



# Consumer Federation of America

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## **AFRICAN-AMERICANS PAY HIGHER AUTO LOAN RATES BUT CAN TAKE STEPS TO REDUCE THIS EXPENSE**

Washington, D.C.— A recent Consumer Federation of America (CFA) survey revealed that African-Americans pay, on average, a significantly higher annual percentage rate on auto loans than do other Americans – 7.5% compared to 6.0%. On a six-year, \$20,000 car loan, this 1.5 percentage point difference would add up to about \$900 in additional interest payments.

However, African-Americans can take steps to reduce this interest gap, which reflects factors under their control as well as hard-to-control factors related to credit risk. Most importantly, car buyers need to make certain that they are paying an annual percentage rate related to their credit risk, not one marked up by the car dealer or other loan seller above the risk-related “buy rate.”

The most important action car buyers can take is to call their bank or credit union for an auto loan rate quote before talking about financing with a dealer. “A simple call to your bank or credit union for a rate quote may well save you more than a \$1,000 in interest costs on your auto loan,” said CFA Executive Director, Stephen Brobeck.

The difference in auto loan rates between African-Americans and other Americans was revealed by an extensive survey, conducted by the Opinion Research Corporation in November 2005, of more than 2000 adult Americans. The survey also revealed that the proportion of African-Americans with auto loans (29%) is nearly as high as the proportion of other Americans with these loans (33%).

### **How to Reduce Interest Charges**

Beyond two-stop comparison shopping (your bank/credit union and a car dealer), African-Americans can reduce their auto loan rates and expenses by taking steps to raise their credit scores, the key measure of credit-risk. Most importantly:

- Make all loan payments on time. Making payments even 60 days late can significantly lower one’s credit scores and raise one’s interest costs.
- Don’t take on more debt than you can handle. Most importantly, don’t borrow on many credit cards and don’t use more than one-half of the credit lines available on these cards.

An even more effective way to reduce auto loan interest expenses is to borrow less money over a shorter period of time. Consider purchasing a used rather than a new car or consider purchasing a less expensive new car. Take out a loan over a shorter period of time, say, 4 years rather than 5 or 6. Shorter loans will also reduce the chances of negative amortization—or being “upside-down” on your loan—which is when you owe more than your car is worth.

*CFA is a nonprofit association of some 300 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy and education.*