



**LISA MADIGAN**  
ILLINOIS ATTORNEY GENERAL

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**SPRINGFIELD**

500 South Second Street  
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**CARBONDALE**

1001 East Main Street  
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SENIOR FRAUD HOTLINE

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Information & Tips on  
**Auto Financing**



**Dealer Financing**

A MESSAGE FROM  
ILLINOIS ATTORNEY GENERAL  
**LISA MADIGAN**



Dear Illinois Consumer:

If you, like many people, buy a new or used vehicle and decide to finance your purchase through the dealership, you may end

up paying far more than necessary for the loan – sometimes thousands of dollars more!

Even though your credit history may qualify you for a lower interest rate from a lender, dealers often mark up interest rates and pocket most of the profits. Buyers are never told that the lender actually approved financing at a lower rate.

This practice effects 1 out of 4 buyers who arrange their financing through the dealer. And while these markups can happen to anyone, they disproportionately effect minorities and women.

Please read this brochure to protect yourself from becoming a victim of unfair and discriminatory financing practices the next time you purchase a vehicle.

Sincerely,

Lisa Madigan  
Illinois Attorney General

**WHAT IS THE PROBLEM?**

Many car buyers in Illinois who finance their new or used vehicles through auto dealerships are unwitting victims of unfair and discriminatory financing practices.

You might be paying more than you have to for auto financing, *as much as several thousand dollars more*. Even though you qualify for a lower interest rate from the lender, auto dealers increase the rate, charging you more – without telling you.

The practice occurs when you arrange financing through auto dealerships. Using your credit report, the dealer contracts a lender and obtains an interest rate - this is known as the **Buy Rate**. This is the rate at which you are approved for a loan based solely on your creditworthiness.

In many instances, the dealer then adds a significant markup to the *Buy Rate* originally offered by the lender. The dealer typically receives 70 to 75 percent of the markup as a kick back from the lender.

When this happens, the car buyer is led to believe he or she is getting the best rate, based solely on credit history. But what's really happening is that the buyer is paying a higher interest rate arbitrarily decided by the dealership, instead of the rate offered by the lender.

Because the law does not require that the *Buy Rate* or the *hidden markup* be disclosed to the car buyer, dealers never provide this information to the consumer.



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## THE MAKING OF A HIDDEN MARKUP

1. Carla Carbuyer decides to purchase an SUV from a dealership, Markup Motors, for \$25,000.
2. Carla Carbuyer opts to finance the SUV through Markup Motors who then contacts a lender to review Carla's loan application.
3. Based on Carla's credit history, the lender tells the dealer it will provide a 72-month loan at **7.55%**. This lender approved interest rate is known as the **Buy Rate**.
4. Without telling Carla, Markup Motors increases the interest rate by an additional **6.3%**.
5. Then Markup Motors tells Carla that **13.85%** (Buy Rate + the dealer markup) is the best interest rate she can receive.  
Markup Motors never tells Carla that she actually qualifies for a much lower interest rate. And Carla never learns of the hidden markup that ultimately will cost her an additional \$5,780.11 in finance charges.
6. Markup Motors receives 70-75% of the **hidden markup** as a **kickback** from the lender. So, this scheme results in \$4,046.08 to \$4,335.08 of **pure profit** for Markup Motors.

**Extra Cost To Consumer: \$5,780.11**

## WHO DOES THIS HAPPEN TO?

Unfortunately, it happens to *everyone*. National studies have found about **one in four consumers** who get loans through a vehicle dealer are victims of this discriminatory pricing scheme (*Consumer Federation of America*). One in four consumers? If this hasn't happened to you, then it has happened to your family or friends.

Additionally, minorities and women have been disproportionately impacted by this practice. For example, a recent study from the Consumer Federation of America points out that African Americans and Latinos are *more likely* to be assessed a dealer markup and the markups are, on average, *higher* than those faced by other consumers with similar credit histories.

## CONSUMER TIPS FOR FINANCING YOUR VEHICLE PURCHASE

- ✓ **Take the Time to Shop for the Lowest Finance Source before you Shop for a Vehicle**  
You should get financing quotes from your local bank, credit union, and even Internet-based lenders. By obtaining your credit reports and shopping for the lowest financing sources, you can protect yourself from being charged an unreasonable and unnecessarily high interest rate.
- ✓ **Compare Available Rates**  
You should compare the dealer-quoted interest rate with financing quotes from your local banks, credit unions, and the Internet, and choose the lowest annual percentage rate.

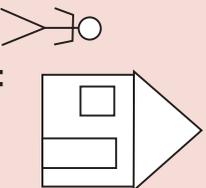
- ✓ **Dealer Arranged Financing – Get the "Buy Rate"**  
When a dealer arranges financing, the interest rate will often include hidden markups that are not based on your credit-worthiness.

## Buying A Home Vs. Buying A Vehicle

Cars and houses are often the two biggest purchases consumers make that involve financing. Many people use a mortgage broker when they purchase a home, as opposed to going directly to a lender. Similarly, in auto transactions, the car dealership often arranges financing, just like a mortgage broker.

Federal Law requires mortgage brokers to disclose to home buyers how much the mortgage broker is being compensated for providing the service of arranging credit.

Car buyers should know the amount an auto dealership is charging for arranging credit, the same way that home buyers receive this information about the real costs of financing.

 Harry Homebuyer	<b>Asking Price</b> \$200,000	<b>Lender's Rate</b> 5%	<b>Broker Markup</b> 3/4%	<b>Final APR</b> 5 3/4%
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 Carla Carbuyer	<b>Sticker Price</b> \$25,000	<b>Lender's Rate</b> 7.55% <b>TOP SECRET</b>	<b>Broker Markup</b> 6.3% <b>TOP SECRET</b>	<b>Final APR</b> 13.85%
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