

537.3405 Lender subject to defenses arising from sales and leases.

1. A lender, other than the issuer of a lender credit card, who, with respect to a particular transaction, makes a consumer loan for the purpose of enabling a consumer to buy or lease from a particular seller or lessor property or services, is subject to all claims and defenses of the consumer against the seller or lessor arising from that sale or lease of the property or services if any of the following are applicable:

a. The lender knows that the seller or lessor arranged for a commission, brokerage, or referral fee, for the extension of credit by the lender.

b. The lender is a person related to the seller or lessor, unless the relationship is remote or is not a factor in the transaction.

c. The seller or lessor guarantees the loan or otherwise assumes the risk of loss by the lender upon the loan.

d. The lender directly supplies the seller or lessor with the contract document used by the consumer to evidence the loan, and the seller or lessor has knowledge of the credit terms and participates in the preparation of the document.

e. The loan is conditioned upon the consumer's purchase or lease of the property or services from the particular seller or lessor, but the lender's payment of proceeds of the loan to the seller or lessor does not in itself establish that the loan was so conditioned.

f. The lender otherwise knowingly participates with the seller in the sale. The fact that the lender takes a security interest in property sold in that sale, or makes the proceeds of the loan payable to the seller does not in itself constitute knowing participation in the sale.

2. A claim or defense of a consumer specified in [subsection 1](#) may be asserted against the lender under [this section](#) only if the consumer has made a good faith attempt to obtain satisfaction from the seller or lessor with respect to the claim or defense and only to the extent of the amount owing to the lender with respect to the sale or lease of the property or services as to which the claim or defense arose at the time the lender has notice of the claim or defense. Notice of the claim or defense may be given prior to the attempt specified in [this subsection](#). Written notice is effective when mailed or delivered.

3. For the purpose of determining the amount owing to the lender with respect to the sale or lease:

a. Payments received by the lender after the consolidation of two or more consumer loans, other than pursuant to open end credit, are deemed to have been first applied to the payment of the loans first made, and if the loans consolidated arose from loans made on the same day, payments are deemed to have been first applied to the smaller or smallest loan or loans.

b. Payments received upon an open end credit account are deemed to have been first applied to the payment of finance charges in the order of their entry to the account and then to the payment of debts in the order in which the entries of the debts are made to the account.

4. Except as provided in [section 537.1107](#), an agreement may not contain a provision to limit or waive the claims or defenses of a consumer under [this section](#). A provision in violation of [this section](#) is unenforceable.

[C75, 77, 79, 81, §537.3405]

Referred to in [§537.3501](#), [§37.5201](#)