

Study: Blacks pay higher auto loan rates

(AP) - Blacks have been charged higher auto loan rates than other auto buyers, federal research says. But the gap in loan rates could narrow, and possibly disappear, as the result of recently concluded lawsuits.

Blacks paid a typical auto loan rate of 7 percent for new cars, compared with a rate of 5 percent for Whites in 2004, according to a consumer organization's analysis of the Federal Reserve Survey of Consumer Finances. That was the most recent survey available.

And Blacks were more likely than auto buyers in general to have auto loan rates higher than 15 percent. For used car loans, 27 percent of Blacks who buy cars were charged interest rates of 15 percent or more. Blacks were three times as likely as Whites — 27 percent to 9 percent — to have auto loan rates at least that high, according to the report released Monday.

Hispanics were paying a typical rate of 5.5 percent for new car loans, while 19 percent of Hispanics had loans for used cars over 15 percent, the analysis found.

Lenders' suggested quote rates are based largely on the buyer's credit history, but auto dealers often raise the rate higher than that risk-related rate without discussing the rate with the customer, consumer advocates said. And they question the causes of those rate differences.

"It's hard to believe that any differences in creditworthiness explain all of these rate gaps," said Stephen Brobeck, executive director of the Consumer Federation of America. "They size you up, the car salesmen and finance and interest guys. They must think African-Americans are more vulnerable to a markup."

But a series of legal actions against auto finance firms seeking fair treatment for minorities could help solve that problem.

"We had 11 lawsuits, the last of the cases settled last month," said Stuart Rossman of the National Consumer Law Center.

"We reached a settlement with each of the finance firms. Our cases involved discrimination. We believe the terms of the settlements will eliminate discrimination."

The first of the lawsuits was filed in 1998 in Nashville, Tenn., against General Motors Acceptance Corporation and was settled in 2004. The last settlement became

final in April.

The effects of those legal actions may not be known for some time, however.

The National Auto Dealers Association questioned what accounts for the rate differences, but encouraged auto buyers to do their homework before going to buy a car.

"The question that still is unanswered is why," said David Hyatt, a spokesperson for the dealer's association.

"People should do their homework and shop around. It speeds up the transaction, makes for a smoother transaction and is more likely to result in a satisfied buyer."

Hyatt said an organization supported by the auto dealers, Americans Well Informed on Automobile Retailing Economics, offers tips to potential car buyers.

Chris Stinebert, president and chief executive of the American Financial Services

Association, said his group is interested in educating consumers.

"AFSA and its members believe there is no place for discrimination in the vehicle financing system," he said.

The lawsuit settlements against auto finance companies call for caps on dealer markups, opportunities for Blacks and Hispanics to get loans with no markups within the next few years, more information about interest rate

terms and consumer education for minorities.

"The lower markup caps have leveled the playing field," Rossman said.

Consumer advocates say prospective auto buyers should call their bank or credit union for a rate quote to expect on an auto loan. That could protect them from unfair markups.

Other ways to hold down costs.

—Make all loan pay-

ments on time.

—Buy a used car, or a less expensive new car.

—Take out a loan over a shorter time.

The survey of 4,519, including 605 Blacks, was analyzed by Catherine Montalto, a consumer specialist at Ohio State University for the Consumer Federation of America.

The survey was conducted between May and December of 2004.

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