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Originally published November 13, 2008 at 12:00 AM | Page modified November 13, 2008 at 12:48 AM

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## 39% interest?! Don't get burned buying a used car

When Leianna Perkins went to buy a used car at a Federal Way dealership, she had one thing in mind: the monthly payment.

By [Susan Kelleher](#)

*Seattle Times consumer affairs reporter*

When Leianna Perkins went to buy a used car at a Federal Way dealership, she had one thing in mind: the monthly payment.

She was 21 at the time, had no credit history and little experience negotiating a vehicle purchase, much less figuring out the trade-in value of her old car, auto insurance, warranties and financing.

Perkins said she was so focused on keeping her payments to about \$200 a month that she didn't realize what a bad deal she was getting.

"I ended up with a car at 29 percent interest," said Perkins, now 24 and an Army reservist who served in Iraq in 2006 and 2007. "I was naive. I went through a lot to get out of it, and ended up paying three times what the car was worth."

Perkins made a classic mistake by failing to investigate financing before walking into the dealership and by telling the salesmen at the start of the negotiations how much she could afford to pay each month, said Doug Walsh, chief of the state Attorney General's consumer-protection division.

"Payment buyers are low-flying targets," Walsh said. "If you're a payment buyer, you are meat to the car dealer."

Among the most vulnerable is the buyer who absolutely needs a car to work but has little cash to pay for it. Financing is available to them in the "secondary" or second-chance market, but the interest rates are astronomical — now as high as 39 percent. That's almost four times what local banks or credit unions charge, even for people with poor credit histories.

State law limits the interest that can be charged on some loans, but not auto loans.

People with good credit can shop around and usually obtain financing through banks, savings and loans and credit unions at competitive rates. They may even get a competitive rate from a dealership. People with less than good credit also can shop around, but often end up with high-interest loans in the so-called secondary market.

Buyers with average to good credit who don't investigate their financing options also get roped into paying higher interest rates at dealerships, where sales-staff members earn higher commissions selling loans from secondary lenders, experts said.

"Even someone with a modest credit score should be able to get car funding at 12 percent or less — more like 10 percent," said Laurie Stewart, president and CEO of Sound Community Bank in Seattle. Despite the overall economy, Stewart said, banks and credit unions are still lending to qualified buyers.

But for those who can't qualify and who need a car to shuttle between jobs at odd hours and in areas not well served by public transportation, the secondary loan market may be their only option.

These buyers will pay whatever they have to, said John Marino, manager of Evergreen Sales and Lease, the used-car dealership in Federal Way that arranged Perkins' 29 percent loan in 2006.



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DAVID ZALUBOWSKI / AP

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#### Q&A | Avoid car buying pitfalls

The state attorney general's consumer protection chief and a Seattle attorney will answer reader questions at noon Thursday about buying and financing a used car.

[Submit a question in advance](#)

#### How to get the best car deal

**First step:** Go online to [www.edmunds.com](http://www.edmunds.com), [www.kbb.com](http://www.kbb.com), [www.nada.com](http://www.nada.com) — these sites, among others, have pricing information, financing calculators and car-buying tips. In particular, [Edmunds.com](http://Edmunds.com)'s Tips & Advice section is excellent; there you'll find a must-read article, "10 Steps to Buying a Used Car."

**Another key resource** is [www.consumerreports.org](http://www.consumerreports.org). It requires membership (\$26 a year) but has a wealth of information on used-car buying, including CR's pricing service and assessment of most dependable models.

**Know your credit score and history.** Each of the nation's three credit-reporting agencies are required to provide you with a free copy of your credit report once every 12 months. To obtain copies and learn more about how credit scores are calculated and how they affect the interest rates you pay, go to the Federal Trade Commission's publication: [www.ftc.gov/bcp/edu/pubs/consumer/credit/cre24.shtm](http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre24.shtm).

**Shop for financing before you shop for a car.** And don't assume you have no options. Bad credit doesn't automatically disqualify you from a reasonable interest rate on a loan. Talk to a credit union or bank, and compare those rates with what dealerships offer.

**Never reveal to the salesperson** how much you're willing to pay each month. If you negotiate based on monthly payments instead of car price, you will almost always pay more. Dealerships can pack warranties and other extra packages into the deal, or talk you into a pricier car, without changing the monthly payment — they just increase the length of the loan.

**The state Attorney General's Office** publishes tips on negotiating for a car, and also fields complaints from auto customers. Go online: [www.atg.wa.gov/ConsumerIssues/Cars.aspx](http://www.atg.wa.gov/ConsumerIssues/Cars.aspx).

**To file a complaint** against a car dealer, call toll free, 800-551-4636, or, for the hearing-impaired, 800-833-6384 (WA Relay Service). Complaints also can be filed online at: [www.atg.wa.gov/FileAComplaint.aspx](http://www.atg.wa.gov/FileAComplaint.aspx)

**Source:** *Wheels to Work, Doug Walsh, chief of the Washington state Attorney General's consumer-protection division.*

— Susan Kelleher

#### Do's and don'ts of buying a used car

**Do:** Shop for financing before you shop for a car  
**Don't:** Tell a salesperson how much you're willing to pay each month

"The people who come in here, they have a job. A lot of them have a second job."

Most of the auto loans recently arranged through his dealership, he said, ranged from 19.9 to 29.9 percent interest. But one company — Nationwide Acceptance Corp. in Chicago — is offering loans as high as 39 percent. "It's nuts," Marino said. "Then again, some people really need a car loan."

About 20 percent of the 40 million used cars sold each year in the U.S. — about 8 million cars — are sold to low- to moderate-income buyers, many of them with poor credit histories. A 22-month study conducted in Texas last year showed those buyers paid an average of \$12,000 for their cars.

The study, conducted by the Aspen Institute and the Consumer Task Force for Automotive Issues, found that the person helping with the loan generally controlled the process, and tended to pick the loan that paid the largest sales commission.

Nationwide's Chairman and CEO Michael Lutz, said the sky-high rates his company offers are justified by the higher risk of default by customers who have unproven creditworthiness.

As Lutz put it: "None of our customers has perfect credit, and many of them have perfectly awful credit."

Nationwide's typical borrower earns \$15,000 to \$20,000 a year, and has a significant credit problem — a bankruptcy or credit-card default, for instance. Only someone with virtually no credit history would pay 39 percent, he said.

Walsh, of the attorney general's consumer-protection unit, urged consumers to educate themselves about their credit score, what it means and what financing is available before they walk into a dealership.

Consumers who know their financing options can evaluate whether the dealer-arranged or sponsored financing is a good deal. In doing so, they can focus their negotiations on the car's price instead of the monthly payment.

Perkins, the Army reservist who paid 29 percent interest on a nine-year-old car, said she hoped the experience would boost her credit score and give her more bargaining clout the next time around.

It didn't. She paid 14 percent to finance her next used-car purchase at a Bremerton dealership earlier this year after the salesman told her she had no credit clout to demand a better deal.

"I'm burned out on the whole thing because it happened twice," Perkins said. "But I gotta have a car."

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