Advertising Credit Sales

The main requirements governing advertising of closed-end credit concern "triggering terms" and "finance rates."

Triggering Terms. If you advertise closed-end credit with a "triggering term," you also must disclose other major terms, including the annual percentage rate. This rule is intended to ensure that all important terms of a credit plan, not just the most attractive ones, appear in an ad. The triggering terms for closed-end credit are:

(1) The amount of the downpayment (expressed as either a percentage or dollar amount), in a "credit sale" transaction. Examples:

"10% down"
"$1000 down"
"90% financing"
"trade-in with $1000 appraised value required"

(2) The amount of any payment (either a percentage or dollar amount). Examples:

"Monthly payments less than $250 on all our loan plans"
"Pay $23.44 per $1000 amount borrowed"
"$210.95 per month"

(3) The number of payments or the period of repayment. Examples:

"Up to four years to pay"
"48 months to pay"
"30-year mortgages available"

(4) The amount of any finance charge. Examples:

"Financing costs less than $300 per year"
"Less than $1200 interest"
"$2.00 monthly carrying charge"

Some statements about credit terms are too general to trigger additional disclosures. Examples of terms that do not trigger the required disclosures are:

"No downpayment"
"Easy monthly payments"
"Loans available at 5% below our standard APR"
"Low downpayment accepted"
"Pay weekly"
"Terms to fit your budget"
"Financing available."

General statements, such as "take years to pay" or "no closing costs," do not trigger further disclosures because they do not state or suggest the period of repayment or downpayment cost. In contrast, the statement "drive it home for $199," which implies that the required cash downpayment is no more than $199, does trigger full disclosure. Similarly, a statement such as "up to 48 months to pay" lists the period of repayment and triggers disclosure. In general, the more specific the statement, the more likely it is to trigger additional disclosures.

Required Disclosures. If your ad for closed-end credit uses a triggering term, it also must include the following information:

(1) The amount or percentage of the down-payment;

(2) The terms of repayment; and

(3) The "annual percentage rate," using that term or the abbreviation "APR." If the annual percentage raw may be increased after consummation of the credit transaction, that fact also must be stated.

The amount or percentage of the "downpayment" need not be shown directly, as long as it can be determined from the ad. For example, "10% cash required from buyer" or "credit terms require minimum $1000 trade-in" would satisfy the disclosure requirement.

The "terms of repayment" may be expressed in a variety of ways, as long as they convey the required information. For example, an automobile finance company might use unit cost to disclose repayment terms: "48 monthly payments of $23.44 for each $1000 borrowed." Similarly, the length of the loan can be expressed as the number of payments or the time period of the loan.

Advertising Finance Rates. The second basic requirement for advertising closed-end credit is this: if your ad shows the finance charge as a rate, that rate must be stated as an "annual percentage rate," using that term or the abbreviation "APR." If you want to show only a rate, and the APR is stated in the ad, no other credit information need be included: the "triggering term" requirement does not apply because the rate and APR are not triggering terms. Thus, an advertisement could simply state, "Assume 10% annual percentage rate" or "10% annual percentage rate mortgages available."

No credit ad may state an "add-on" rate (for example, "6% add-on"). This rate is misleading because it is significantly lower than the annual percentage rate, and its use in an ad violates the law.

Typical Terms. You may be able to simplify compliance with the law's advertising requirements by using examples of "typical credit terms" in the ad. Suppose a home builder wants to advertise credit terms for many houses, each with a different price, or a bank wants to offer mortgage loans in varying amounts, with different repayment terms. In these situations, if advertising disclosures are required, you may comply by showing one or more examples of a typical credit transaction, as long as each example contains all of the terms that are required to be disclosed. These examples must be labeled as such and must be representative of the credit that is actually available.

For instance, suppose an auto dealer has "60-month financing" available on various types of vehicles. The dealer could comply with the law by stating the credit terms available with 60-month financing based upon an automobile that a consumer could purchase on those terms, as follows:

60-month financing available. Example: 1988 Olds Ciara 20% down, $289 per month, 11% APR. On approved credit.