Signs of Predatory Auto Finance Loans

The Center for Responsible Lending has created a list of five "Signs of Predatory Auto Finance Loans" that you may view below or view on their webpage: https://www.responsiblelending.org/issues/signs-predatory-auto-finance.

Signs of Predatory Auto Finance Loans

Don't get into car trouble: Learn to spot predatory auto finance loans.

Sign 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.

Sign 2 - Loans Packed With Junk Fees

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

Sign 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.

Sign 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.

Dealers usually require a disproportionate percentage of the car’s actual value for downpayment and pack the loan with unnecessary fees to make more money up front.

Sign 5 - No Option For Justice In Court

“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 allowed 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.

Last updated on September 15, 2020.

Unfair and Deceptive Trade Practices Automobiles Predatory Lending

Print

Table of Contents

NEWS

News & publications

The news about recent activities for needed peoples.

More News

25 Aug 2017

Court Rules that Same Sex Parent can Move Forward with Discrimination Suit Against the State of Idaho

In an important step in securing equal rights for same-sex couples, a federal court ruled yesterday that an unmarried, lesbian mother can continue her fight to be recognized as the parent daughter.

Continue Reading

17 Jan 2017

ILAS receives funds to help seniors from Idaho National Laboratory

IDAHO LEGAL AID RECEIVES $1,440 GRANT Idaho National Laboratory, on behalf…

Continue Reading

Our Partners

LSC's support for this website is limited to those activities that are consistent with