

What can you do if the dealer already sold you phony financing?



You may be able to refinance your auto loan and save a bundle. Many states' laws forbid auto dealers and lenders from charging you a penalty for switching to a better interest rate. Refinancing an auto loan is far simpler than refinancing a home mortgage.

The *Los Angeles Times* reports that Corey Young, a Brentwood medical-plan salesman, switched from a loan at 8.9% to a loan at 6.03%. He saved about \$1,300. The only fee he paid was a \$15 lien transfer fee. Another consumer whose credit had improved saved \$4,500. (*Los Angeles Times*, September 22, 2002)

- Check out refinancing options at online lenders such as e-loan.com, lendingtree.com, or peoplefirst.com.
- No computer access? Take a copy of your auto contract to 3-4 banks and see what they offer you. To make sure multiple credit checks don't harm your credit score, do your comparison shopping within a 30-day period.

Stop Phony Financing

Visit CARS' Website at www.carconsumers.com for:

- More tips on how to save
- Details about the new law
- Links to sites with information about pending court cases
- Links to news coverage about discriminatory auto lending



Consumers for Auto Reliability and Safety (CARS) is leading the fight to clean up phony auto financing. Recently, California Governor Davis signed a new, first-in-the-nation law, pushed through the legislature by CARS, to crack down on the hidden charges. Senator Martha Escutia authored the bill. Auto dealers tried to kill it. Republicans sided with the auto dealers and voted against consumers. But thanks to support from consumer, labor, environmental, seniors, and civil rights organizations, the law squeaked through with votes from Democrats in Sacramento.

If you believe you were overcharged for your financing, CARS wants to hear from you. Call CARS toll-free at 800-491-9835. Be prepared to leave your contact information, including your daytime and evening phone numbers.

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Car Dealer Scam Costs Consumers Billion\$



Buying a new or used car?

Don't get cheated by "Phony Financing"

It's the auto industry's dirty little secret

It happens to millions of car buyers every year. Even the most sophisticated, savvy consumers. And you don't even realize you've been cheated.

Phony Financing

The secret? Auto dealers commonly bump up the interest rate you pay to finance your car, truck, or SUV. Over the life of the loan, the extra hidden interest you pay costs you hundreds or even thousands of dollars in added financing costs. These are costs you should not have to pay.

For example, if your credit is good, you may qualify for a loan with a 4% interest rate. But the dealership charges you 8%. Or 12%. Or sometimes 21% or more.

The dealer gets a hidden “kickback” or fee from the lender based on the amount of interest you pay. The more you pay in interest, the more profit the dealer makes. Typically, the dealer and lender split the extra interest you pay 60-40, with the dealer pocketing the lion’s share.

The dealership finance manager may seem friendly and tell you, “Don’t worry. I’ll get you the best possible rate.” But instead, he will charge you the highest rate he can. He may even mislead you into thinking your credit is worse than it really is.

This scam affects almost everyone who finances through a car dealer. But studies show that the added costs are likely to be even higher if you are African American or Latino.

***TIP: Do NOT finance your car at the dealership. Beware of ads that promise 0% financing. Most consumers do NOT get 0%.**

How can you avoid Phony Financing?

BEFORE you go to buy a car

Whenever possible, buy an affordable vehicle without getting a loan. But whether you pay cash or get a loan, you can save thousands of dollars if you do your homework. Check out prices and models BEFORE you visit a dealership.

***TIP: Improve your credit before you buy. Pay down credit cards and lines of credit, get mistakes in your credit report corrected, sell your current vehicle and borrow or rent a car until you are ready to buy.**

- Check *Consumer Reports* online at www.consumerreports.org, or read *Consumer Reports Car Buying Guide*, available at bookstores and public libraries.
- Use Consumer Reports car pricing service. **New car buyers who use this service save an average of \$2,200.** No computer access? For new or used vehicles, call: 1-800-258-1169. (This service costs about \$12 and requires a credit card.)
- Or, after you decide on a particular model, ask a bank or credit union to show you the *Kelley Blue Book*, or check it out online at www.kbb.com. Also check classified ads in local newspapers. Prices may be lower in your area.
- Join a credit union. Credit unions often offer better rates than banks. Membership requirements vary. Look up “Credit Union” in the yellow pages, call around, and find out how to join.

Know the Score

- Find out your credit score by asking your bank or credit union, or checking online at www.myfico.com (for about \$12) or at www.e-loan.com (for free). Figure out just how good your credit is, and take steps to make corrections and improve it.
- Check out interest rates online at www.e-loan.com or www.bankrate.com. Don’t get financing from a dealership unless they can beat the rates you could get online or from a bank or credit union.
- Ask online lender, bank or credit union to pre-qualify you for a loan.
- No computer access? Shop around at 3 or 4 banks and tell them you are comparing where you can get the best deal. If one offers you a loan at 6%, see if another bank will beat that offer. Make them compete for your business.



***Tip: Save by getting the shortest loan you can afford. Typical auto loans last 60 months or more. If you get stuck with a longer loan, you could end up owing money long after your car or truck dies.**