

**Risk Based Pricing Notice Requirements**  
*Understanding the Options*  
**By ADR Staff**

“Risk-Based Pricing” is when a dealer, or the financing entity that a dealer selects to finance a vehicle, directly or indirectly uses information from a credit report, such as a customer’s payment history or credit score, to establish the price and other material terms, specifically the Annual Percentage Rate (APR), of the credit being offered or extended.

If your dealership or your third-party financing entity directly or indirectly uses information from a credit report to establish the material terms, specifically the APR, of the credit being offered or extended, then your dealership is subject to the Risk Based Pricing Notice requirement.

Written notice requirements may be satisfied in either of two ways.

**Option 1:**

Provide a **Credit Score Exception Notice** or a **No Score Available Exception Notice** to ALL credit applicants.

- Using this notice option requires the dealership to have two forms on hand.
- A *Credit Score Exception Notice* is provided to all credit applicants whose credit report includes a score. The notice will include their credit score and explain where their credit score ranks as a percent of US customers. (This information may be supplied by the credit or consumer reporting agency that supplies the credit report).
- A *No Score Available Exception Notice* is provided to all credit applicants whose credit report does not include a score.

**Option 2:**

Provide a **Risk-Based Pricing Notice** to CERTAIN customers and not to others. The dealership is required to determine which customers should be provided a notice using one of three different methods offered below as prescribed by the FTC:

- Direct Comparison Method: Send Notice only to those applicants who received a “materially less favorable” APR than the APR granted to a “substantial proportion” of your other applicants.
- Credit Score Proxy Method: Send Notice only to those applicants who fall below your 40/60 “cut-off score”.
- Tiered Pricing Method: Send Notice only to those applicants in the bottom 60% to 70% of your tiers.

**Timing**: For new credit, provide the notice after the decision to approve credit has been communicated to the customer but prior to the customer’s consummation of the transaction.

**Content of the Notice**. OIADA provides dealer-specific forms based on the Rule’s model form. Correct use of these forms will ensure compliance with content requirements.