FOR IMMEDIATE RELEASE:
June 9, 2016

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CONSUMER FINANCIAL PROTECTION BUREAU UNVEILS NEW KNOW BEFORE YOU OWE AUTO LOAN SHOPPING SHEET

Online Guide and Shopping Sheet Help Consumers Evaluate Costs and Shop for Auto Loans

Washington, D.C. – Today the Consumer Financial Protection Bureau (CFPB) is unveiling an “auto loan shopping sheet,” a step-by-step guide, and additional online resources as part of a new Know Before You Owe initiative aimed at helping consumers shop for an auto loan. The shopping sheet helps consumers see the total cost of a loan and make apples-to-apples comparisons among loan products. The Know Before You Owe auto loan initiative also walks consumers through each step of the auto finance process to help them decide how much they can afford to borrow and what options are right for them.

“Consumers should feel like they are in the driver’s seat when it comes to financing their car or truck,” said CFPB Director Richard Cordray. “The CFPB’s auto loan shopping sheet provides a roadmap for consumers to navigate the complexities of a loan. Consumers should know before they owe when it comes to the total cost, not just the monthly payments.”

The Know Before You Owe auto loan initiative can be found at:
http://www.consumerfinance.gov/consumer-tools/auto-loans/

Automobile loans are the third largest category of household debt for American consumers, behind mortgages and student loans, with almost 100 million auto loans outstanding totaling more than $1 trillion. For consumers who do not purchase a home, an automobile loan may be the largest debt they will ever have to pay back. More than 90 percent of American households have a vehicle. And consumers obtain financing to purchase 86 percent of new vehicles and 55 percent of used vehicles.

Typically, consumers have obtained auto loans with 60-month repayment plans, but the length of the loans, and indebtedness, are increasing. Meanwhile, the average length of ownership of a vehicle by U.S. consumers is approximately 8 years. This means the auto budgeting and financing process is being regularly repeated by many consumers, with consumers still owing on loans after they are no longer driving the vehicle.

There are two primary methods of arranging financing for a vehicle purchase, often called “direct” and “indirect” lending. Direct lending is when consumers obtain financing from a bank, credit union, or other lender. Consumers using direct lending will usually get an interest rate quote or conditional commitment letter from the bank or credit union before going to the dealership to buy the car.

With indirect lending, also called dealer-arranged financing, consumers obtain lender financing through the auto dealership where they purchase the vehicle. The dealership usually collects information from the consumer and forwards that information to auto lenders. After the deal is finalized with the consumer, the loan may then be sold to the lender, which has already indicated its willingness to extend credit to the applicant on established terms. Indirect financing constitutes the majority of auto finance transactions. Independent research indicates that too few consumers comparison shop and only half of consumers who finance through an auto dealership negotiate the terms of their loan.

The CFPB's auto loan shopping sheet can be printed out and used when talking to lenders. It helps consumers understand loan factors, compare loans apples-to-apples, and get the financing that is right for their budget. Specifically, the shopping sheet allows consumers to:

- **Understand the total cost of the loan, not just the monthly payment:** The auto loan shopping sheet helps consumers keep track of and compare the factors that make up a loan's total cost. This includes the length of the loan, interest rate, optional add-ons, and certain fees. Consumers should know that if they lower the monthly payment by taking out a longer loan, they are paying more in interest. A longer loan also puts consumers at risk of having a loan that lasts longer than the vehicle. When the focus is mainly on the monthly payment, it can be hard for a consumer to understand the total cost of the loan over multiple years. The shopping sheet helps consumers see the full picture.

- **Comparison shop:** According to the National Financial Capability Survey, only 50 percent of consumers report comparison shopping for an auto loan. The shopping sheet makes clear the factors that a consumer can negotiate and compare between loan offers. Items that they can negotiate include the price of the vehicle, down payment, interest rate, length of the loan, and trade-in value of their current vehicle. Knowing which points are fixed and which ones are not allows consumers to negotiate with greater power, and compare one offer to another.

- **Watch out for financing features and add-ons that could lead to costly surprises down the road:** Consumers should make their loan decision with as much information as possible. The shopping sheet shows how additional features, services, or add-ons can increase upfront costs. These optional add-ons to the loans include service contracts or extended warranties, "guaranteed auto protection" (GAP) insurance, and credit insurance.

The Know Before You Owe auto loan shopping sheet can be found at: http://files.consumerfinance.gov/f/documents/201606_cfpb_auto-loan-worksheet.pdf

The auto loan shopping sheet is part of the CFPB's suite of resources aimed at helping consumers shop for an auto loan. The CFPB's additional Know Before You Owe auto loan resources include:

- **A step-by-step guide:** The CFPB has developed a comprehensive guide that helps consumers move from one stage to the next in the auto loan process. From budgeting to signing the final documents, the guide helps consumers know what questions to ask and how to navigate the process.

- **Tips:** The online resources and guide give consumers helpful tips. One tip is that consumers should first get a pre-approval from a bank, credit union, or other lender, so that they can better negotiate the best deal possible from either a direct lender or through dealer-arranged financing. The guide also provides clear-cut examples of how consumers will pay less in the long run if they take out a shorter loan term. For example, to pay off a $20,000 loan in 3 years at a 4.75 percent interest rate, consumers will pay $1,498 in interest. For a 6-year loan at the same interest rate, consumers will pay $3,024 in interest – more than twice as much.

- **Red flags:** The resources also help consumers watch for pitfalls. For example, lenders and dealers are not required to offer the best interest rates available, so consumers should find out what rates are out there and negotiate. In addition, optional add-on products like extended warranties, specialty insurance, or credit insurance that are added into the loan will increase the total cost because consumers will be borrowing more money, and consumers should be careful when choosing these.

This Know Before You Owe auto loan initiative was informed by CFPB research about how consumers approach the auto financing decision, and the challenges they face in navigating the process. The findings of that research can be found in a report the CFPB is releasing today, "Consumer Voices on Automobile Financing." The research concludes that while consumers diligently research the type of vehicles they want to buy, they do not fully explore the available financing options. Additionally, examination of the CFPB complaint data shows consumers have difficulty understanding loan features during the loan negotiations.

The Know Before You Owe initiative is aimed at educating consumers about the costs and risks of financial products so that they understand the terms of the deal and can comparison shop for the option that works best for them. The CFPB has also launched Know Before You Owe initiatives on mortgages, student loans, and prepaid financial products.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.
