

Consumer Protection in Promotional Plans

Federal agencies evaluate deferred interest promotional financing plans

By Andrea McCullion

In December 2015, the Consumer Financial Protection Bureau (CFPB) issued a follow-up report detailing the impact the Credit Card Accountability Responsibility and Disclosure (CARD) Act has had on consumers. CFPB Director Ken Cordray said that, overall, “The law made it easier for consumers to evaluate costs and risks by eliminating the worst back-end pricing practices in the market. There is more work to do. But with common sense rules in place, credit cards are safer and more affordable, credit is more available, and companies remain profitable with improved customer satisfaction.” However, the agency noted an area of concern in regard to deferred interest promotional programs that indicates future changes may be coming.

Increased Scrutiny

In response to the financial crisis that started in 2008, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which established the CFPB. The CARD Act, which was designed to create a fairer, more transparent market by protecting consumers from excessive or unfair fees, was signed into law in 2009. The CFPB assumed authority over its enforcement in July 2011. The CARD Act directs the CFPB to regularly review the impact of the law’s rules on the credit card market.

The wording of the CARD Act, while generally focused



on credit cards, discusses “open-end consumer credit plans,” so many lenders in the consumer financing market who do not issue traditional credit cards but offer revolving lines of credit have implemented and followed its rules. In addition, the expansion of the CFPB’s regulatory authority over lenders has continued, so lenders of all types are watching its comments closely.

Deferred Interest Promotions

A common sales tool in the water treatment industry is the deferred interest promotional plan. These plans vary by lender, but commonly include options such as “same-as-cash” or “no payment, no interest” programs. Same-as-cash plans typically require a customer to make a minimum monthly payment during a promotional period—say, six or 12 months—but if the amount financed is not paid in full by the end of the promotional period, interest is imposed from day one of the contract at the agreed upon annual percentage rate.

“No payment, no interest” plans generally allow the customer to defer a first payment for a period of time with interest not beginning until the end of the deferral period. These promotions allow dealers to sell customers the products they want today without a significant up-front expense, allowing them to make small monthly payments and potentially avoid interest fees by taking advantage of the promotional time frame.

In its 2015 CARD Act follow-up report, the CFPB commented that deferred interest plans remain “the most glaring exception” to the general post-CARD Act trend toward up-front credit card pricing. The report devoted 60 pages to the discussion of deferred interest promotional plans and their impact on consumers. Researchers noted that consumers may not fully understand the costs associated with failing to pay the balance in full during the promotional period. If a consumer expects to be able to pay the balance in full but then is unable to, his or her cost of purchase ends up being significantly higher than he or she may have thought at the time of purchase.

Lenders have asserted that the disclosures and explanations provided to consumers are sufficient to make them aware of the potential costs and that the overall benefits to consumers who take advantage of these “interest-free” loans outweigh any potential harm. The CFPB report noted that for the period reviewed, 74% to 80% of promotional balances were paid in full during the interest-free period. But it still expressed concerns about the harm to those consumers who are assessed the retroactive interest. It noted that prior to the CARD Act, the Federal Reserve Board, Office of Thrift Supervision and National Credit Union Administration formally proposed to prohibit deferred interest plans as an unfair practice. They argued that the benefits to

Servicing All Your Water Treatment Needs

- Carbon
- Resin
- Filters
- Commercial tanks
- Mineral tanks
- Retention tanks
- Deionization and Softening Exchange tank



Thomson Water Media

Toll Free: 844-689-7635

Local: 970-266-2725

Fax: 844-359-1018

<http://www.thomsonwatermedia.com>

Write in 757

Approved Methane Treatment

got gas?

RADON / METHANE / HYDROGEN SULFIDE / CO₂ / VOC



BETTER WATER INDUSTRIES INC.

209 N Tyler St, Tyler, MN 56178

Phone (507)247-5929



Write in 756

consumers who were successful in their use of these plans to avoid interest did not outweigh the “substantial injury” caused to consumers by the imposition of deferred interest.

As a result of this report and its initial findings, the CFPB noted that it intends to study deferred interest promotions further and decide whether additional regulation is needed in this area. This analysis remains ongoing, which means lenders and dealers will have to wait to see which changes, if any, will be implemented.

Impact on Dealers

Until the CFPB decides whether or not to make changes to the regulation of deferred interest promotional programs, lenders and dealers may continue to operate under the status quo. But sales representatives and dealers should be aware of making sure that promotional plans are properly disclosed to customers up front—the more consumer complaints the CFPB receives in this area, the more likely it is to implement additional regulations.

Some of the proposed solutions to the perceived problems with deferred interest promotional programs include prohibiting them altogether, requiring additional

As a result of this report and its initial findings, the CFPB noted that it intends to study deferred interest promotions further...

disclosures and/or requiring lenders not to impose retroactive interest, which would likely increase fees to dealers, as lenders would make less interest income from customers. Any additional regulation in this area could have an effect on sales, so lenders will be monitoring this closely to see how they can remain compliant while providing dealers the promotional sales tools they need to close deals.

The CFPB’s analysis of deferred interest promotional plans is ongoing. Until a determination is made as to whether or not changes are needed, water treatment dealers and lenders should continue to focus on providing clear disclosures and transparency in the financing process to avoid customer complaints or dissatisfaction. These promotional plans are important to the success of the industry, so it is in everyone’s best interest to ensure customers are armed with the knowledge needed to make informed decisions in the sales process. **WQP**

Andrea McCullion is senior vice president, sales and marketing, for Foundation Finance Co. McCullion can be reached at amccullion@foundationfinance.com or 855.241.0024.

Celebrating over

40

YEARS

serving the **water quality** and **wastewater** industries

@chlorinators incorporated



Your **TRUSTED** Selection
for Water Disinfection

The REGAL™ Gas Chlorinator is made with pride in the USA and sets the standard for safety, reliability and economy, with the fewest replacement parts.



MADE IN THE USA ★★★★★

1044 SE Dixie Cutoff Road, Stuart, FL 34994 USA
Tel: 772-288-4854 • Fax: 772-287-3238
www.regalchlorinators.com • Email: regal@regalchlorinators.com

Write in 758