Four Things You Should Know Before You Sign That Car Loan

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While there's nothing new about new car fever or the annual ad blitz, there's a good deal of news on how consumers are choosing and paying for their cars.

For example, new car sales increased more than 5 percent from a year ago. At the same time, the average credit score for a new car loan dropped to 710 and even lower to 645 for a used vehicle.

These data points provided by Experian, a major market intelligence firm, also recently reported that today the average monthly car payments are also at an all-time high: $503 for a new car and $376 for a used one. Car loan terms are also longer and the amounts financed are both larger too. On average, both new and used car loans are respectively 68 and 66 months. The average new car loan is now an all-time high at $30,032.

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"The continued rise in new vehicle costs have kept many consumers exploring options to keep their monthly payments affordable," said Melinda Zabritski, Experian's senior director of automotive finance. "As long as vehicle prices continue to rise, we can expect leasing rates to grow along with them... The record highs we have seen in vehicle prices also have had a significant impact on the loan market."

Consumers short on savings for a down payment, but anxious for a new or nearly-new car may opt for a lease rather than a purchase – a very complex transaction with pitfalls of its own. During the first quarter of 2016, nearly a third of all new car transactions were leases.

For consumers, the really 'good deal' is tied not only to the cost of the car, but also to the terms of the sale as well. Sale or lease prices, interest rates, length and other items are also important to the art of 'the deal'.

Unfortunately, all too often consumers of color — especially Blacks and Latinos — consistently try to negotiate a 'good car deal,' but often wind up paying more than others. The practice of car dealers adding extra interest to a car loan has a long history of discrimination that has led to a series of multi-million dollar settlements with finance arms of major auto manufacturers and other ones with banks.

Fortunately, the Consumer Financial Protection Bureau (CFPB) recently developed a series of consumer resources that can better inform those making decisions. Topics included in the series cover: how to plan for a purchase; loan options and how to better negotiate a car loan.

A consumer guide available for download can also serve as a handy reference, providing greater detail on the process from determining how much to borrow to closing the sale.

Most importantly, CFPB provides specific steps to take before going to dealers.

The CFPB strongly encourages consumers to get an offer from a bank, credit union or other finance source before setting foot in the dealership.

The Bureau also urges caution when striking agreements with dealers. Consumers should carefully review loan paperwork to catch differences between what was verbally promised against what the paperwork requires borrowers to do. Consumers should never sign any loan with unclear terms, blank spaces or language they do not completely understand.

According to the Center for Responsible Lending (CRL):

- 80 percent of car loans are financed through dealers;
- At more than one trillion dollars, outstanding car loans are the third highest amount of consumer debt, surpassed only by mortgages and student loans; and
- Although borrowers of color report trying to negotiate loan terms more than other consumers, they wind up paying more for financing.

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U.S. Small Business Administration and Milken Institute Partner to Increase Access to Capital for Underserved Communities

U.S. Small Business Administration

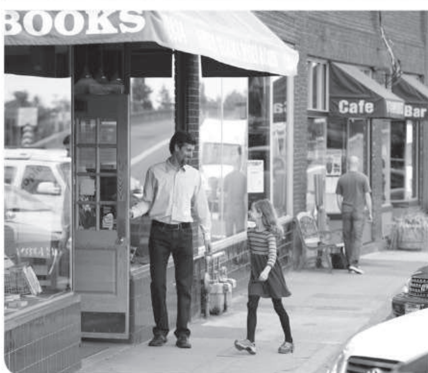
WASHINGTON, DC—In September the U.S. Small Business Administration (SBA) and the Milken Institute announced the Partnership for Lending in Underserved Markets (PLUM) Initiative, a groundbreaking collaboration to develop and test initiatives designed to more effectively provide capital to minority-owned businesses.

Following the Great Recession, small business owners, especially those setting up shop in underserved markets, have faced a recurring problem of limited access to capital.

Conventional small business credit is still only at 85 percent of its pre-recession level.

These gaps are especially evident in metropolitan areas with higher proportions of minority-owned businesses including Baltimore, Maryland and Los Angeles.

The PLUM initiative responds to this persistent challenge by bringing together leaders and policy experts from SBA and the Milken Institute to develop recommendations toward increasing access to lending and other sources of business capital in minority communities. The long term goal of the initiative is to increase the capacity of lenders to better serve historically underdeveloped sectors.



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