

#1 Problem for New Car Buyers

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Recent reports by automotive industry legal insiders say the top problem that gets car dealers into legal trouble is rolling negative equity into a new car loan or lease — without telling customers.

Rolling negative equity from an old auto loan into a new loan or lease is not illegal. But it is if the customer doesn't know it's happening and isn't told. Unfortunately, many new and inexperienced car buyers don't understand negative equity and don't ask about it.

Negative equity is the difference between a vehicle's current market value, or trade-in value, and the outstanding balance on the customer's loan. In these days of long-term loans with little or no down payment, it's common for car buyers to be "upside down" for nearly the entire time they're paying off the loan.

Car dealers advertise that they will "pay off your old loan, no matter what you still owe." That's true. But what they don't say is that the negative equity from the old loan will simply get rolled into the new loan, effectively creating two loans in one. New car buyers often miss the details of this maneuver, and aren't properly disclosed about it.

Sometimes, dealers mask this problem, and avoid the disclosure, by increasing a vehicle's cash price by the amount of the negative equity. Customers often find out about the problem after the deal is done.

This single problem accounts for the majority of all pending lawsuits against car dealers in the U.S., say the experts.

The problem doesn't always happen intentionally. Because most dealers have no guidelines or procedures that require the disclosure, it often gets overlooked in the heat of deal negotiations.

Smart consumers will already know if they are "upside down" on their old loan before they enter a dealer showroom to purchase or lease a new car. They will also know that their negative equity will be combined with any new loan or lease, increasing monthly payments and loan costs. Even when the customer knows what is going on, it is not usually a good thing to do because it creates an even more serious "upside down" situation with the new loan.

---Al Hearn is founder, owner, and operator of The Insider Network for automotive consumers. The web site uses a blog format to report news, advice, and essential information from "insiders" in the automotive consumer industry.