

A used car buyer may know how to find the best models and how to reach a fair price, yet not know how to buy a car on credit. A buyer who walks into a dealership with insufficient information is likely to accept dealer financing and pay top dollar for it. Savvy buyers need to comparison shop for money just as they do for the car itself.

Before going to a dealership or used car lot, buyers should know the range of interest rates from various sources and answers to these questions:

- ◆ How much will I need to borrow?
- ◆ What is the maximum monthly payment I can afford?
- ◆ How many months do I want to borrow the money for?

## COMPARISON SHOPPING FOR A USED CAR

Since the majority of used cars are financed, comparison shopping for the best finance terms and contract is worth the time and effort and can save you a lot of money. Before signing any finance contract, for your own protection, read it carefully. Make sure you understand every clause of the contract. Also, be sure there are no blank spaces or lines to be filled in later. Do not be afraid to ask questions about clauses that are unclear. You also want to know the creditor's legal rights for situations such as late payment, default or prepayment. Finally, be sure that you can meet your responsibilities defined in the contract.

## IMPORTANT FINANCIAL TERMS

Finance managers at the various used car sources are experts in selling money to prospective buyers. By law, the cost of credit is expressed as an annual percentage rate (APR) and the buyer can compare the cost of loans by comparing annual percentage rates. The APR is the standard way of talking about interest rates. The federal Truth In Lending Act requires creditors to clearly disclose all the required cost terms in writing.

The contract must include the APR, the amount financed, the finance charge, the total of payments and the payment schedule. Also required is the total sales price, which is the sum of the total scheduled payments and the down payment. The finance charge is the total cost of the loan including

interest, fees, and credit checks. The credit contract shows the buyer how much more it costs to buy on credit than to pay cash.

When you obtain an automobile loan the car becomes collateral, which means that the creditor will hold the title to the car until the loan is paid in full. So if you fail to make your payments, then legally the creditor can repossess the car and sell it.

## USED CAR LOAN SOURCES

The easiest way to get information about used car loans is to phone various sources. Provide the pertinent information: cost, description of the car, and the down payment. After you have discussed the loan length and the amount to be borrowed, find out the APR and what the monthly payment on that amount will be. Find out if there are any restrictions on the amount of money the creditor will lend for the car you are interested in. Also, ask about additional fees such as credit checks and the finance charge, which is the total cost of the loan.

The following credit sources should be considered before selecting a used car loan:

**Credit Unions...** usually offer low loan rates, especially for used cars. In addition, credit unions sometimes offer free credit insurance to borrowers as well as low-cost credit disability insurance. Many consumers join to participate in their loan programs.

**Banks...** sometimes give a preferred rate to persons who have checking or savings accounts at the bank. In setting its loan rate a bank will inquire about a consumer's creditworthiness by making a credit check. Another factor affecting the loan rate is the number of months the loan is in effect.

**Dealerships...** are not lending institutions. They borrow the money from their own banks or from local institutions. They may be the most expensive source of car financing but also the most convenient. Sometimes, under special arrangements, they offer loans to young buyers who have no credit history but are employed or to people with poor credit ratings.

**NOTE:** Sometimes the dealership finance manager will offer to do your paperwork if you are getting a loan from another

bank or credit union. For performing this service, the dealership receives payment by the lender who will pass along that cost to the borrower. Handling your own paper work may mean a trip to the lending institution, but it can result in a significant saving.

**Finance Companies...** and small loan companies make a point of providing loans to persons with bad credit or no credit history, but they charge the highest legal interest rates and have exacting requirements for loan security or collateral.

**Parents, relatives and friends...** can be a good source for young buyers. If you borrow money from a relative or friend, it is important to have a written contract that contains the standard information: the total cost, the amount borrowed, length of the loan, interest rate and repayment arrangements. It should be signed, dated, and witnessed. Keep accurate records because the Internal Revenue Service may consider large payments to a minor as a gift for tax purposes.

Some consumers knowingly choose to pay high interest rates for several reasons. Buyers with a checkered credit history may be embarrassed to go to a bank or credit union. They fear being turned down. However, the majority of borrowers who think their credit is poor could qualify for regular loans. Some consumers disregard their own self interest in money matters. They value convenience and the promised "no fuss" policies of dealerships. If you want to get a good deal, you must investigate all the sources of financing and select the deal that best meets your needs.

## USING A COSIGNER

Sometimes buyers, who are ineligible to sign a loan contract because they are under age, need a cosigner for a used car loan. The cosigning procedure is a big step for both parties. A cosigner is legally required to assume all the obligations of a loan if the borrower does not fulfill the contract. In most states, if the borrower misses one payment, the creditor can collect from the cosigner immediately without contacting the borrower first. Also, the lender is permitted to use all collection methods against the cosigner such as law suits and garnishment of wages. In addition, the amount of the debt may be increased by late charges and attorney fees.

When people cannot make loan payments, they often decide to let the financial institution have the car. The borrower hopes to end all responsibility for the loan. However, when

the financial institution repossesses a car, it attempts to sell it and apply the proceeds to pay off the loan. But the sale amount may not be sufficient to cover the balance owed. In that case, if the cash selling price of a car financed in Indiana was over \$3,100; the original borrower and the cosigner may receive a deficiency judgment which would force repayment of the difference.

All of these events will have an adverse effect on the borrower's credit history and may damage the cosigner's credit record as well. In cases where parents are cosigning for their children, perhaps the peril is not so great, but there is still some risk.

## GETTING PRELIMINARY INFORMATION FROM CREDITORS

The easiest way to get information is to phone the creditor and ask for the loan arranger or car loan department. The loan officer will ask a few basic questions:

- ◆ How much money is to be borrowed?
- ◆ How long?
- ◆ What year is the car?
- ◆ What is the selling price?

Potential borrowers may be asked questions about employment, income, credit cards, and debts. After you have answered the questions, request the following information from the loan officer:

- ◆ APR
- ◆ Monthly payment
- ◆ Restrictions on the loan
- ◆ Additional fees
- ◆ Finance charge

The total credit costs depend primarily on three factors: the APR, the amount borrowed, and the length of the repayment period. So if you are considering financing through a dealer, make sure you get separate quotes for the car and for the financing. Otherwise, you will not be able to compare the credit costs and terms accurately with other credit sources.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems  
Applying for Credit  
At Home Shopping Rights  
Bankruptcy Facts  
Buried in Debt  
Car Financing Scams  
Charge Card Fraud  
Choosing A Credit Card  
Co-Signing  
Credit and Divorce  
Credit and Older Consumers  
Deep in Debt?  
Equal Credit Opportunity  
Fair Credit Reporting  
Fair Debt Collection  
Gold Cards  
Hang up on Fraud  
High Rate Mortgages  
Home Equity Credit Lines  
How to Avoid Bankruptcy  
Indiana Uniform Consumer Credit Code  
Look Before you Lease  
Mortgage Loans  
Repossession  
Reverse Mortgage Loans  
Rule of 78s – What is it?  
Scoring for Credit  
Shopping for Credit  
Using Credit Cards  
Variable Rate Credit  
What is a Budget?  
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



# HOW TO FINANCE A USED CAR



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