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RE: Coupon Book Expense
Vendor's Single Interest Insurance ("VSI")

Dear

This letter is in response to your questions as to whether certain charges imposed in a consumer credit transaction are additional charges which may be added to the amount financed or must be included in the finance charge and disclosed in the annual percentage rate.

I am unfamiliar with the \$3.00 coupon book charge imposed by the bank. Presumably, this expense should be included within the finance charge and annual percentage rate as a cost incident to the extension of credit - a cost of doing business. See §5-3-109, C.R.S. (1992) (definition of finance charge) and the Federal Reserve Board Commentary on Regulation Z, §226.4(a)-(2). The Commentary indicates that traditional business costs should be considered in setting the interest rate (APR). If a separate cost is imposed, it is a finance charge. This is the case if the lender requires use of a coupon book. If, however, the lender permits the debtor to pay without using or purchasing the coupon book, and charges only if the debtor prefers to use the coupon book, the cost may then arguably be included in the amount financed.

When a lender secures a loan with collateral, it may require that the debtor maintain property insurance to cover the value of the collateral. If the debtor fails to provide such coverage, the lender may purchase the coverage and bill the debtor for its cost - the VSI charge. Sections 5-3-202(2)(a) and 5-4-302, C.R.S. (1992). This is permitted so long as the lender discloses to the debtor his or her right to obtain the insurance from an insurer

Page 2

of his or her choice and that the insurer waives any subrogation right. See Regulation Z, §226.4(d)(2) and Commentary on §226.4(d)-9.

In the security agreement you provided, the first condition is met in the paragraphs entitled "Maintenance and Insurance" and "Lender's Expenditures." You would have to review the VSI policy to determine whether the right to subrogation has been waived.

In addition, if the VSI policy provides the lender additional coverage such as repossession or holder in due course insurance, the costs of those parts of the VSI premium may not be included in the amount financed but must instead be included in the finance charge. Commentary on §226.4(d)-10.

If the lender requires use of the coupon book or its VSI policy does not comply with the above requirements, it is my opinion that those charges should be refunded or credited with interest at the contract rate and new disclosures may be ordered.

Please contact me if you have additional questions.

Sincerely yours,



LAURA E. UDIS
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