

## Know What to Ask

When shopping for a car or auto financing, make sure you ask about the:

- total price for the vehicle.
- available “dealer incentive” discounts.
- total amount you will pay over the life of your loan.
- annual interest rate.
- monthly loan payments.
- number of months until the loan is paid off.
- early pay off fees that could cost you more if you decide to refinance your car loan.
- cash down payment.
- trade-in credit for your old car.
- additional fees like delivery or title transfer.
- sales tax.

## Check Your Credit

Your credit is the biggest factor in determining whether you will be approved for a car loan and what the interest rate will be. If you have a poor credit rating, you'll be asked to pay a higher than average annual percentage rate (APR) to finance your loan.

Don't go shopping for a car loan or a car until you've ordered a copy of your credit report. Errors on credit reports are common and by checking your report ahead of time, you'll be able to contest inaccurate information. It can take time to dispute mistakes on your credit report.

If you know what's on your credit report, you'll be prepared to deal with unscrupulous dealers who may claim that your credit is poor in order to justify a higher interest rate.

**DID YOU KNOW?** Many people are eligible to join a credit union and don't realize it. Credit unions are not-for-profit and they exist to provide a safe, convenient place for members to save money and to get loans at reasonable rates. To find out if you are eligible to join a credit union, visit the CUNA web site at [www.cuna.org](http://www.cuna.org) and click on “Consumer Information.”

You can get your credit report (about \$9 each) from one or all of the three major credit reporting companies:

- Experian: 888-397-3742, [www.experian.com](http://www.experian.com)
- Equifax: 800-685-1111, [www.equifax.com](http://www.equifax.com)
- TransUnion: 800-888-4213, [www.transunion.com](http://www.transunion.com)

Your credit can be affected by how often you have moved, how steady and how verifiable your employment history is and how many credit applications you have filled out recently. If you've never had a car loan before, or if your current debt is high despite a good credit rating, you may be quoted higher rates.

## Refinancing Your Loan

Just because you're paying 16% on your car loan doesn't mean there isn't a better deal to be had. Most car loans can be refinanced without a lot of added costs and you might be surprised at your savings from a new loan. Before you try to refinance your loan, ask if your current loan has a penalty for early pay off.



When shopping for a new loan, ask about hidden fees or processing charges before you apply. You will be required to pay a title transfer fee because during refinancing you will replace the name of your new lender for your old one on your car's title.

## Consumer Action

[www.consumer-action.org](http://www.consumer-action.org)



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Consumer Action provides advice and referral on consumer issues. Leave a message anytime and a counselor will call you back. Chinese, English and Spanish are spoken. You can e-mail Consumer Action ([hotline@consumer-action.org](mailto:hotline@consumer-action.org)) or visit its web site ([www.consumer-action.org](http://www.consumer-action.org)).

Consumer Action's Managing Money Project.

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## Get a Car Loan



## That's In Your Best Interest

- Getting Pre-approved
- Choosing the Right Car
  - Buy or Lease?
- Are Rebates a Good Deal?
- About Dealer Incentives
- Checking Your Credit
- Refinancing Your Loan

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If you are seeking financing for a new or used car, you have many options for financing even if you have a poor financial history. However, late payments and other credit problems signal lenders that you are a risky customer, which will increase the interest rates on loans available to you. There are differences between lenders—so find the best deal by shopping around.

## About Auto Loans

Car loans can be obtained from a variety of sources: credit unions, banks, online direct lenders, loan brokers and auto finance companies. Manufacturer-related auto financing companies are prohibited by law from selling loans directly to borrowers, so their loans usually are transacted at auto showrooms and are known as dealer financing.

Dealers advertise special loans that seem too attractive to pass up. However, only people with the best credit can qualify for “zero percent” financing and other attractive dealership loans.

Interest rates for loans for people with so-so credit can be 60% higher than the rates available to people with excellent credit. People with poor credit may be asked to pay a rate that is two to four times higher.

The time you can take to pay back a car loan varies—usually you can choose terms of 36 months (three years), 48 months (four years) or 60 months (five years). You can lower your monthly payments by taking a longer loan period. However, the longer the loan period the higher the total interest you will pay over the life of the loan. Check the weekly interest rate roundup on Bankrate.com to find national averages on auto loan rates.

## Get Pre-approved

It's a good idea to get pre-approved for a loan before looking for a car. This allows you to compare the rates you found with what the dealer might offer. At the very least, you should check your credit score and get quotes from online lenders before venturing into a dealership. (E-Loan.com provides free credit scores and individualized interest rate quotes online.)

A negative item on your credit report may cause a dealer to raise the interest rate of a loan even after you've signed a contract for the car.

When you are pre-approved, many lenders give you a blank check to take to the dealership when you shop. The check has a price limit and an expiration date. Dealers like to complete a transaction the same day and may give you a lower price if you can close the deal immediately.

If you don't get pre-approved and you don't want dealer financing, ask the salesperson for a purchase order that you can take to the bank or credit union to apply for a loan. You will have to wait for

your loan to be approved before you can buy the car.

## The Mark Up Game

Most auto finance companies that work with dealers let the dealers mark up the interest rate the company will charge by several percentage points. To explain the difference between the quoted rate and any advertised rates, salespeople tell customers they don't qualify for the lower rates. This extra finance charge tacked on by dealers

**DID YOU KNOW?** You can get your credit score for free at E-Loan ([www.e-loan.com](http://www.e-loan.com)). The three major credit reporting agencies—Equifax, Experian and Trans Union—charge \$12.95. In most cases, people with a credit score of 680 or above are considered prime borrowers. Those with scores below 550 may have trouble getting a loan at all.

is called a “yield-spread premium” and it's pure profit that is split between the dealer and the lender.

The mark up is not illegal, but it is unfair because it's hidden. To make the practice even worse, recent studies have found that especially high mark ups are charged to African American and Latino customers. The best way to avoid a dealer mark up is to determine your credit and what loan rates you would qualify for with an

online lender or with your bank or credit union before visiting dealerships, which will put you in a strong position to negotiate the best deal.

## Choose the Right Car

If you are going to finance a vehicle, look for one that will retain its value over time. You can find historical information on specific models online at Kelley Blue Book ([www.kbb.org](http://www.kbb.org)) or in Consumer Reports magazine at the library.

Auto insurers don't publish the fact, but they have a rating system to determine how much it will cost you to insure different makes and models. Since you will be required to carry expensive collision insurance coverage on your financed vehicle, contact your insurance company in advance to ask about differences in premiums for the cars you are considering.



## Buy or Lease?

Leasing rarely makes as much financial sense as buying a car, especially a good used vehicle. Leasing is like a long-term rental, but car leases come with strict rules about how many miles you can drive and keeping the car in excellent condition.

Leasing costs you more in the long run, because

at the end of the lease you don't own the car, but it still attracts many car shoppers because on the same car monthly leasing fees are lower than monthly financing payments.

When the lease term expires, you can return it, buy the car from the dealership for an additional sum or trade it in on a new leased model.

Lease agreements usually allow you to drive 12,000 to 15,000 miles per year. For additional miles, you'll pay between 10¢ to 25¢ per mile.

## Rebates

Rebates are widely advertised price reductions offered during slow sales periods or on overstocked models. Often, however, dealers will offer you the option of low cost financing instead. If you get outside financing, you may be able to get both the rebate and a low interest rate. To make it easy to determine the better deal, use one of the many free online calculators. To find them, search on the Internet for “auto financing calculators.”

## Dealer Incentives

On some models, dealers may offer incentives that are not advertised to the public. Dealer incentives are passed on to the dealer by manufacturers. Dealers don't have to pass the savings on to the customer and sometimes salespeople are not even aware of them. Ask to speak to the sales manager about dealer incentive programs. It can help you negotiate a better deal if you know that the dealership often will adjust its profit margin to make a sale. Check auto magazines and web sites such as Edmunds.com for information on incentive programs.

**DID YOU KNOW?** Lenders may look more favorably on your loan application if you can prove you have lived in the same place and worked for the same employer for 6 months to a year and you can verify your income with two or more consecutive pay stubs.

