Consumer Corner

by Illinois Attorney General LISA MADIGAN

BUYING A NEW CAR: THE TRUTH ABOUT AUTO FINANCING

With the arrival of spring, many Illinoisans will take advantage of the warmer weather by buying a new car. When shopping for a car, one of your first steps should be finding the lowest possible financing source. By planning ahead, you could save yourself *thousands of dollars* over the life of your loan.

Q: ***I plan to buy my first new car this spring. For the sake of convenience, I'd prefer to finance the car through the dealership. My friend says I should go to my local bank to arrange financing. Does it make a difference?***

A: It could make a *big* difference. If you arrange financing through a dealership, you might end up paying more than you have to—maybe thousands of dollars more. Auto dealers often add significant mark-ups to the interest rates at which car buyers are approved for a loan - without ever telling them. The scheme works this way: The auto dealer contacts a lender and gets the interest rate for which you qualify based on your creditworthiness. This interest rate is called the **buy rate**. Some auto dealers will disclose your buy rate, but often, the dealer will quote you a much higher rate and pocket the profits. For example, if you qualify for a 72-month loan at 7.55%, the dealer might tell you that 10.45% is the best rate you can get. The difference between the buy rate and the rate the dealer offers you is the **yield spread premium**. On a $25,000 vehicle, a yield spread premium of 2.9% will cost you more than $2,500 over the life of the loan. The dealer, meanwhile, receives anywhere from 75% to 100% of the mark-up as a kick-back from the lender.

To avoid being charged an unnecessarily high interest rate, take the time to shop for the lowest finance source <u>before</u> you buy a vehicle. Get financing quotes from your local bank, credit union, and even reputable Internet-based lenders. Bring these quotes with you to the dealership, and compare their interest rates with the rate the dealer provides you. You should also ask the dealer to disclose to you, in writing, the **buy rate** and the **yield spread premium**. Following these tips should help you get a fair interest rate on a car loan, whether you arrange financing on your own or through a dealer.

Q: ***What will happen to my down payment on a new car if the dealer cannot find financing at the rate we agreed on?***

A: Car dealers will sometimes let a consumer make a down payment and take a vehicle home before financing is finalized. This practice is known as **spot delivery**, and you should avoid it. Spot delivery turns into trouble when a consumer has been driving a new car for a few days and then learns that the dealer is unable to find financing at the agreed-on terms. In these circumstances, the consumer might feel obligated to put more money down, find a cosigner, or pay a higher interest rate. Under Illinois law, however, if an auto dealership does not secure financing at the contract terms, the consumer is simply required to return the car to the dealership, and the dealer is required to return the consumer's down payment and trade-in.