CAR BUYING

Common Dealership Financing Pitfalls

If you are going to sit in the finance and insurance (F&I) office at a dealership, the editors of Edmunds.com suggest you watch out for these common pitfalls:

Pitfall No. 1:	Many consumers do not know what their credit rating is when they apply for an auto loan. The strength of their credit score largely determines what kind of interest rate they will receive. Therefore, it is critical to make sure your credit report is in the best shape possible before shopping for a car.	**Solution:**	Order a copy of your credit report and look for items that may stand in the way of you getting a good rate. Correct any issues or errors promptly. Are all of your lines of credit in good standing? Are there any signs of identity theft? The credit bureaus will tell you how to correct errors when you get your report.
Pitfall No. 2:	Many consumers are tempted to overspend once they get to the dealership.	**Solution:**	Bring a printout of your budget to the dealership as a reminder of what you planned on spending. Be sure to bring any printouts of pricing you have done.
Pitfall No. 3:	Most consumers arrive at the dealership without having researched the current interest rates being offered in the marketplace, so they have no idea if they are being offered a competitive rate.	**Solution:**	Use the internet as a research tool to compare rates. Check out websites such as bankrate. com for national averages, and the website of your own financial institution for it's current rates.
Pitfall No. 4:	Most consumers arrive at the dealership without approved auto financing in hand. This is either because they are unaware of all the financing options available or they assume they will qualify for a low rate at the dealer. This approach deprives the consumer of bargaining power when it comes to negotiating the lowest possible interest rate.	**Solution:**	Become an “empowered buyer” by getting a no-obligation loan before visiting the dealership. Having your own loan could save you significant money. For example, a 60-month, $26,000 loan at 4.49% can save a consumer about $1,500 over the life of the loan, compared with a loan at 6.56%.
Pitfall No. 5:	Many dealers offer a choice between discounted (or zero percent) financing or a rebate, but not both. Consumers may erroneously assume that the zero-percent loan will deliver the most savings.	**Solution:**	Sometimes, it is better to take the cash rebate and apply it against the purchase price of the vehicle—and then use your own preapproved car loan to finance the vehicle. The savings chart below shows how a low-interest rate and a rebate can “beat” a zero-percent deal.

36-Month Car Loan Comparison *		
APR	0%	3.99%
Cost of car	$20,000	$20,000
Less equity in trade Less rebate	$4,000 $0	$4,000 $2,000
Amount to finance	$16,000	$14,000
Monthly payment	$444.44	$413.27
Total cost	$16,000	$14,877.85
Savings	$0	$1,122.15

Pitfall No. 6:	The F&I officer may try to confuse you by intertwining different elements of your deal. For example, he or she may say, “We’ll give you an extra-low price on the vehicle, but this interest rate is the best we can do.”	**Solution:**	Consumers should unbundle the deal and keep it three separate transactions: the purchase, the trade-in, the financing. Avoid discussions that can take you off this track, such as how much you can afford to spend per month. With financing, focus on the APR, not the monthly payment.
Pitfall No. 7:	By the time they get to the finance department, many consumers are mentally worn out and do not review the contract thoroughly before signing. As a result, they may agree to buy things they did not plan to buy (such as an extended warranty, rust-proofing, etc.).	**Solution:**	Before you sign any papers or hand over any money, check the figures in the contract and understand all of the charges. The sudden appearance of extra fees should be questioned. Sometimes, dealers add extra fees—“junk fees”—to retake profit they have lost by selling cars at invoice.
Pitfall No. 8:	The consumer feels rushed, pressured and confused by the dealership’s staff. In some cases, these buyers have second thoughts about completing the deal but sign the documents anyway.	**Solution:**	Consumers who feel out of their comfort zone should walk away. The buyer—not the seller—should be the one in control of the process. Remember, the federal “cooling off” law does not apply to cars.

If you do your homework ahead of time and know what to expect before entering the F&I office, the paperwork process can go quickly and easily. More importantly, you will receive a deal on your auto loan that you can feel good about for the life of the car.