

Cancellation of Contracts and the Three-Day Cooling Off Period

By Jane M. Winand, Chief, Legal Assistance Division

Summer is here and car-buying season is in full swing. The Legal Assistance Division often gets questions from soldiers, retirees, or family members about the purchase of motor vehicles. Many clients have heard that it is possible to sign a contract to buy a car and then take the car back to the dealer within three days and cancel the contract. This is simply not true and could result in a costly mistake.

There is a three-day cooling off period for terminating or canceling certain types of contracts. The federal law gives a buyer the right to cancel consumer purchase contracts for up to three business days following a door-to-door sale. This typically involves buying items from a seller at a place other than the seller's permanent place of business. A good example of this is the vacuum cleaner salesman that goes door-to-door hawking his wares.

The cancellation must be in writing and placed in the mail before midnight of the third day after the sale. It is advisable to send the cancellation by certified mail as proof that it was sent within the requisite time. The seller is required to provide the buyer with a cancellation form. However, if the form is not provided, you may send a cancellation notice that you write yourself.

Please note that if you go to the seller's place of business, such as a car dealership, the three-day rule does not apply. Even a tent sale, a common practice of car dealers, is considered the dealer's permanent place of business and the rule will not apply.

If you buy a car and then decide not to keep it, you have several options. One option is to find a buyer for the vehicle. It is imperative that this new purchaser get his or her own car loan so that you can pay off your loan. Occasionally, a car owner is desperate and transfers the car to a purchaser with the "understanding" that the purchaser will make the car payments each month. Unfortunately, if the purchaser misses a payment or two, as often happens, the original car owner is still responsible for the loan. The loan company will still expect payment from the original owner even though he or she gave possession of the vehicle to the new purchaser.

Another option is to voluntarily surrender the vehicle to the loan company. The company takes possession, cleans up the vehicle, and resells it. The proceeds from the sale will be credited to the amount still owed on the loan. However, repossessed cars are typically sold at auction, and the sale prices are not very high. Consequently, there is often a deficiency balance in that the proceeds from the sale do not fully pay off the car loan. The original owner is responsible for payment of the loan balance, even though he or she no longer has the vehicle. As an example, you still owe \$15,000 on the car loan when the vehicle is repossessed and the car is sold for \$10,000. You must pay the loan company the difference of \$5,000. If you fail to pay this amount, the loan company can file a suit against you and also place the default on your credit report. Even if you do pay, the voluntary repossession still goes on your credit report and will have a negative impact on your credit worthiness.

The bottom line is that you should give a contract serious thought before you sign it. If you feel pressured, don't sign. The time to ask questions is BEFORE you sign the contract to buy the car. If you have questions about a contract, you may call the Fort Meade Legal Assistance Division and make an appointment to speak with an attorney. The number is (301) 677-9536.