

# Signs of a Bad Auto Loan

# 1:

## Dealer Kickbacks



A car buyer initially qualifies for a lower interest rate or “buy rate.” The lender willing to fund the loan for the buyer allows the dealer to increase the “buy rate” at the dealer’s discretion. The dealer has a powerful incentive to increase the interest rate, as most of the extra interest is “kicked back” to the dealer.

# 3:

## “Yo-Yo” Sales



The buyer is either convinced to enter into or unwittingly placed in a conditional sale agreement rather than a final sale. After the buyer drives the vehicle home, the dealer later claims to be unable to fund the loan at the agreed-upon terms. The buyer is required to return the car and renegotiate an often more costly loan. Often, the buyer is told that their down payment is non-refundable and/or their trade-in has already been sold.

# 5:

## No Option For Justice



“Mandatory arbitration” clauses essentially waive the customer’s right to sue and appeal in court. In simple terms this means that if you have a valid complaint with a car dealer, you won’t be able to take action through a court of law. Instead, companies require their customers to pursue complaints through an arbitrator – a process that is more likely to favor the dealer.

# 2:

## Junk Fees



Dealers inflate the overall price of the car loan through overpriced add-on products including “GAP” insurance, vehicle service contracts, credit life and disability insurance, rust proofing, theft deterrent packages, and “window etching.” By inflating the cost of the vehicle and loan size, the potential loan kickback for the dealer is increased.

# 4:

## Buy Here, Pay Here



Buy Here Pay Here (BHPH) dealerships typically finance used auto loans in-house to borrowers with no or poor credit histories. The average APR is much higher than a bank or credit union loan. BHPH dealers expect much higher default and repossession rates. Instead of responsibly financing affordable cars, the business model depends on churning the same vehicles (many would be classified as “lemons”) to local buyers as many times as possible.