit disclosure at or before the time they sign the lease or conditional sale contract. The following are the key disclosure items required in both lease and finance agreements:

1. The annual percentage rate (“APR”)
2. Monthly payments
3. The term
4. The “cost of borrowing” for financing or “implicit finance charge” for leases
5. The total amount of all payments the borrower or lessee is required to make, and the timing and amount of each payment. Examples include:
  - Down payment
  - Deposit
  - Balloon payments
  - Final payment
  - Guaranteed residual value (open end leases)
6. The cash price of the vehicle

This list has been provided as a general guideline. Dealers should refer to sections 63 (for a finance agreement) and 74 (for a lease) of the CPA for the specific information required in either agreement.

### **APR, and cost of borrowing/implicit finance charge calculations:**

The APR and cost of borrowing/implicit finance charge must be calculated based on the cash price of the vehicle. This means that any costs that a lessee or a financing consumer is required to pay that are not required to be paid by a cash paying consumer must be factored into the APR and the cost of borrowing/implicit finance charge, unless such cost has been expressly excluded by the CPA Regulations (e.g., PPSA registration and search fees). Examples include:

- Vehicle price increases which are the result of the contract being sold from one to dealer to another, for the purpose of obtaining financing for the consumer
- Monthly administration fees (typically charged on wholesale and/or sub-prime lease contracts)
- Rebates which are only available to cash paying customers

- Administration fees charged by the dealer or the lender

For example: If the cash price of the vehicle is \$10,000, but the finance/lease price is \$12,000, then the \$2,000 difference must be reflected in the cost of borrowing/implicit finance charge and APR.

### **Contact OMVIC**

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