



Consumer Federation of America

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

Washington, DC -- A Consumer Federation of America (CFA) analysis of the most recent Federal Reserve Board Survey of Consumer Finances data reveals that African-Americans pay much higher auto loan rates than do other Americans and that this "rate gap" has increased.

- On 2004 loans for new car purchases, blacks paid a typical (median) rate of 7.0% compared to a typical rate of 5.0% for all borrowers. On used car loans, African-Americans paid a typical rate of 9.5% compared to a typical rate of 7.5% for all borrowers. This rate gap of two percentage points is much higher than the rate gaps of 1.3 and 1.2 percentage points for 2001 new and used car loans respectively reported by the Fed.
- A far higher percentage of African-Americans, than other Americans, were likely to pay auto loan rates of at least 15%. For new car loans, in 2004 6% of African-American borrowers paid this much, compared to only 2% of all Americans. For used car loans, 27% of black borrowers paid this much, compared to only 13% of all borrowers.
- The percentages of black households and all other households with at least one auto loan differed little -- 32% of all African-American households and 35% of all households.

"It's hard to believe that any differences in credit-worthiness explain all of these rate gaps," said Stephen Brobeck, CFA's Executive Director. However, he added: "African-Americans can take steps to lower their auto loan costs. Most importantly, they should call their bank or credit union for an auto loan rate quote before talking about financing with a car dealer or finance company."

Calling one's bank or credit union for a rate quote will minimize the chances of a car dealer marking up the loan rate above the risk-related "buy rate." Detailed research by academics, earlier this decade, of data on millions of auto loans revealed that minorities were far more likely to have their auto loan rates marked up than non-minorities. As a result, courts ordered most major car finance companies to cap rates, usually at 2-3 percentage points above the buy rates, and provide funds for minority-related consumer education.

CFA utilized the services of Professor Catherine Montalto, a professor at The Ohio State University to analyze the latest Survey of Consumer Finances data, which was collected in 2004 and released last year. These data are for a representative sample of about 3,000 American households.

How to Reduce Auto Loan Costs

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

- * Make all loan payments on time. Making payments 60, or even 30, 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 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.

AUTO LOAN COMPARISON (all dollar and rate figures are medians)

	<u>African-Americans</u>	<u>All Americans</u>
Percent with at least one vehicle loan	32%	35%
Amount borrowed or financed		
New cars	\$20,000	\$21,000
Used cars	\$11,000	\$12,000
Current annual rate of interest		
New cars	7.0%	5.0%
Used car	9.5%	7.5%
Percent with rate at least 15%		
New cars	6%	2%
Used cars	27%	13%

Source: Federal Reserve Board, 2004 Survey of Consumer Finances.

CFA is a nonprofit association of some 300 pro-consumer groups that was founded in 1968 to advance the interests of consumers through research, education, and advocacy.