

## Helpful Tips

### QUICK CAR BUYING TIPS

- Before you visit a dealer, line up good financing with a bank or credit union.
- Before you negotiate the price of a new car, check for price information at [www.edmunds.com](http://www.edmunds.com); for a used car, check the value at [www.kbb.com](http://www.kbb.com).
- Never tell the dealer how much you are willing to spend per month; instead, negotiate a fair cash price for the car.
- Negotiate the price of the new car first, before the dealer evaluates how much you'll get for your trade-in. Keep negotiations separate and beware of a monthly car note that hides the price of the new car and what you are getting for the trade-in.
- For used cars, get an independent, expert vehicle inspection *before* you buy.
- Check the vehicle's Vehicle ID Number (VIN) at [vehiclehistory.gov](http://vehiclehistory.gov); other vehicle history reports may be unreliable.
- Test drive the vehicle and examine it closely for signs of prior damage.

### CAR LOAN TIPS

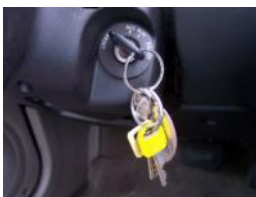
- Before applying for a loan, obtain your credit report and credit score. If your score is low, work to improve it before you apply for a loan.
- Shop around for the best rate and shortest term loan at banks, credit unions, or [bankrate.com](http://bankrate.com).
- Don't co-sign loans for others if you can't afford to pay the entire amount. If the buyer stops making payments, you will have to pay, even if you never got to drive the car.

### HOW TO FILE A COMPLAINT ABOUT AUTO FINANCING

The Federal Trade Commission (FTC) is responsible for oversight of car dealership financing.

To file a complaint with the FTC, go to [www.ftccomplaintassistant.gov](http://www.ftccomplaintassistant.gov) or call 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261

## For More Information



### National Association of Consumer Advocates

[www.naca.net](http://www.naca.net)

### Consumers for Auto Reliability and Safety

[www.carconsumers.org](http://www.carconsumers.org)

### Center for Responsible Lending

[www.responsiblelending.org](http://www.responsiblelending.org)

### The Car Book, Center for Auto Safety

[www.autosafety.org](http://www.autosafety.org)



The National Association of Consumer Advocates (NACA) is a nationwide membership organization of consumer protection attorneys who represent and have represented thousands of consumers victimized by fraudulent, abusive, and predatory business practices. As an organization fully committed to promoting justice for consumers, NACA is actively engaged in promoting a fair and open marketplace that forcefully protects the rights of consumers.



The Consumer Federation of America is an association of nearly 300 nonprofit consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education.

# How to Avoid Auto Fraud



## Get the Facts About Auto Financing and Sales



# Financing Tricks and Traps

## YO-YO FINANCING

You sign all the paperwork and you are given what you think is the final loan contract. You drive away believing you now own the car. Then the dealer calls and says the financing was denied and that you must come back and sign a new contract. The contract has a higher interest rate or requires a larger down payment. If you object, the dealer may say the trade-in car has been sold, may threaten to repossess the new car, or may threaten to report the new car as stolen unless it's returned.

### **HOW TO PROTECT YOURSELF:**

- Be sure that any contracts you sign are final. Look for any language on the contract or on another piece of paper that in any way indicates this financing deal is "conditional on" or "subject to" final approval.
- You do not have to accept financing from a dealer. The only way to evaluate the dealer's financing is to compare the terms with those of a bank or credit union. It's best to check out these rates before you visit the dealership.
- Be wary of ads for "0%" loans. Most buyers are switched to a higher rate or find it harder to negotiate down on the price of the vehicle.
- If you get "yo-yo" treatment, seek legal advice before signing a sales contract and notify your state attorney's consumer protection office as well.

## DEALER KICKBACKS

Dealers will often tell you that they can provide the best auto financing. Often their offer is not the best deal for which you would qualify because of "kickbacks" that they receive from certain lenders for arranging financing with you, or by "padding" the interest rate to make more profit.

### **HOW TO PROTECT YOURSELF:**

- *Before* you shop for a car, get pre-qualified for a loan at a credit union or bank. Take the dealer's financing only after careful comparison and if it offers the best final terms.
- Get your credit score in advance and if it's low, improve it before you take out a loan.

## YOUR TRADE-IN

If you are still paying off a loan on the car you're trading-in, be aware that the car may be worth less than the amount you still owe. This difference, called "negative equity," is likely to be added to the loan amount on your new car loan. This means your new loan is for both your new car and the "negative equity" on your old car. Some dealers will identify this amount, but others will hide it.

### **HOW TO PROTECT YOURSELF:**

- Keep your car until the amount you owe on the loan is less than the resale value of the vehicle. It's best to wait until the entire loan has been paid-off before trading it in.
- Watch out if the dealer offers you more for your car than it is really worth. While this may sound like a good deal, they are likely adding the debt you owe on the old car to the price of the new car, or inflating other costs on your new deal.

## DAMAGED CAR FRAUD

Millions of vehicles are wrecked in crashes or damaged in floods each year. Even though insurers or the state may declare these wrecks "totaled," many of them end up in auto auctions with superficial repairs, looking like new. These rebuilt wrecks can have major, expensive, unfixed damage, making them unsafe to drive.

### **HOW TO PROTECT YOURSELF:**

- Get the car inspected by a trusted mechanic **and** body shop *before* you buy it. A body shop has expertise in the rebuilding of a car that a mechanic may not.
- Check the vehicle ID number (VIN) at [www.vehiclehistory.gov](http://www.vehiclehistory.gov) to see if it was "totaled," stolen, or has a rolled-back odometer. Some other vehicle history reports may not be as reliable.
- Ask the manufacturer if it will honor the warranty or if the warranty is void due to prior damage.

## DEALERS' FAILURE TO PAY-OFF EXISTING LOANS

When dealers take trade-ins on vehicles with loans that have not yet been paid off, they may promise to pay-off the unpaid balance, but then fail to do so. If the dealer fails to promptly pay off the balance on your old loan, your credit rating will be quickly ruined. If the dealer sells that trade-in with an outstanding loan balance to a new customer, that consumer will not legally own the car and the car can be repossessed by the original lender, again damaging your credit rating.

### **HOW TO PROTECT YOURSELF:**

- Keep your car until your loan has been paid off. If the interest rate and payments are too high, see if you can refinance at a better rate.
- Sell the current car yourself and pay off the loan. If there is excess, you can use it to make a cash down payment.
- If you trade the car in, be sure that the paperwork definitively covers the payoff of your old loan and follow-up with your lender to ensure that payoff actually occurred. If you are not sure, consult a lawyer familiar with car financing.
- If you are buying a used vehicle: insist on seeing the title before you sign a purchase contract. The dealer can't get the title until the loan has been paid off.

## LOAN PACKING

Dealers may try to entice you into buying add-on items with little or no real value because the dealer will tell you "add-ons" are necessary to get financing. Add-ons can add thousands of dollars to the cost of the car.

### **HOW TO PROTECT YOURSELF:**

- Be sure you understand exactly what has been added to the price of the vehicle you are buying.
- In general, avoid buying items like theft-etching, rust proofing, upholstery protection, GAP insurance, extended service contracts, and lifetime oil changes. Read your contract carefully.