Questions Your Auto Dealer Hopes You Can't Answer
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Navigating automobile financing can be one of the biggest financial headaches you'll encounter. But, unless you want to walk everywhere, it's something you'll have to deal with. The biggest hurdle is figuring out the angles and understanding the entities that stand to profit from the transaction. Let's go through some of the more challenging parts of automotive financing by addressing some of the questions about automobile financing your dealer hopes you won't ask.

*1) How do dealerships secure financing?*

Car dealers usually have a department that is responsible for setting up financing and insurance (commonly referred to as "F&I"). These people take the estimated price of the car, the actual value of the car, and your credit history to a number of different credit providers. These include major national lenders, auto manufacturer financial departments, and depending on the dealership, some local lending institutions. These vendors each quote an interest rate and other fees.

Car dealers usually have longstanding business relationships with their lenders, which often include incentives for the dealer as a "reward" for financing a loan through that lender. Because the lenders are competing for the dealer's business, not necessarily for yours, those incentives are for dealers and not consumers. While the dealer knows that lower interest rates make you more likely to buy a car, in this transaction, you're not the customer. You're the product. The dealer is trying to sell your business to a lending organization and usually makes a profit on the transaction.

*2) When should I tell the dealership I already have financing?*

Let's be clear: Financing is profitable for dealerships in many ways. If they know they can't turn a profit from financing, they're more likely to push harder to find profit elsewhere. You're almost always better off keeping the auto loan for the last part of your transaction with the dealership, particularly if you plan on securing outside financing. This doesn't mean, though, that you don't want to think about financing until that point in time. Discuss your plans with a representative at ProMedica Federal Credit Union (PFCU); including the type of vehicle you are planning to purchase. Discuss what rates PFCU can offer. By doing your research ahead of time and knowing what financing options are available to you, you can let the dealer think there's still money to be made in the financing, which may strengthen your negotiating position on other parts of the transaction, like the price of the car or the value of the trade-in.

*3) How do dealerships make money offering 0% financing?*

If you're shopping for a car because you've seen an advertisement for 0% financing, you're not alone. Campaigns that offer manufacturer's deals like 0% financing for 60 months are incredibly popular for car buyers and dealers alike. If it were honestly a losing proposition for the manufacturer, they wouldn't keep doing it. This might invite you to ask how they could possibly make money on the financing. The answer is two-fold: volume and selectivity.

The volume part of the money-making strategy is simple. 0% financing gets people on the lot and encourages them to think about buying a specific brand of car. The manufacturer and the dealer both make money on each car sold, so the 0% financing trades some profit per car in the hopes that they'll make up for it in number of cars sold.

Selectivity is the other side of volume. Not everyone who comes to a 0% financing event will qualify for that rate. Because most people who get to the point of discussing financing have decided to purchase a car, they'll settle for a non-zero rate when it's presented to them. Between these two strategies, advertising 0% financing does pretty well for a car dealer.

0% financing possible scenario:

| | Dealer Financing | PFCU Financing |
|---|---|---|
| APR as Low As | 0% | 1.99%* |
| Purchase Price | $25,000 | $25,000.00 |
| Manufacturer's Rebate | $0 | $3,000 |
| Amount To Finance | $25,000 | $22,000 |
| Approx. Monthly Payment | $417 | $177.84 (Bi-Weekly) |
| Total Payments (60 mo term) | $25,000 | $23,117.91 |
| PFCU saves you approximately | | $1,882 |

*4) Does my salesperson benefit from financing my car purchase?*

This really depends on the dealership. Most of the time, your salesperson only benefits from the price of the car, the warranty, and some high-markup items, like undercarriage treatment, upgraded tires, and other products. The financing department – the people who are responsible for getting quotes and delivering them to the salesperson – is likely to be the folks who receive any kind of commission on the financing. In these instances, it's also very likely that the salesperson with whom you're dealing has little to no control over your financing. He or she might be able to go back to the financing department and ask them to attempt to negotiate a better rate, but this negotiation may not have much success. In any case, someone at the dealership profits from getting you a loan.

*5) What is GAP insurance, and is it right for me?*

"GAP" or guaranteed asset protection insurance is automobile insurance that covers the difference between the total amount of the loan and the value of the car. It provides protection against the worst-case scenario, that you total a car (or the vehicle is stolen) and you owe more than it is worth. Your comprehensive insurance coverage will only pay out the value of the car, leaving you on the hook for the remaining interest and finance charges. A dealer may require you to purchase GAP insurance as a condition of financing your purchase. The cost of the insurance is almost always paid up front as part of the financing charges.

GAP insurance is designed for long-term, high-interest, or low down-payment financing. If you are buying a car without putting a lot of money down, or if your credit history is not stellar, you should consider getting GAP insurance. But, like any other purchase, you should shop around. Because most financing arrangements require you to purchase GAP insurance, dealerships maintain institutional arrangements with insurance agencies, expecting you to purchase it without much thought. It's one last effort to make money off your purchase, and they rely on you to not notice. PFCU's Gap insurance rates are about 50% less than what you would pay at a dealer. We also offer an option to avoid paying your insurance deductible up to $500 in the event of an accident. Please contact us for more information.

*6) What steps can I take to avoid being railroaded by last-minute financing changes?*

Financing is among the easiest places for dealers to make money, because it's almost always the last stop in the car-buying process, and they expect you to be both committed to purchasing a car and exhausted from making a series of decisions. High-pressure salespeople use this fact to their advantage. When it comes time to talk financing, frequently, the license plates are off your old car, and you're sitting down with a sales manager. While it may seem counter-intuitive, this is the best time to walk away and ask PFCU about financing options. See if PFCU if can offer you a better rate, lower fees, or a more flexible term. Ask the dealer to commit as much as possible to a price on an offer sheet. Then, tell them you'd like to take some time to think about it. If you come back with a pre-approval offer from PFCU, the sales manager may hem and haw a bit. But, at the end of the day, they'd rather make the sale than make a little extra on financing.

This is an especially important step if your history with credit is complicated. A giant lending corporation won't see the steps you've taken to solidify your financial position. They don't have the same relationship with you that PFCU does. They see you as a risk number and an interest rate they can justify, not as a Member of a community institution. Always give your Credit Union the first chance to beat the dealer's offer – we work for you, not for a commission.

PROMEDICA®
FEDERAL CREDIT UNION

Your financial health. Our mission.

*APR=Annual Percentage Rate.1.99% APR rate includes 0.50% Premier Discount. Rate you qualify for is based on individual creditworthiness. Rate subject to change without prior notice.