

TRICKS OF THE TRADE

Setting the record straight about accusations by Consumer Reports regarding automobile dealer “Trick” selling practices.

The following information includes excerpts from an article entitled “Tricks of the Trade” published in Consumer Reports magazine April 2003. Consumer Reports says it has found these practices to be true at some automobile dealerships. Following each excerpt is the Fitzgerald response, which includes our comments pertaining to the specific subject addressed in the article. Mr. Remar Sutton, cited in the article, has visited Fitzgerald Auto Mall several times and we are confident that he knows that none of the “tricks” mentioned in the article are employed here—NOT NOW, NOT EVER. At Fitzgerald Auto Malls, we believe that we are entitled to defend and separate ourselves from these charges that don’t apply to us. We don’t question whether some other dealers have done this but in over 36 years in business, WE HAVE NEVER ENGAGED IN ANY OF THESE PRACTICES. It is our responsibility to explain our position on these devious practices and assure our customers that they are not allowed in our dealerships.

1 "THE FALSE CREDIT SCORE"

"The dealer checks your credit report but lies about your credit score, telling you it is lower than it really is. (The higher the score, the better the credit.) ...you don't qualify for the low-interest car loan that drew you to the dealership in the first place...All states have laws that protect consumers from deceptive and unfair practices...Michael Meiring, who owns a Cleveland die-casting business, checked his credit score before car shopping. His average score from the three major credit bureaus was 750. Generally, scores above 700 are considered excellent. Yet Meiring said he was told by a Chrysler salesperson that his credit score was too low to qualify for the 0% financing offer he had seen on TV...He told me the only way he could sell me a car was through a lease for \$2,200 more than the Internet price, Meiring says, 'I was so angry I ended up buying my car online'...Know your credit score before you shop for a car loan. A report with a credit score costs \$15 or less at each of the major credit bureaus Equifax at 800-685-1111 (www.equifax.com); Experian at 888-397-3742 (www.experian.com) and TransUnion at 800-888-4213 (www.transunion.com)...If the dealer says your credit score is lower than you know it is, buy your car elsewhere and report the deceptive dealer to your state attorney general's office."

Fitzgerald response: No one at Fitzgerald Auto Mall is motivated to overcharge because none of our associates are paid based on a percentage of the finance charges. We think the credit bureau information is useful. We would include the Montgomery County Office of Consumer Affairs and the FTC as places to report deceptive practices as well.

2 "0 DOWN, 0 INTEREST, 0 PAYMENTS FOR ONE YEAR"

"When the year is up, you find out you owe all the monthly payments you've delayed—sometimes plus retroactive interest. You end up owing much more than the sticker price on a vehicle that is now a used car... 'It's hard to find anyone who doesn't have a 0-0-0 program now,' says Art Spinella, president of CNW Marketing Research in Bandon, OR, which tracks consumer auto spending. In some cases, the contract states that the buyer owes the

dealer X number of monthly payments at a high interest rate, then must refinance the balance of the loan...[A client]...thought she was paying \$31,000. Now that the 0-0-0 time is up, a 9.9 percent interest rate has kicked in. She must pay \$677 per month for the five years, or a total of \$40,591 for the car. She can't refinance at a lower rate; the loan is much more than the \$16,800 her depreciated car is now worth. 'At this point, I just want to let them repossess the car,' she says...Don't fall for this gimmick. A 0-0-0 deal costs more in the long run than a conventional loan."

Fitzgerald response: The 0-0-0 deal is a manufacturer-sponsored program. We agree that it's not a good deal if you have to pay excess interest after the first year. At 4.9% interest instead of 9.9% interest, it is more reasonable. At 0% interest for the full term of the loan, it is a great deal. Payments would be much lower, spread over 72 months at a low interest rate.

3 "WE'LL PAY OFF YOUR LOAN"

"The ads suggest that the dealer will assume your old-car debt or lease to get your business. But the debt doesn't simply disappear. Whatever you owe on your old vehicle—including any early-termination fees that a new lease or purchase may occasion—are rolled into your new loan...Often the installments are spread out over six years or more to make it look as if your payments are lower. Stick with your current lease to avoid early-termination fees, which can top 5 percent. And don't trade-in a car if you are still upside-down on the loan, meaning you owe more than the car is worth."

Fitzgerald response: There are laws against misleading advertising. We don't ever advertise like that. Unless the factory is subsidizing early lease termination it is almost always a mistake to terminate a lease early.

4 "PAY MORE OR WE'LL SAY YOU STOLE THE CAR"

"The salesperson says you can drive home today in your new dream car. And you also qualify for a better rate than you expected—if you finance your purchase with the dealership. You sign the papers and away you go. A week later, the salesperson calls and says you didn't qualify for the low rate after all; you now have to pay more for the

loan... You assumed the deal was done, but you missed the fine print in the contract that read something like, 'Subject to financing approval.' You may be told that you must pay a larger down payment and higher monthly installments, or the salesperson may threaten to report the car as stolen,' says Jeff Ostroff, president of CarBuyingTips.com... A salesperson calls a few days later and claims he can lower your payments if you sign a new contract. How? He raises your annual percentage rate—thus charging you more—but spreads payments over a longer time period, which lowers your monthly payment... Accept the dealer's financing offer only if it beats the best rate you find elsewhere. Before taking possession of the car, be sure to have in hand an approved financing agreement."

Fitzgerald response: We believe this practice is illegal. Our associates are not paid a percentage of the profit or the finance charges. Sales people who do this kind of thing don't work here.

5 "THE MANDATORY CREDIT CHECK"

"You go to a dealership to buy a car, but you plan to get the financing elsewhere. The salesperson tells you he still must run a credit check on you... If you're paying cash, have other financing, or just taking a test drive, car dealers may obtain a credit report with your written consent, according to a 1998 opinion letter to a car-dealer association by Federal Trade Commission staff. Credit reports may be obtained without a customer's express permission only if the customer is initiating the purchase or lease of a car and wants dealer financing or is writing a personal check for the vehicle, the letter states... An excessive number of credit inquiries can lower your credit score and thus blemish your credit. Generally, all inquiries concerning auto financing within a 30-day period will not lower your score. However, if you shop for financing for more than a month or are also applying for other credit, your score may drop... If you have already arranged financing elsewhere or plan to pay cash, tell salespeople the moment you walk in that you do not authorize them to run credit checks on you. Do not give them your Social Security number or your driver's license. If a dealership requests your license before a test drive, show it but do not allow a copy to be made. Before you sign any papers, insist that the credit-check authorization clause be

stricken from the document and then read it to make sure it was done before you sign."

Fitzgerald response: We agree on the credit check. Sales associates have absolutely no reason to (and ours do not) ask for a credit report to allow test drives. A Driver's license is another matter. We are responsible to know and be able to prove that anyone driving one of our cars is licensed.

6 "THE MANDATORY EXTENDED WARRANTY"

"You're ready to sign the papers when the finance manager says you must buy a \$3,000 extended warranty. The bank requires it, he says. In some states such a pitch is illegal, but it's hard to prove if you don't get it in writing. At any rate, lenders typically don't require an extended warranty. CONSUMER REPORTS does not recommend buying an extended warranty unless a car is particularly trouble-prone. Most basic warranties are sufficient, covering at least three years or 36,000 miles."

Fitzgerald response: There is no such thing as a "mandatory extended warranty." At a reasonably low price, an extended warranty can be a very good value. If you can afford to "self insure", you may save this expense.

7 "WE DON'T TAKE CHECKS FROM ONLINE BANKS OR CREDIT UNIONS"

"You arrive at the dealership with a financing deal from a bank or a credit union. Your salesperson or finance manager tells you that the dealership does not accept deposits from your source. Dealers have the right to refuse a check from a source if it is stated in a written policy, much like a restaurant can post a 'No checks' sign. But this often amounts to another ploy to try to get you to finance through the dealership... Point out to the finance manager that online banks and credit unions have been around for years, and they are in the business of writing loans... and, note that most U.S. online banks are FDIC-insured and they don't bounce checks. If the dealership won't back down and accept your check, or won't offer you a better rate for financing, leave."

Fitzgerald response: This is not so simple. For example, most lenders require the dealer to place a lien in the lender's favor, on the vehicle. Only a certified check is the same as cash and treated like cash by the lender the dealer owes for the

new vehicle. The dealer has to pay interest on that vehicle until it's paid off. Your lender is charging you interest from the date you sign for the loan. They should be willing to wire transfer the funds to you or to the dealer on that date.

For better advice on car financing see page 5.

8 "WHAT CAN YOU AFFORD TO PAY PER MONTH?"

"The salesperson greets you with this line, hoping to use your monthly payment limit to determine the model he'll recommend and the price he'll charge. The dealer stands to make more money this way than if you negotiate a purchase price. Say your limit is \$320 per month...having qualified you for a 7.25 percent loan and charged you the manufacturer's suggested retail price of \$19,415... with 15 percent down on the price the dealer paid for the car and even add[ing] a dealer profit of 6 percent, you would pay \$288 per month and save \$1,900 over the five-year loan period. Negotiate the vehicle price first, as if you were paying cash. Calculate the monthly payments only after you agree on the sale price."

Fitzgerald response: We think a better way is to determine what the monthly payments are on various amounts so that you do not waste your time looking at vehicles that will exceed what you decide you want to spend. To help you, we have what we think is a very competitive interest rate posted on a sign in the showroom. Ask what the payments are at that rate on any vehicle you consider. Lenders will charge higher rates to borrowers with lower credit scores.

9 "DUBIOUS FEES"

"You've agreed on a price for a new car and your trade-in. You think the deal is complete. But the bill of sale includes 'protection package' fees and 'dealer prep' charges that no one discussed with you. These additional charges usually include protection you don't need, including etching your Vehicle Identification Number (VIN) on windows to deter thieves, rustproofing, and fabric protection. Approximate dealer cost: \$90 for all three services. The cost to you: \$1,000 or more. 'Usually the charges are printed right on the form, as if you have no right to change them,' says author Sutton. One CONSUMER REPORTS car buyer was asked to pay \$159 for VIN etching and \$189 for glass, battery, and tire

protection, though no one had explained those services. The prep fee is supposed to cover the dealer's cost to gas up the car and get it ready for you. Refuse to pay these fees; put a line through the items on the bill of sale. Vehicle bodies are already coated to protect against rust. Upholstery is typically treated at the factory. Some states require dealers to offer VIN etching, but you can do it yourself with kits you can buy online for \$25. 'Get used to saying, 'I'm not going to pay that,' Sutton says. 'You'll be surprised how quickly they'll back off, especially if you threaten to walk out.'"

Fitzgerald response: We agree. Don't pay fees or other charges you did not approve in advance. We think Consumer Reports is referring to the practice by some sales people of allowing you to sign a purchase order for a price that is too low to be approved by the sales manager on the assumption the finance department can sell you enough over-priced options to raise the dealer's profit to an acceptable level. It's also common practice to charge for freight after a "cash price" has been negotiated. There is also the use of preparation fees and other charges as profit generation. Please see our poster on dealer-installed options. Mr. Sutton and CR are throwing out the good with the bad.

10 "THE ARBITRATION CLAUSE"

"After you bought your new car, transferred your title, and signed the paperwork, an increasing number of dealerships place another piece of paper in front of you notifying you that you must agree to arbitrate any future problem you have with them that warrants legal action. Or the clause may be in fine print on the back of the contract, and no one bothers to tell you. Arbitration is an alternative to a lawsuit in resolving disputes...In the kind of binding-arbitration clause used at many dealerships, you're required to waive your right to sue, to participate in a class-action lawsuit, or to appeal...Don't buy from a dealer that requires that you sign a mandatory arbitration clause. You would effectively be giving away your right of redress should a serious problem occur."

Fitzgerald response: We think this is good advice. Ask about this before you waste time at a dealership. Don't agree to arbitration. Don't do business with anyone that has this clause in their contract.

A Few Words About Car Financing from Jack Fitzgerald

There's a reason why car loan interest rates are so low today. It's because of increased competition among manufacturer finance companies, dealers and local financing organizations. As a result, consumers benefit with both lower rates and better terms! Contrary to what has been reported in the news media, consumers DO NOT have to pay any extra for dealer-assisted financing. In fact, dealers borrow money at a wholesale rate, a rate not generally available to consumers for financing. Dealers can, if they choose, provide financing at a lower rate.

When I began as a Ford salesman in the 50's, I recall there was much less competition among car loan providers, although there were more than twice as many new car dealers than today! The only manufacturer finance company in those days was General Motors' GMAC. GM had twice the market share then because of their dominance and lack of competition. At that time, home mortgage rates were about 4% for a 30-year loan. Small loan companies that financed a lot of used cars were charging about 2-1/2% per month which is 30% APR (1-1/2% or 18% APR for amounts over \$300). New car loans for good credit risks were about 10% APR.

Car loans were charged "add-on" interest rates...for example, a 5% "add-on" is actually over 9% APR! Thirty-six month loans were considered "extended terms" back then and 24 months was the norm at most banks. Things got better for dealers and consumers in the 60's when both Ford and Chrysler added their finance subsidiaries, Ford Motor Credit and Chrysler Credit.

The introduction of these two new finance companies created a lot of competition for car loans that, in turn, caused loan rates to drop and longer-term loans to be made available. Local banks were feeling the loss of their car loan business and, as a result, revved up their marketing efforts to go after consumers more aggressively. Today, many banks have lower rates on car loans than home loans, a practice unheard of in the 50's! In 1968, federal regulations (regulation "Z") forced dealers to hire professionals and open their own finance departments to ensure compliance with the law.

Car dealers now provide all the car loan functions of a branch office of a bank, providing the staffing, overhead and other expenses so that the banks or finance companies don't have to. To pay for this overhead, the dealers earn commissions (mark-up) on the loans they make because they perform all the functions necessary to complete the loan transaction. Customers receive lower rates and increased convenience because of the competition among multiple lenders including banks, credits unions and finance companies.

The dealer, because of the large volume of business he sends to a wide range of lenders, also has an advantage in obtaining financing for high-risk borrowers with credit difficulties. In addition, dealers sometimes provide guarantees to the lender and in some cases will even indemnify the lender against loss if the vehicle is repossessed. Not surprisingly, dealers earn substantial commissions on these transactions.

The bottom line in shopping for a car and car financing is to negotiate the finance rate early. Shop both the price and the financing simultaneously instead of separating the two. You'll have a better opportunity to make fair comparisons that way because the dealer has a mark-up in both the financing and the car.

But also be aware that just as some dealers mark-up their cars more than others, some may also mark-up their finance rates more than others!

Your dealer has multiple sources for financing and will often be your best bet for the lowest financing options available. Let your dealer compete on the finance rates just as he does on the price of the car.

And remember, it's the car dealer who's made the low loan rates of today a reality. In my opinion, if banks really competed on their own, credit card and home loan interest rates would be much lower.

So, consider placing your loan through a dealer even if your bank can match the rate. It's in your best interest to keep dealers in the finance business because they are the competitive force that has brought car loan rates down and are keeping them low.

White Flint/N. Bethesda

11411 Rockville Pike
North Bethesda, MD
800.253.4954
Dodge: 301.881.4000
Subaru, Isuzu: 301.230.9000
Hyundai: 301.424.4800

White Flint/N. Bethesda

5501 Nicholson Ln.
North Bethesda, MD
888.770.3300
Pontiac, Buick, GMC:
301.770.3300

Gaithersburg

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Gaithersburg, MD
800.670.4801
Toyota, Scion: 301.921.0300
Chrysler, Jeep: 301.670.4850
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Hyundai: 301.670.7070

Frederick

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Frederick, MD
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Chevrolet, Cadillac, Dodge, Mazda,
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DC Metro: 301.831.4646

Frederick

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Frederick, MD
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Suzuki, Used Car Super Store:
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Wheaton

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888.933.7400
Dodge, Suzuki:
301.933.7400

Annapolis

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Annapolis, MD
800.479.0806
Cadillac, Oldsmobile, Volkswagen:
410.224.3480
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Annapolis

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Annapolis, MD
800.286.8269
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DC Metro: 301.261.8060

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1436 Lincoln Way East
Chambersburg, PA
800.811.7519
Toyota, Scion, Nissan:
717.264.3359

Clearwater

27365 US Highway 19 North
Clearwater, FL
800.799.1808
Chrysler, Jeep, Subaru, Suzuki:
727.799.1800

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28253 US Highway 19 North
Clearwater, FL
800.799.1808
Hyundai: 727.797.6369



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