



Buying a Vehicle and Third Chance Credit

You've been unlucky and you have bad credit. You've just declared bankruptcy and are unable to find financing. In these situations, it can be tempting to go to a car dealership offering a second or even third chance at credit, especially since their advertising indicates that no one is refused!

It sounds too good to be true... And in most cases, it is. This type of financing, which may seem attractive at first glance, is often catastrophic for low-income people who are already vulnerable.

One of the first things to consider when signing a financing contract is the nature of the contract. Most car purchases are made through instalment sales contracts. This type of contract is governed by sections 132 to 149 of the *Consumer Protection Act* (hereinafter the "CPA"). You have possession of the vehicle, but the dealer retains ownership until you have paid the full purchase price. It can take back the vehicle if you fail to make a payment.

As for companies offering third chance credit, they propose instead a long-term lease with an option to purchase. This type of contract is governed by sections 150.1 to 150.17 of the CPA. Therefore, you do not own the vehicle until you exercise the purchase option at the end of the contract.

These contracts often include a number of fees that are difficult to explain and that will be referred to as service fees, administrative fees, other products or even a tracking system. Most of the time, these fees will exceed \$1,000 and will be funded over the life of your contract.

In addition, an extended warranty will often be added to this contract at an exorbitant rate. Dealers will not take the time to fully explain the contract and all the consequences that come with it. The mistake many people make is to simply look at the payments they will have to make each month. However, they will find that they are left with a total obligation equal to three times the value of the vehicle they originally intended to purchase.

In addition, when shopping for car insurance, they will be unpleasantly surprised to find that most insurance companies refuse to insure vehicles financed by this type of contract, and those that do agree to do so, do it at a high price.

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* The information set out in this document is not a legal interpretation.

The masculine is used to designate persons solely in order to simplify the text.



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(continued)

It is therefore strongly recommended that you do not sign the contract immediately and ask the dealer for a copy so that you can take the time to study it at home and fully understand it. It is also possible to request the removal of the unexplainable fees and the insurance or guarantees that have been added to the contract. If the dealer refuses, it's better not to sign this type of contract, because the total obligation is much too high.

What should you do if you signed such a contract without realizing the extent of your obligation? Pursuant to section 8 of the CPA, if the disproportion between the respective obligations of the parties is so great as to amount to exploitation of the consumer or if the obligation of the consumer is excessive, harsh or unconscionable, the consumer can go to court to ask for the contract to be annulled or for the obligation to be reduced.

There is a decision of the Court of Québec that annulled this type of contract under specific circumstances.¹ Another decision reduced the obligation by declaring that the lessee had paid enough and named him the owner of the vehicle before the end of the contract.²

If you need advice regarding this type of contract, don't hesitate to make an appointment at your nearest legal aid office.

¹ [Breton c. Intégrité Automobile inc. 2018 QCCQ 10182](#)

² [Rondeau c. Laquerre Chrysler inc., 2016 QCCQ 4553](#)

Don't hesitate to have your eligibility for legal aid evaluated by making an appointment at a legal aid office near you.

To find the contact information for your legal aid office, please visit our website at www.csj.qc.ca.

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