



## Consumer Federation of America

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# Hispanic Americans Pay Higher Used Car Loan Rates

## *Hispanic America Saves* Outlines Steps to Avoid Costly Loans

Washington, DC -- A Consumer Federation of America (CFA) analysis of the most recent Federal Reserve Board Survey of Consumer Finances reveals that Latinos pay much higher used car loan rates than do other Americans. Slightly more than half of all automobile loans taken out by Latinos were for used cars.

On 2004 loans for used car purchases, Hispanic-Americans paid a typical (median) rate of 9.0 percent compared to a typical rate of 7.5 percent for all borrowers. Moreover, a far higher percentage of Latinos, than other Americans, were likely to pay used car loan rates of at least 15 percent -- 18.5 percent of Latino borrowers compared to only 9.2 percent of all Americans.

There were not, however, large disparities in typical loan rates for new cars -- 5.5 percent for Hispanic-Americans vs. 5.0 percent for all Americans. And the percentage of these loans over 15% for both groups was small and nearly the same -- 1.8 percent for Latinos and 2.2 percent for all Americans.

"One could speculate that recent immigrants with low incomes and little experience negotiating low loan rates almost always purchase used cars," said Stephen Brobeck, Executive Director of the Consumer Federation of America (CFA), which oversees the *Hispanic America Saves* campaign. "That could help account for the loan rate gap for used car purchases, which does not exist for new car purchases."

"We've seen recent immigrants struggle with high-interest car loans, and in the worst cases it can decimate their finances. But at the same time, owning a car provides access to jobs and opportunities. That's why we work to provide consumers with advice and support on smart car buying, so buying a car can be a stepping stone to financial stability, not a barrier," said Angelo Gonzalez, director of the Economic Independence project at the Cuban American National Council (CNC). Gonzalez also coordinates the *Miami Saves* campaign.

### Latino Car Purchasers Can Take Measures to Ensure the Lowest Possible Car Loan Rates

"One of the most important step Hispanic Americans can take to lower auto loan rates is

to call or visit their credit union for a rate quote before going to the car dealer," said Patty Briotta, public relations manager for the National Association of Federal Credit Unions (NAFCU). "By doing their research upfront and perhaps even securing pre-approval through their credit union, they can compare finance rates and improve their negotiating ability tremendously."

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.

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

- o 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 cost.
- o 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 loans -- which is when you owe more than your car is worth.

#### CFA's Hispanic America Saves campaign works to educate and assist car-buyers

Since 2004, CFA's Hispanic America Saves campaign has worked to help car buyers make the smartest possible purchases, through educating them on whether and when to buy, and how to research car options, shop for a loan and negotiate the purchase.

Working with local Saves efforts and partner organizations, the campaign offers workshops for potential buyers and bilingual educational material including brochures, flyers and videos. Since the beginning of the year, the campaign has provided a [new set of educational material](#) to over 300 community-based organizations. The campaign has reached tens of thousands of individuals through the workshops and the internet.

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**Hispanic America Saves**, managed by the Consumer Federation of America (CFA), is a national initiative in which hundreds of organizations encourage and assist Hispanic Americans, especially lower-income households in the community, to save and build wealth. [www.americasaves.org/national](http://www.americasaves.org/national). A Spanish language press release is available at [www.americasaves.org/press](http://www.americasaves.org/press).