

## 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 \$1300. The only fee he paid was a \$15 dollar lien transfer fee.

- **Check out refinancing options at online lenders such as [e-loan.com](http://e-loan.com), [lendingtree.com](http://lendingtree.com), or [peoplefirst.com](http://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

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 **behind the scenes** to kill it. Republicans sided with the auto dealers and voted against consumers. **But thanks to a flood of mail from consumer, labor, environmental, seniors, and civil rights organizations, the law squeaked through** with votes from Democrats in Sacramento.

Visit CARS' Website at [www.carconsumers.com](http://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

If you believe you were overcharged for your financing, CARS wants to hear from you. Call CARS toll-free at 800-441-9835. Be prepared to leave your contact information, including your daytime and evening phone numbers.

**CARS**  
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*This publication is funded by a grant from the California Consumer Protection Foundation. CARS also depends on contributions from generous, caring individuals. Please consider donating to CARS to help us keep winning against powerful, corrupt special interests. (CARS is a tax-exempt, non-profit organization. Contributions are not tax-deductible due to CARS' legislative advocacy work on behalf of the motoring public.)*

## 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**

# 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, get mistakes in your credit report corrected, eliminate unused lines of credit, sell your current vehicle and borrow or rent a car until you are ready to buy.**

- Check *Consumer Reports* online at [www.consumerreports.org](http://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 used vehicles, call: 1-800-258-1169. For new vehicles, call: 1-900-888-8275. (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](http://www.kbb.com).
- Join a credit union. Credit unions often offer better rates than banks. Membership requirements vary. Look up “Credit Unions” 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](http://www.myfico.com) (for about \$12) or at [www.e-loan.com](http://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](http://www.e-loan.com) or [www.bankrate.com](http://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 an 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: The shorter the loan, the less you will pay. The typical auto loan is for 60 months. If you get stuck with a longer loan, you could end up owing money long after your car or truck dies.**