



# Dodge Auto Loan Markups

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etting the best deal for a new or used car takes preparation. You need to know how much the dealer paid for the car so you can negotiate the price. You need to know the market value of your old car if you're considering a

trade-in. And, it's equally important to know the lowest loan interest rate you qualify for, so you don't pay too much for financing.

In fact, Jack Gillis, public affairs director for the Consumer Federation of America (CFA) in Washington, D.C., says, "Consumers should shop for financing with the same vigor as when they shop for the car." Fortunately your credit union can help.

## Watch for Secret Dealer Markups

Many auto dealers arrange loans through finance companies owned by car manufacturers. Gillis says these dealers often secretly mark up loan rates when consumers finance purchases through the dealership.

For example, if the finance company says a consumer's credit history qualifies for a 7% interest rate, the dealer might charge 12%. The dealer pockets

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most of the difference and the finance company keeps the rest.

As many as one out of four consumers financing through dealerships is affected, with a hidden markup adding \$1,000, on average, to a car purchase amount. In the worst cases, loan markups add as much as \$5,000 over the life of the loan. According to a CFA report, this practice costs U.S. consumers up to a billion dollars annually.

## Get a Preapproved Loan

Before going to a car dealership, contact your credit union for loan preapproval, but don't reveal the amount you're preapproved for to the dealer until price negotiations are complete. Then you'll enter the transaction knowing you have low-cost financing; you'll be able to negotiate without feeling pressured to

accept costly dealer financing. If you do wish to finance through the dealer, you'll know if it's offering a competitive rate.

## Beware of 0% Financing

Some dealerships advertise 0% financing, but only a very small percentage of buyers qualify. Once buyers get in there, they pay a higher rate. Carefully review dealers' loan papers; don't

## How to Use the Tables

**S**elect a table, here or on the next page, based on the term of the loan and find the dealer interest rate along the top row. Now, find the credit union interest rate in the far-left column, and circle the amount where the column and row intersect. Then determine how many thousands of dollars you'll need to borrow (i.e., 12.9 for \$12,900, 15 for \$15,000). Multiply the number of thousands by the number you circled on the table—the answer is what you'd save by using the dealer's financing. If what you'd save is less than the dealer's rebate—using the rebate to increase your down

### When a Rebate is Better Than a Three-Year Dealer Loan

		Dealer rate								
		0%	1%	2%	3%	4%	5%	6%	7%	8%
Credit union rate	5.0%	\$73	\$59	\$44	\$30	\$15	*	*	*	*
	5.5	80	66	51	37	22	\$8	*	*	*
	6.0	87	73	59	44	30	15	*	*	*
	6.5	94	80	66	51	37	22	\$7	*	*
	7.0	100	86	72	58	44	29	15	*	*
	7.5	107	93	79	65	51	37	22	\$7	*
	8.0	114	100	86	72	58	44	29	15	*
	8.5	120	106	93	79	65	51	36	22	\$7
	9.0	127	113	99	86	72	58	43	29	15
	9.5	133	119	106	92	78	64	50	36	22
	10.0%	\$139	\$126	\$112	\$99	\$85	\$71	\$57	\$43	\$29

\* Credit union loan is a better deal regardless of any dealer discount

assume you're getting the 0% rate. Your rate may be higher and may include a hidden markup.

Even if you qualify, 0% financing may not be your best option. Low financing rates often are for shorter terms and on slow-selling models. With 0% loans, dealers usually don't pay rebates on the car's sale price. Contact your credit union for advice about whether it makes

more sense to finance with the credit union and get the rebate, or to accept the dealer's 0% offer. Your best bet often is to combine a cash rebate—reducing the amount you need to borrow—with your credit union's competitive interest rate. To calculate the advantage, see the "Rebate vs. Loan Calculator" at [www.creditunion.coop](http://www.creditunion.coop).

## When a Rebate is Better Than a Four-Year Dealer Loan

		Dealer rate								
		0%	1%	2%	3%	4%	5%	6%	7%	8%
Credit union rate	5.0%	\$95	\$77	\$60	\$39	\$20	*	*	*	*
	5.5	104	86	67	48	29	\$10	*	*	*
	6.0	113	95	76	58	39	19	*	*	*
	6.5	122	104	85	67	48	29	\$10	*	*
	7.0	130	112	94	76	57	38	19	*	*
	7.5	138	121	103	85	66	48	29	\$10	*
	8.0	147	129	111	93	75	57	38	19	*
	8.5	155	137	120	102	84	66	47	29	\$10
	9.0	163	146	128	111	93	75	56	38	19
	9.5	171	154	136	119	101	83	65	47	28
	10.0%	\$179	\$162	\$145	\$127	\$110	\$92	\$74	\$56	\$37

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payment—you're better off taking the rebate and financing at the credit union.

**For example,** look at the four-year loan table to see how it works: Assume you can get a credit union loan for 6%. The table shows that with a dealer rate of 3.9% (rounded to 4% in the example) a dealer discount of \$39 per thousand financed equalizes the financing options.

In other words, if you're going to finance \$20,000, a dealer rebate (or discount you negotiate) of more than \$780 (39 x 20) makes the credit union loan the best option. The dealer's \$1,500 rebate is much more than the \$780 break-even rebate, so the credit union loan would be your clear choice.