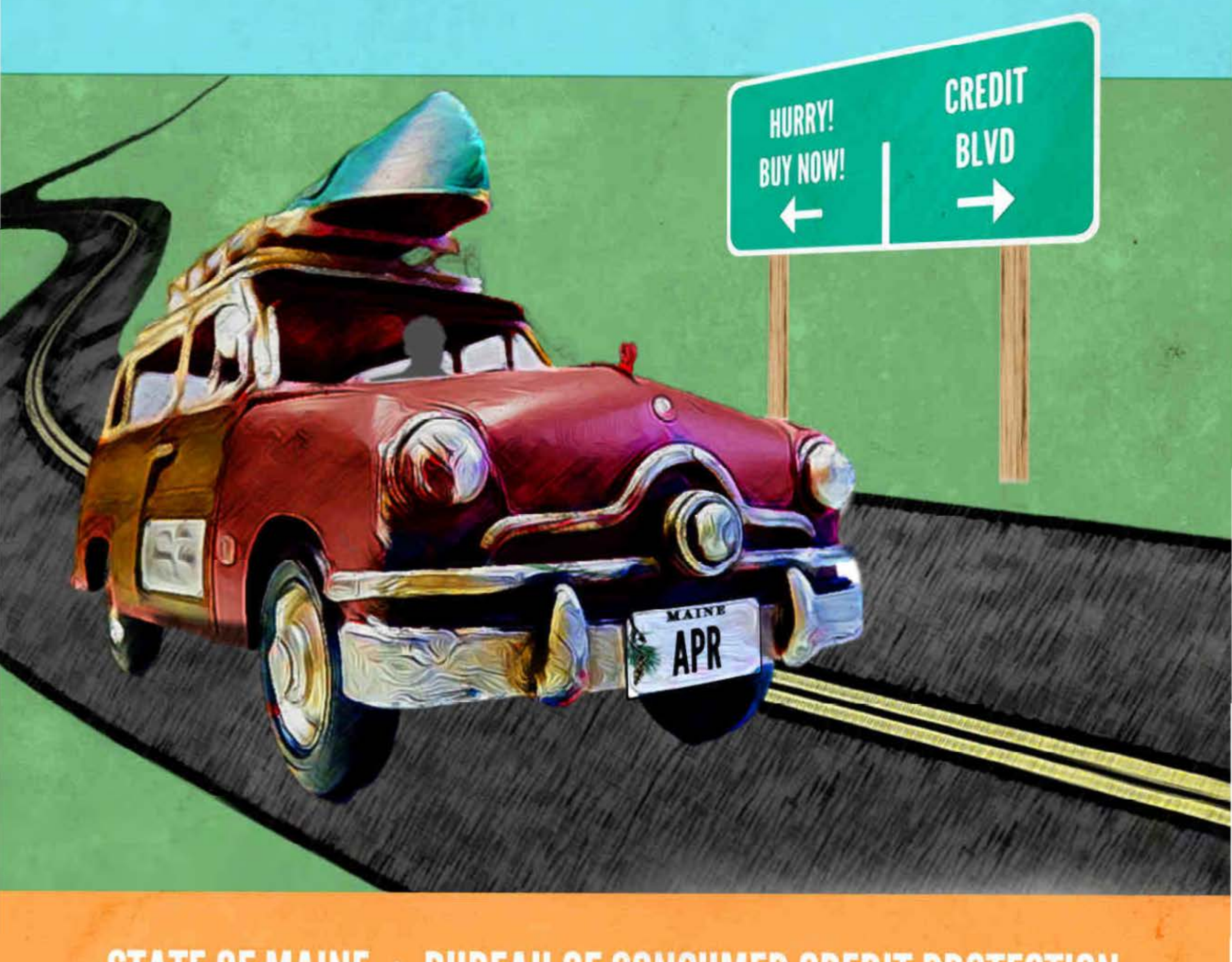
AUTOMOBILE
BUYING AND FINANCING



STATE OF MAINE ◆ BUREAU OF CONSUMER CREDIT PROTECTION
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION

Maine Bureau of Consumer Credit Protection

Toll-free Maine Consumer Assistance	**Maine Foreclosure Prevention Hotline**
1-800-332-8529 (1-800-DEBT-LAW)	1-888-NO-4-CLŌZ
TTY users call Maine relay 711	(1-888-664-2569)

www.Credit.Maine.gov

The Maine Bureau of Consumer Credit Protection was established in 1975 to enforce a wide variety of consumer financial protection laws, including:

-Consumer Credit Code
-Truth-in-Lending Act
-Fair Credit Billing Act
-Truth-in-Leasing Act
-Fair Credit Reporting Act
-Fair Debt Collection Practices Act
-"Plain Language" Contract Law

The Bureau conducts periodic examinations of creditors to determine compliance with these laws; responds to consumer complaints and inquiries; and operates the state's foreclosure prevention hotline and housing counselor referral program. The Bureau also conducts educational seminars and provides speakers to advise consumers and creditors of their legal rights and responsibilities.

William N. Lund
Superintendent
May 2015

DOWNEASTER COMMON SENSE GUIDE: AUTO BUYING AND FINANCING

By David Leach, MPA and Abigail Pratico
Editing by Steven Lemieux, MBA

Special Thanks to Douglas Stark and Edward Myslik

Maine residents can obtain additional free copies of this booklet by contacting the Bureau of Consumer Credit Protection at 207-624-8527 or toll-free at 1-800-332-8529. Non-Maine residents may purchase the publication for $6 per copy, or at a volume discount of $4 per copy on orders of 50 or more. Shipping fees are included in the prices listed.

Dear Consumer,

For many people, purchasing a vehicle is second only to a home mortgage in terms of complexity and cost. A potential homeowner would never impulse-shop for a new residence. Unfortunately, the same is not true for many car and truck shoppers.

New cars and trucks can feature sticker prices of $30,000-$40,000 or more, depending on the model and optional equipment. Late model used vehicles can also fetch high sales prices, as can the typical used cars found on dealer lots.

The crisis in the mortgage lending industry led to regulatory reforms — the tightening of credit standards for consumers applying for mortgage loans. This has not happened (yet) in the auto lending industry. It remains quite possible to purchase and finance a vehicle that you, the consumer, cannot afford.

This booklet is intended to provide information about responsible auto buying and financing. We hope it will help you to better understand how to select and finance a vehicle that fits your needs without challenging your ability to meet everyday financial obligations.

Research your potential purchase carefully: Kick the tires of the vehicle, negotiate a good sale price, find the best financing rate available and know the impact your auto loan will have on your finances before signing on the dotted line. Be careful, be thoughtful, take your time and always think before you borrow. Happy motoring!

David Leach, MPA
Bureau of Consumer Credit Protection

Abigail Pratico
Margaret Chase Smith Summer Intern, 2014

"Everything in life is somewhere else, and you get there in a car."

-E. B. White

Six Things to Watch Out For When Purchasing a Vehicle

1. **Title Washing** hides the history of a vehicle that's been salvaged, making severely-damaged cars and trucks easier to sell —especially if they were previously titled in another state. Consider doing a Vehicle Identification Number (VIN) check to find out the history of the vehicle you're thinking of buying. The VIN is typically located on the vehicle's registration and on a small sticker or plate inside the car or truck.

2. **Spot Delivery** occurs when a dealership allows a consumer to drive a vehicle home "on the spot," even if financing has not yet been formally approved by a lender. If the loan is not approved, the buyer may have to settle the balance in full or return the car, paying additional fees for the vehicle's use.

3. **Contract Mistakes**: Always read contracts and forms before signing, and be on the lookout for mistakes (*e.g.*, misreported income or incorrect names). <u>When you sign a document, you're acknowledging that the information contained in it is correct</u>. Signing a contract or financing agreement containing incorrect information may affect your rights if you have an issue with the vehicle or loan.

4. **Contract Clauses**: Be sure to pay special attention to contract clauses. One common clause requires the buyer to maintain insurance coverage on the vehicle. If you fail to do so, the creditor has the right to repossess the vehicle without sending a Notice of Right to Cure.

5. **Title Loans** are loans in which the consumer uses their vehicle for collateral — temporarily giving the lender a hard copy of their vehicle's title in exchange for money. If the loan is not paid back, the vehicle may be repossessed and sold. <u>Title loans are illegal in Maine</u>. If you cross state lines (the state of New Hampshire allows these loans) to take out an auto title loan, Maine regulators may not be able to assist you if your vehicle is in danger of repossession.

6. **Loaded Payments** occur when the finance and insurance person at a dealership quotes monthly payments which include add-ons the buyer didn't request, like extended warranty plans and optional equipment.

In This Guide, You Will Learn:

Chapter 1

Pre-Planning Your Purchase

Identifying Your Needs

Like buying a home or choosing a college, purchasing a vehicle requires thoughtful planning. The first step is to determine your transportation needs. Make a list of what features you're looking for, taking into account how the vehicle will be used. Not all vehicles are suitable for all purposes. Some criteria to consider include performance, safety features, reliability, traction, towing capacity, fuel efficiency, passenger capacity, cargo space and transmission type. Also include non-technical requirements, like comfort and appearance: while they may not affect a vehicle's performance, they will affect your satisfaction. Once you have your list together, organize the features from most to least important.

Figuring Out Your Budget

Your personal budget is the most important pre-purchase factor. To figure how much vehicle you can afford, you will need to determine how much debt you currently carry. One way to do this is to calculate your **back-end debt-to-income ratio ("back-end ratio")**. Your back-end ratio is a numerical representation of how much debt you carry each month compared to your monthly income. It is calculated as your total monthly debt (the sum of all monthly debt payments, including mortgage or rent, student loans, credit cards, and other recurring debts paid monthly) divided by your gross monthly income (total monthly income <u>before</u> taxes and expenses). <u>Your back-end ratio should not exceed 43%</u>, particularly if you plan to purchase a home in the near future. Due to federal regulations, it can be extremely difficult to obtain a mortgage loan if you have a back-end ratio of greater than 43%. <u>Use the worksheet on pg. 2 to determine your maximum and recommended monthly auto loan payments.</u>

Fair Trade-In and Market Values

If you plan to trade-in an old vehicle when you purchase your new (or used) car, it's a good idea to determine your old vehicle's fair **trade-**

Vehicle Affordability Worksheet

1. Your Monthly Gross Income $ ____________

Monthly Credit Obligations

Rent/Mortgage Payments		$ ____________
Student Loan Payments	+	$ ____________
Credit Card Payments	+	$ ____________
Other Loan Payments	+	$ ____________
Child Support Payments	+	$ ____________
Auto Loan Payments*	+	$ ____________

**Include only current automobile payments. If rolling a current auto loan into a new loan, do not include current auto loan payments on this line.*

2. Total Monthly Debt Payments = $ ____________

3. Monthly Gross Income x 43% = $ ____________

This is the maximum amount of debt you should carry each month.

4. Subtract the Total on Line 2 From the Total on Line 3 = $ ____________

This is the maximum amount of money you have left for additional debt each month after satisfying your current obligations.

5. Multiply the Total on Line 1 by 12% (.12) = $ ____________

The Bureau recommends spending this amount of money or less on vehicle payments each month.

While you may safely be able to use up to 43% of your monthly income for repayment of debts, it's a good idea to leave some breathing room in case of unforeseen expenses (*e.g.*, repairs not covered under a vehicle's warranty or debt resulting from medical emergencies).

in value before visiting a dealership. Trade-in value is the amount a dealer will give you toward a purchase in exchange for your old vehicle. Use more than one source when researching fair trade-in values. Consider using online calculators and asking for estimates from local dealerships.

Your could also consider selling your used vehicle yourself. While it will take more effort, it may net you more money. If you decide to take this route, you should determine the vehicle's **market value** — the amount it is currently worth. Market value is determined by several factors, including the original manufacturer's suggested retail price (see pg. 4), depreciation and the vehicle's condition (mileage, damage, etc.). Any widely-used auto guidebook can help you determine your vehicle's market value. There are also many online tools. Look for websites provided by well-known auto guides and associations, such as the North American Auto Dealers' Association (www.nada.org), Kelley Blue Book (www.kbb.com) and Edmunds (www.edmunds.com).

"Car designers are just going to have to come up with an automobile that outlasts the payments."

-Erma Bombeck

New vs. Used

One important decision when shopping for a vehicle is whether to buy new or used. New vehicles can be made to order, and usually feature state-of-the-art technology (including safety features), better fuel efficiency and lower emissions than used vehicles. New vehicles also tend to be financed at lower rates than previously-owned vehicles. On the other hand, used cars are less expensive than new cars, lose less value over time, and are less expensive to register and insure. If you are unsure about whether to buy a new or used vehicle, ask yourself a few questions:

- **Do you have a down payment (see pg. 11) or a high trade-in value vehicle?** If not, you may want to consider a new vehicle. Many manufacturers offer rebates, cash incentives, discounted financing and other deals that aren't available for used cars. If you do your research and wait for the right opportunity, you might be able to find a large enough manufacturer's incentive to cover a new vehicle's down-payment requirements.

- **Are you willing to take a hit from depreciation?** Depreciation is the decline in value of an asset over time. Most vehicles lose around 15% of their value every year. Some new cars lose 25% or more of their value in the first year after being driven off the lot. If you're looking at a model of vehicle that's been around for several years (*e.g.*, Toyota Corolla, Ford F-150), find the resale values of older versions of that make and model to help you estimate the future value of the vehicle you're considering purchasing.

- **Can you afford the time and cost of repairing a used car?** Older vehicles with high mileage require more frequent repairs than newer, lower-mileage cars. Factor in the cost of repairs when deciding on a vehicle. Consult your mechanic — some cars are more expensive to maintain than others. If you don't, you may find yourself spending nearly as much in combined loan payments and costly upkeep for a used car as you would have paid for a new auto loan.

Gather Information

After determining your needs and deciding how much you can spend each month, it's time to start gathering information. There are many resources available to savvy car shoppers. Use them to your advantage! Look for the **manufacturer's suggested retail price ("MSRP")** of the vehicles you are interested in. MSRP is the amount of money that a manufacturer suggests a vehicle be sold for at a dealership. It does not necessarily correlate to the prices that dealerships advertise or that customers are willing to pay. MSRPs can be found, for free, in many online automobile price guides.

You should also research the **dealer's invoice prices** of vehicles you're interested in. Invoice price is, theoretically, the amount that a dealership paid a manufacturer for a vehicle. In practice, invoice price is almost always higher than the amount paid by the dealership, due to discounts and incentives paid to the dealer by the manufacturer. Although invoice is not the amount paid by a dealer, it's an important tool for negotiating a final sale price. Dealers' invoices are listed in many commercially available car guides.

Fuel Costs

To estimate your monthly fuel costs, divide the average number of miles you drive each month by the **miles per gallon (mpg)** of your vehicle. Multiply the result by the current price of a gallon of gasoline.

Social Media and Auto Shopping

There are a number of online sources that can be utilized to learn about the real life experiences drivers have had with the makes and models of vehicles you are interested in. Whether it's a Dodge Ram pickup or a 10 year old Honda Civic, someone is writing about it in a blog, on a message board or on another website. Although online reviews are not always reliable, chances are if the majority of commentators say the model you're interested in had a specific type of mechanical problem (or other issue), you may want to think twice about the purchase.

Fees and Taxes

Fees and taxes must be taken into account when planning a vehicle purchase. Common fees and taxes include:

- **Sales Tax**: A one-time fee, (currently) amounting to 5.5% of a vehicle's sale price, paid through the buyer's town office.
- **Registration Fees:** Annual fees paid through the buyer's town office. The average registration fee in Maine is $35. If you're renewing a registration for a vehicle that you already own, you may be able to pay this fee online at the Maine Bureau of Motor Vehicles' Rapid Renewal website at www.maine.gov/online/bmv/rapid-renewal/.
- **Excise Tax**: An annual tax paid prior to registering a vehicle. Nearly all vehicles registered in Maine are subject to the excise tax. The amount owed depends on a vehicle's original factory price and age. See page 6 to estimate the excise tax on a car.

Maine Sales Tax (5.5%)

Sale Price	Sales Tax Paid
$5,000	$275
$10,000	$550
$15,000	$825
$20,000	$1,100
$25,000	$1,375
$30,000	$1,650
$35,000	$1,925

Credit-Based Auto Insurance

Many different factors go into the calculation of automobile insurance premiums — not all of them obvious. All major auto insurance companies use credit-based insurance scores to help them determine the level of risk that individuals represent, and to determine how much these individuals should pay for coverage. Although opponents claim there is no persuasive evidence that credit history should be used to help predict insurance risk, studies have shown that credit-based scores are accurate indicators of both number and total cost of claims.

If you have applied for insurance, insurers do not need your permission to look at your credit when deciding whether or not to insure you. You must, however, be informed at the time you apply for or renew your policy (if you have not been told previously) that the insurance company may obtain your credit information. Insurers may not deny, cancel or refuse to renew auto insurance policies based solely on a consumer's credit information. Likewise, insurers operating in Maine may not base a consumer's renewal rates solely on credit information — other factors must be taken into consideration. For information on credit reports, credit scores and cleaning up your credit, see chapter 2, pg. 9.

Maine Excise Tax

1 Year Old Car (0.0240 Rate)

MSRP	Excise Tax Paid
$5,000	$120.00
$10,000	$240.00
$15,000	$360.00
$20,000	$480.00
$25,000	$600.00
$30,000	$720.00
$35,000	$840.00

2 Year Old Car (0.0175 Rate)

MSRP	Excise Tax Paid
$5,000	$87.50
$10,000	$175.00
$15,000	$262.50
$20,000	$350.00
$25,000	$437.50
$30,000	$525.00
$35,000	$612.50

3 Year Old Car (0.0135 Rate)

MSRP	Excise Tax Paid
$5,000	$67.50
$10,000	$135.00
$15,000	$202.50
$20,000	$270.00
$25,000	$337.50
$30,000	$405.00
$35,000	$472.50

4 Year Old Car (0.0100 Rate)

MSRP	Excise Tax Paid
$5,000	$50.00
$10,000	$100.00
$15,000	$150.00
$20,000	$200.00
$25,000	$250.00
$30,000	$300.00
$35,000	$350.00

5 Year Old Car (0.0065 Rate)

MSRP	Excise Tax Paid
$5,000	$32.50
$10,000	$65.00
$15,000	$97.50
$20,000	$130.00
$25,000	$162.50
$30,000	$195.00
$35,000	$227.50

6 Year Old Car (0.0040 Rate)

MSRP	Excise Tax Paid
$5,000	$20.00
$10,000	$40.00
$15,000	$60.00
$20,000	$80.00
$25,000	$100.00
$30,000	$120.00
$35,000	$140.00

- **Doc fee**: A "documentation" fee charged by dealerships to process a vehicle's paperwork. Processing paperwork is an overhead expense — a regular cost of doing business. Overhead costs are usually factored into the sale price of goods. Doc fees, on the other hand, are usually charged *after* a deal has been struck. Not all dealerships charge doc fees. Doc fees generally total a few hundred dollars, and are usually non-negotiable. Under Maine law, doc fees must be disclosed on a vehicle's window sticker.

Get an Insurance Quote

The price of auto insurance can vary widely depending on the driver, the vehicle, the driver's place of residence and other factors. Once you've narrowed down your list of vehicles, contact your insurance company for an estimate.

Decided on a Vehicle?

Once you've done your homework and put together a list of vehicles you're interested in, see what's available in your area. Check ads in the newspaper and visit the websites of local dealerships. Many dealers post their inventories, along with photos of the vehicles they have in stock, online. You can also visit dealerships after hours or on Sundays, when the sales staff isn't there. Doing so will give you a chance to see the vehicles you're interested in, in person, without any pressure to go through with a purchase.

If you examine a new vehicle at a dealership, you will find a **Monroney label** affixed to the window. The Monroney label provides information about the vehicle, including MSRP, equipment and features, fuel economy estimates and government safety ratings. Dealers are required to post Monroney labels in the windows of all new vehicles for sale.

The Federal Trade Commission ("FTC") requires that dealerships post **buyers guides** in every used vehicle they offer for sale. The buyers guide will tell you whether a vehicle is being sold with a warranty or "as is," and will list the vehicle's major mechanical and electrical systems. It will also advise you to get any promises made by the dealership in writing, as spoken promises are difficult to enforce.

"I've always been asked 'What is my favorite car?' and I've always said, 'The next one.'"

-Carroll Shelby

Reading a Monroney Label

Different manufacturers use different layouts for Monroney labels; however, the type of information displayed is required by law to be the same for all manufacturers. This information includes:

1. **Model Information**: Basic information about a vehicle, including make, model, year, engine, transmission, interior and exterior colors, and trim type/level.
2. **Standard Equipment**: Features included in the MSRP, grouped into categories.
3. **Warranty Information**: Information about included warranties, roadside assistance and/or maintenance programs.
4. **Optional Equipment**: Features other than standard equipment included with the vehicle.
5. **Pricing Information**: The base price of a vehicle, along with fees and prices for included options.
6. **Parts Content**: Information on where the vehicle was assembled and where the vehicle's parts were made.
7. **Total Price**: The total MSRP of the vehicle.
8. **Fuel Economy Label**: An estimate of the vehicle's fuel efficiency.
9. **QR Code**: Scanning the QR code with a smartphone will bring you to the website of the Environmental Protection Agency ("EPA") to get a custom fuel efficiency estimate.
10. **Safety Ratings**: A vehicle's safety ratings from the National Highway Traffic Safety Administration ("NHTSA"), using a star rating of 1 to 5.

Chapter II

Credit Reports and Credit Scores

Your credit history and credit score play vital roles in your ability to borrow. A poor credit history and low credit score will prevent most lenders or finance companies from approving you for credit. As such, a review of your credit history is recommended before applying for an auto loan.

Obtaining Your Credit Report

The **Fair Credit Reporting Act ("FCRA")** allows a person to obtain a free copy of their credit report from any **consumer reporting agency ("credit bureau")** annually. State regulators recommend that you take advantage of this free service each year by calling **1-877-322-8228**. Alternatively, you may obtain your credit report by submitting the form on page 29 or visiting www.AnnualCreditReport.com.

There are three major credit bureaus in the United States: Equifax, Experian and TransUnion. Request a report from each bureau in order to get a comprehensive look at your credit history. When lenders "pull" your credit, they use software that merges the data from all three credit bureaus into one report. This is called a "tri-merged" report. Before the creditor gets to study your credit history, you should ensure that no errors or omissions exist. The FCRA gives you the right to challenge any errors or omissions in the reports. However, this right does not allow the consumer to compel a credit bureau to amend a report as they wish; an investigation will be conducted by the company, and the consumer may be required to supply evidence supporting their request to make changes. Credit bureaus are required to provide you with detailed instructions regarding their correction procedures.

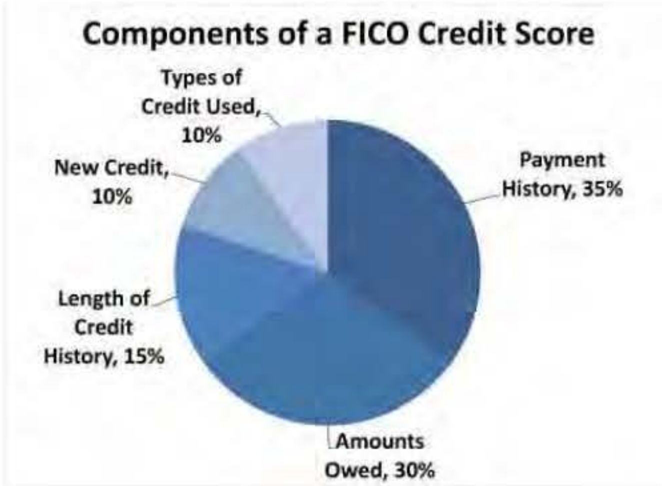
Understanding Your Credit Report

Credit reports are difficult to read. The information in a typical report contains codes, abbreviations and a layout that only a robot could love! The top of the report identifies the reporting agency, followed by the subject of the report (the consumer). The bulk of the report consists of "tradelines" — debts that are currently outstanding by loan size (largest first), followed by loans that have been paid off in alphabetical order by creditor. The "public records" section is usually found below the "tradeline" section, followed by an "inquiries" section. The inquiries section should be studied closely, since it shows who has recently looked at your credit file.

Understanding and Improving Your Credit Score

Your credit score may not be included in free annual credit reports provided by the credit bureaus. Credit scores are not created by the credit bureaus. Rather, most are generated by a company called Fair Isaac Corporation ("FICO"). Each credit bureau hires FICO to analyze your credit file; FICO uses a proprietary computer algorithm to "score" your credit history, assigning a number between 300 and 850 to each of your three bureau files. The higher the FICO score, the lower the predicted risk of default on a loan. Lenders typically use the lowest of the three FICO scores to qualify borrowers and price their loans. Most loan products are priced according to risk. Consequently, a FICO score below a certain level will result in a higher interest rate on a loan.

Improving your credit is easier than you may think. Having a low credit score should not dissuade you from considering a vehicle purchase. Correcting errors on your credit report and removing negative information that is over seven years old (ten years for bankruptcy) will have a positive effect on your credit score. Limiting the amount of available credit is very important. If you have multiple unused credit cards or lines of credit FICO will assume that you *could* max them out, resulting in massive monthly payments.



For more information on credit reports and credit scores, order a free copy of the Downeaster Common Sense Guide: Credit Reports and Credit Scores by contacting the Bureau at 1-800-332-8529, or ordering though the Bureau's website at www.maine.gov/pfr/consumercredit/publications.htm.

Subprime Auto Loans

Credit scores represent risk to the lender. There is a direct correlation between a borrower's credit score and their presumed risk of delinquency on a loan — the lower the score, the greater the risk. For convenience, consumer credit scores are grouped into five risk categories: superprime (740-850), prime (680-739), nonprime (620-679), subprime (550-619) and deep subprime (550 or less).

Subprime auto loans are loans granted to borrowers with subprime or lower credit scores for the purchase of an automobile. These loans pose a high level of risk to the lender. As such, subprime auto loans cost consumers significantly more in interest than equivalent "prime" loans, making them very attractive to lenders with a high tolerance for risk.

Chapter III

Vehicle Financing

The least-expensive way to purchase a vehicle is to pay cash, in full, at the time of sale. However, cars are expensive, and not everyone can afford to pay cash upfront. This is where **auto loans** come into play. Several factors help determine how much a vehicle loan costs.

Down Payment

A **down payment** is an up-front deposit toward the purchase of a vehicle. The larger the down payment, the smaller the amount that needs to be financed and the lower the overall cost to the borrower. Most lenders require a down payment in order to secure favorable financing terms. The average down payment on new and used vehicles is 12% of the purchase price. The Bureau *strongly* recommends making a down payment of at least 20%. Pay more now, pay less later!

Many auto dealers advertise "**no money down**" financing for vehicles. While this may seem like an attractive option, it will cost you more in the long run. Table 1 (page 12) illustrates this point, comparing loans on two identical vehicles, one financed with no money down and one with a 20% down payment.

If you purchase a vehicle with no money down financing, you will likely find yourself in a **negative equity position** — owing more on a vehicle than the vehicle is worth. Consumers in negative equity positions who trade in their vehicle before the last year or so of the loan's term may be faced with an **upside-down trade-in** — a loan balance greater than what a dealer is willing to give them for their old

"Buy Here, Pay Here" Financing

In "buy here pay here" financing, a dealership extends credit directly to a borrower rather than acting as an intermediary for a financial institution or finance company. Because the dealer is exposed to significant risk in these transactions, credit sales from "buy here, pay here" dealers often have significantly higher interest rates than loans from larger institutions that are better able to absorb risk.

Due to high interest rates associated with this type of financing, "buy here, pay here" dealerships sometimes plan on borrowers defaulting, allowing the dealer to repossess the borrower's vehicle before their loan is paid off. As such, cars tend to cycle in and out of inventory. This sales model often results in a relatively small selection of vehicles featuring high mileage and potentially severe mechanical defects.

vehicle. This results in the remaining balance of the borrower's current auto loan needing to be rolled into a loan for the new vehicle. If this happens several times, the borrower's auto loan requests will eventually be rejected by lenders due to growing risk — leaving them with a car they no longer want, owing thousands more than the vehicle is worth.

Annual Percentage Rate

The **annual percentage rate ("APR")** of a loan represents the total cost of credit to a consumer in the form of a single, easy to compare number. APRs include interest, as well as non-interest credit charges and fees. A loan with a low APR costs less in interest over time than a loan with a high APR. In Maine, most auto financing is capped at 18%. See chart 1, bottom right, to compare the total cost of a high-APR loan to a loan with an average APR.

Loan Term

Loan term is the period of time over which a borrower makes payments on a loan. Most auto loans have terms of 36-60 months (3-5 years), although terms of up to 84 months (7 years) are sometimes available. The longer the term of a loan, the lower the borrower's payments but the greater the amount paid to the lender over the lifetime of a loan. When financing a vehicle, give yourself some leeway. Never choose a term resulting in payments so high that you would not be able to make the payments if you encounter an unexpected financial situation. See chart 2, next page, to determine how loan term affects the total cost of a vehicle.

Monthly vs. Bi-Weekly Payments

Payment schedules also play a role in the total cost of an auto loan. For most loans, the

Table 1. No Money Down

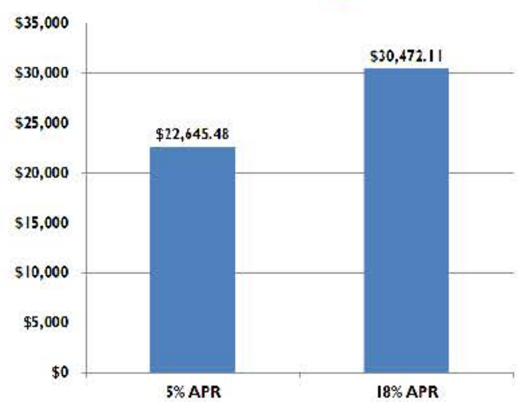
	20% Down	No Money Down
Down Payment	$4,000	$0
Amount Financed	$16,000	$20,000
Monthly Payment	$301.94	$377.42
Total Paid	**$22,116.38**	**$22,645.48**

Difference in Total Cost:

$529.10

This table illustrates the difference in cost between no money down financing and financing with a 20% down payment on a vehicle with a $20,000 sale price, 5% APR and 60 month term.

Chart 1. Annual Percentage Rate



This chart illustrates the difference in cost between a vehicle with a $20,000 sale price, 5% APR and 60 month term and a vehicle with an identical sale price and term, but an 18% interest rate.

borrower is given the choice of making either bi-weekly or monthly payments. When making bi-weekly payments, the borrower pays one half of their monthly loan payment every two weeks. A bi-weekly payment schedule results in 13 full payments being made every year, rather than the 12 that would result from a monthly payment plan. That extra payment helps to reduce the principal balance of the loan, resulting in less interest being accrued over the lifetime of the loan. Table 2, below, illustrates the savings resulting from bi-weekly loan payment schedules.

Shop Around

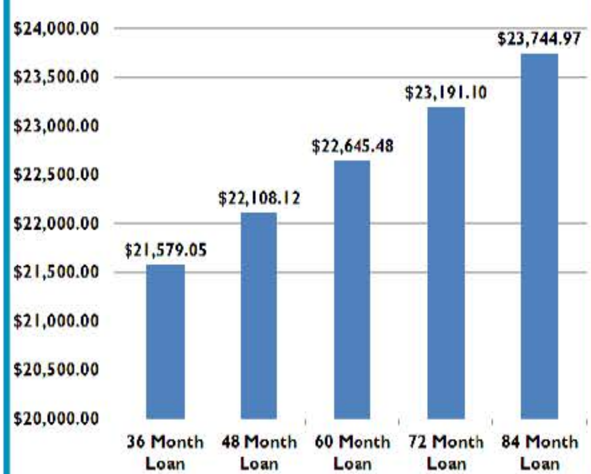
Before agreeing to take out a loan, comparison shop for the best deal available. Get in touch with banks and credit unions in your area, tell them the type of loan you're looking for (used vehicle or new vehicle) and the loan term you're interested in. Write down the results — the lowest APR is the number to beat. When

you visit the dealership, keep this figure to yourself. Let the dealer tell you the best APR they can arrange. If their offer is lower than the lowest APR you were able to find, finance through the dealer!

Round Up!

If your monthly loan payment is $277, pay $300! If it's $465, pay $500! Paying a little extra each month will result in your auto loan not only costing less over time in interest expense — the loan will be paid off months early!

Chart 2. Loan Term



This chart illustrates the difference in total cost between vehicles with $20,000 financed, 5% APR and 36, 48, 60, 72 and 84 month terms.

Table 2. Bi-Weekly Payments

	Monthly	Bi-Weekly
Payment Amount	$377.42	$188.71
Payments Per Year	12	26
Payoff Time	60 Months	54.8 Months
Total Paid	**$22,645.48**	**$22,412.25**

Total Savings from Bi-Weekly Schedule:

$233.23

This table illustrates the difference in cost between identical loans with $20,000 financed, 5% APR and 60 month terms paid using monthly and bi-weekly payment schedules.

Chapter IV

Leasing a Vehicle

Over the last few years, automobile leasing has become a popular method of vehicle financing. According to the credit-reporting agency Experian, 28% of all vehicles sold in 2013 were financed by leases. That percentage is expected to be even higher in the future. Whether or not to lease a vehicle is dependent on many personal factors; however, careful consideration of the differences between ownership and leasing is vital in deciding if leasing is the best choice for financing your next vehicle.

Pros and Cons of Leasing

One of the main reasons that leasing is popular is low monthly payments compared to loans. Additionally, the so-called up-front costs for a lease may be substantially lower than in a purchase transaction. When a vehicle is leased for three years or fewer, it remains under the manufacturer's warranty providing peace of mind from potential repairs and maintenance issues. A short-term lease also allows the consumer access to the most advanced automotive technology. Leasing provides the consumer a simple way to return the vehicle at the end of lease period, a convenience not enjoyed by an owner who must worry about negotiating a sale or a trade-in. The state sales tax is lower with a lease; in Maine, the 5.50% sales tax is due on the total value of the lease, not the sales price as is the case with a purchase.

Even though monthly payments tend to be lower when leasing rather than buying, a lease may prove to be costly if the vehicle experiences excess wear (including the tires) or excessive mileage. The typical lease limits the mileage to 36,000 miles for the lease term. If the mileage limit is exceeded, a per-mile penalty is assessed (generally around 15 cents per mile). Although that may not sound like much, it can add up fast. Just like conventional loan payments, lease payments include a finance charge. The monthly finance charges are based on the **adjusted capitalized cost** *plus* the residual value of the vehicle; therefore, the finance charges for a lease could be equivalent to that of a loan without the benefit of equity. Although you don't own the vehicle when leasing, you will still be responsible for all regular operating fees, such as excise tax, registration, and auto insurance. The pride of ownership and the freedom it provides should not be discounted. Purchasing and keeping a car for longer than 3 years will usually result in lower costs for the average consumer compared to leasing.

Shopping for an Auto Lease

Keep an eye out for leasing specials. If a manufacturer or leasing company is promoting a specific car, its lease terms may be better than average, even if the vehicle normally has a low resale value. Look for phrases like "low monthly payments" or "zero cash at signing." Just as with purchasing a car, you'll want to shop around to get the best deal possible. Once you know which model of vehicle you want, contact local dealerships to get quotes.

Automotive leases are only offered by a few large, international finance companies; therefore, internet searches of the world's biggest car manufacturer's websites are effective ways to compare current lease offers and specials between finance companies. Leasing is a very complex financial transaction, with numerous factors that can make the process extremely difficult to understand. Unlike conventional loan disclosures, finance companies are not required to divulge the rate of interest or the annual percentage rate of a lease. Since the disclosure requirements for leases are very different from those of loans, be prepared to do some extra research before signing a leasing contract.

To ensure that you are getting the best deal possible on a lease:

- Determine the value of your trade-in. The net value of your current vehicle will reduce the **gross capitalized cost** of the lease. Car valuation websites such as www.kbb.com and www.nada.com provide estimates of value for your current vehicle.

- Determine the cost of the vehicle you're interested in.

- Determine the **rent charge**, **money factor** or the **lease rate**. This rate is analogous to the interest rate on a conventional loan. The money factor will be a fractional number that you will need to multiply by 2400 in order to convert the number into an annual interest rate. For example, a money factor of .00125 x 2400 = 3.00 (3.00%), this rate of interest should be about the same as current interest rates for conventional loans.

- Determine the leased vehicles **residual value** — the estimated value of the vehicle at the end of the lease term. This is a vital number — the higher the residual value, the lower your lease payment will be. If the car you want has a low residual value, you should consider a purchase instead of a lease. The residual value is non-negotiable. Specialized market research firms provide this number to the auto industry. The number is generally not available to the public; however, with a little work, you may be able to find it. Your best bet is to check the Automobile Lease Guide (www.leaseguide.com) or to ask for the "Black Book" at a local bank or credit union. You may also have success trying residual value calculators available from reputable websites, such as Cars.com (www.cars.com/go/alg)

- Negotiate the sales price of the vehicle, just as if you were purchasing it. A lower price will reduce the gross capitalized cost making your lease more affordable. Many people are unaware that negotiation of the sales price is possible with a leased vehicle.

- After your negotiation is complete, get the offer in writing (do not sign anything!) and walk away to carefully consider the deal. If the dealership is on the level, they will supply you with a detailed summary of the deal — allowing you to go over it by yourself *before* you sign.

- Most leasing companies allow consumers to purchase their vehicle at the end of a lease if the consumer decides they want to keep the car. This is often accomplished by taking out a traditional car loan or paying the cost of the vehicle in full. You may be able to turn in a separate vehicle (if you own one) toward the required down payment.

Estimating Your Monthly Lease Payment

Calculating a lease payment is very similar to calculating a conventional loan. With the use of a standard financial calculator or a spreadsheet, you can estimate your lease payment in a few easy steps. A conventional loan payment has is the product of four variables, the **loan balance**, the **interest rate**, the **term** of the loan and the so-called "**future value**" of the loan. In a conventional loan which fully amortizes, the future value is always zero; however, <u>with a lease the future value is equal to the residual value of the vehicle</u>. If you have a smartphone, we recommend using financial calculator apps, many of which are available for free, to perform these financial calculations using the variables listed in the table at the bottom of the page.

Example: A 36 month lease with a money factor of .00125 (.00125 x 2400 = 3.00%) and an adjusted capitalized cost of $25,000 with a residual value of $11,000 will result in a monthly lease payment of $434.64 not including taxes. The monthly tax portion is calculated by subtracting the *gross capitalized cost* from the *residual value*, multiplying the result by 5.50% (Maine sales and use tax), and dividing by the loan term. In this case, the monthly tax would be $21.38, resulting in a total monthly lease payment of $456.03.

Lease	Loan	Calculator Variable
Adjusted Capitalized Cost	Principal Balance	PV (Present Value)
Money Factor/Rent Charge	Interest Rate	I%
Lease Term	Loan Term	N (term in months)
Residual Value	Future Value	FV (negative number)
Lease Payment	Loan Payment	PMT

Chapter V

Purchasing the Vehicle

Purchasing a vehicle is a major decision. Always make sure you're fully prepared before visiting a dealership. The salesperson may try to draw you into negotiations before you are ready. Don't go to the dealership if you're hungry, tired, in a hurry, or not capable (on your own) of reading *and* understanding what you're signing.

Don't sign an authorization or credit application unless you're serious about applying for a loan. You don't have to sign a credit application to simply test-drive a vehicle. If the salesperson tells you that's a requirement, politely WALK AWAY.

Some experts say it's wise to negotiate the trade-in price first; others say that should occur after you reach a selling price on the new vehicle. It's your choice! Ask to see the dealer's invoice (see pg. 4) before starting negotiations. Never enter negotiations with a salesperson who intimidates you. Negotiating should feel comfortable. If you are uncomfortable with your salesperson, deal directly with the sales manager or request a different salesperson.

Negotiate for purchase price rather than monthly payments. Since monthly payments are a combination of several factors (term, APR, etc.), it's possible for the dealer to move the numbers around to lower monthly costs without changing the purchase price. Remember, you are in control. You can walk away if you need to.

Arriving at a final price (sale price minus your trade-in) should take about an hour. The Bureau has received reports of protracted negotiations taking hours to complete. Consumers have reported being worn down before agreeing to a deal they later regretted.

Timing a Vehicle Purchase

Sales personnel at auto dealerships have quotas to meet each month, and new vehicle dealerships operate on monthly quotas from their manufacturers. If you visit a dealership on the last business day of the month or after a week or more of bad weather, you're more likely to get a good deal.

What are the best days of the year to buy a vehicle? The last business day of the year (December 30th or 31st) and the last business day in February. At these times, a dealer may be able to make you a deal on a vehicle as part of a manufacturer's sales promotion, or on vehicles being replaced by newer models at the start of the calendar year.

The "Closing Room"

Once you have negotiated an acceptable price with the dealership, it's time to "close out" the deal — sign the sales and loan paperwork to make the car yours! The closer will try to convince you to finance your purchase through the dealership's network of lenders. If you decide to do this, you will need to tell the dealership's finance and insurance manager the desired term of your (potential) auto loan (*e.g.*, 24, 46 or 60 months).

The dealership may **shotgun** your credit application — send it out to several lenders at once, enabling lenders to compete for your business. <u>If credit is not extended within 30 days of these applications, each of these inquiries will lower your credit score by 3 to 5 points.</u> If credit is extended within 30 days, the multiple "pulls" will count as a single inquiry on your credit report.

Make sure all information on your application is correct before you sign. If it isn't, or if important sections are left blank, <u>**don't sign the form until they correct it.** Make sure that the monthly payment quoted in your contract is for a purchase, not a lease. **Make certain the dealership has not inflated your reported income.**</u>

The closing people may also try to sell you various other items. The most common "extras" including extended auto warranties, credit insurance and GAP coverage (a debt cancellation contract protecting the borrower if the vehicle is stolen or totaled before their loan is repaid)

Read all the paperwork you are signing. Check items like APR, loan term, sale price (including extra products purchased), payment amount and trade-in allowances. <u>If anything is incorrect, have the dealership draft new paperwork</u>. If they give you a hard time, that's a clear signal to walk away.

Yield Spread Premiums

Many auto dealers benefit from **yield spread premiums** (sometimes called **rate markups**), bonuses paid to dealerships for placing borrowers in loans with higher interest rates than the minimum a borrower is eligible for. The higher the interest rate, the greater the profit for the dealership — a powerful incentive. The best way to protect yourself from yield spread premiums? Shop around before signing a financing contract to be sure you're getting the lowest APR available.

Co-Signing

Consumers unable to qualify for loans on their own are often told that they must find a co-signer to act as a guarantor — generally someone more credit-worthy than themselves. The co-signer will undergo the same loan underwriting review process as the applicant, including a **hard pull** on their credit report.

If you are asked to co-sign a loan, be cautious. Should the primary borrower fail to make payments, the delinquency will appear on your credit report and <u>you will be held 100% responsible</u> — negatively affecting your ability to obtain new credit.

Is it Worth Buying an Extended Car Warranty?

No one looks forward to surprise repair bills. Extended warranty plans offer an extra level of protection for drivers — should repairs be necessary, the costs will be covered. Is the peace of mind offered by an extended warranty worth the cost? It depends. The cost of an extended warranty plan is often greater than the total cost of the repairs that a vehicle will require during the coverage term. Before agreeing to purchase an extended warranty plan, ask yourself a few questions:

- **How long do you plan to keep the car?** If it's only for a short time, it probably doesn't make much sense to purchase an extended warranty — implied or express warranties will likely still be in effect.

- **Who stands behind the warranty?** Many dealerships offer extended warranties from third-party providers. Before signing a contract, check to see if it is backed by the auto manufacturer. If not, it may only be good at a specific repair facility designated in the contract.

- **Is this the best price available?** Just like with an auto loan, get quote from other providers to find the best price.

- **What does it cover?** Before purchasing an extended warranty, make sure that you understand the warranty plan. Many plans don't cover parts that need replacing from normal wear and tear, and the plan may require you to pay a deductible.

- **Have you looked at your repair history?** If you've had other vehicles with the problems covered by a warranty you're being offered, add up the costs and compare the result with the total cost of the extended warranty plan. Although repair costs are different for different vehicles, this may help you decided whether it is worth investing in an extra level of security.

Is Credit Insurance or Debt Protection Right For You?

There are two main types of credit insurance. The first is **credit *life* insurance**, which is designed to pay off a loan in the event that the borrower dies before repayment is complete. The second is **credit *disability* insurance** — insurance which will cover your loan payments in the event that the borrower becomes disabled before their vehicle is paid off. Some similar products are offered under the name **debt protection**. The law prohibits a creditor from requiring you to purchase credit life insurance or credit disability insurance. For most dealership financing plans, credit insurance is not included — if you want it, it will cost you extra. Use the guidelines below to decide whether credit insurance is right for you.

- Credit life insurance is designed to protect a borrower's survivors against loan debt. If you are single and without dependents, credit life insurance will offer little benefit.

- If you have money saved up, it may be cheaper to simply pay the interest on your loan in the event you become disabled rather than purchasing insurance. Keep in mind, you have to be out of work for several weeks before most credit disability insurance policies will begin to make payments.

- Many people already have sufficient life insurance, and many have some type of disability insurance through their employer. If you already have adequate insurance coverage, why purchase more?

- Unlike other types of insurance, credit insurance costs the same regardless of a borrower's health, age or occupation. As such, it can be a savvy purchase for older borrowers, people in poor health and those with hazardous jobs.

If you decide to purchase credit insurance, the cost will likely be rolled into your auto loan. As such, you'll not only be paying an insurance premium, but also interest on the premium — probably around $15 extra each month.

Chapter VI

If Your Payment is Late...

Repossession

If a borrower stops making payments on an auto loan, their vehicle will be subject to repossession. Ten days after missing a payment, the creditor may mail the borrower a "**notice of right to cure**" — a letter notifying them of the amount due, and the last day for payment without repercussions. Notices of right to cure remain active for twelve months from the date they were sent. During this period, if you default again, a creditor does not need to provide a new notice before repossessing a vehicle. A notice sent by regular mail is considered delivered on the third calendar day after mailing, so don't count on having to sign for a certified letter.

Once a notice of right to cure is delivered, the consumer has a minimum of 14 days to "cure" the default by paying the amount due in addition to any delinquency or deferral charges imposed by the creditor. If the borrower doesn't pay the amount due by the end of the cure period, the creditor may repossess the borrower's vehicle.

Repossessions must be made without the use of force or other breach of the peace. Once a vehicle has been repossessed, the repo company or the creditor must notify the consumer of a place where personal belongings that were inside the vehicle can be retrieved. This does not apply to items attached to a vehicle. Roof racks, stereos and other items attached to the vehicle may be retained by the creditor.

Securitization and the Secondary Market

Many lenders issue asset-backed securities — bonds or notes backed by loans or accounts receivable. A lender will sell loans to a specially created trust which repackages them as securities. The securities are then underwritten by a broker before being offered for sale as an investment.

Many players in the auto lending market have been attracted by the prospect of securitizing high-interest subprime auto loans to sell on Wall Street. Potential investors, however, should watch out. High return means high risk. The institution that originated the loans has no legal responsibility for the debt and no obligation to repay investors if the securities fail to perform or the underlying loans go into default.

Repossession Calendar

1 Payment Missed	2	3	4	5	6	7
	Payment May be Made Without Penalty					
8	9	10	11	12 Notice of Cure Sent	13	14
15 Notice Delivered	16	17	18	19	20	21
	Cure Period					
22	23	24	25	26	27	28
Cure Period						
29	30 Vehicle Repossessed	31				

Creditors must sell a repossessed vehicle within 90 days if 60% or more of the cash price or of the loan has been paid. If less than 60% has been paid, the creditor can propose, in writing, to keep the collateral, and the consumer can either object or consent. If the consumer objects, they can force the creditor to sell the vehicle.

After repossession, the creditor must send the consumer "reasonable notice" of the time and place of any public sale of the vehicle, or of a time after which the vehicle will be sold at a private auction. The sale must be conducted in a commercially reasonable manner (see **Commercially Reasonable Sale**, page 25). A low auction price may be an indicator, but not proof of, unreasonableness.

<u>You have the right to "redeem" your vehicle by paying the balance owed on your loan plus reasonable expenses incurred by the creditor at any point before the sale of the vehicle</u>.

Money received from the sale of a repossessed vehicle can be applied to pay reasonable costs of the repossession, including storage and preparation for sale, before the proceeds are applied to the consumer's debt. If the initial amount financed was $2,800 or less, the creditor cannot come after the consumer for any unpaid balance. <u>If</u> a sale brings more than the total cost of the debt plus expenses, the surplus must be returned to the consumer. Except when the initial loan was $2,800 or less, if the proceeds do not pay off the debt and expenses, the consumer is still responsible for the remaining balance.

Chapter VII

Selected Laws

There are a variety of laws designed to protect you from problems that can occur while purchasing a vehicle, and to provide guidance (and recourse) if things go wrong. Knowing the laws that are designed to help you, as a consumer, can make difficult situations easier to handle.

Federal Laws

- The **Automobile Information Disclosure Act** requires dealerships to post a Monroney Label (window sticker) with each new vehicle for sale listing the vehicle's MSRP, engine and transmission specifications, standard equipment and warranty details, optional equipment and pricing, as well as city and highway fuel economy ratings.

- The **Consumer Leasing Act** requires lessors to provide consumers with full disclosures of leasing cost information, including the amount due at lease signing or delivery, the monthly and total payment amounts, as well as information on purchase options, maintenance responsibilities and penalties or fees.

- The **Equal Credit Opportunity Act** prohibits creditors from discriminating against applicants on the basis of race, color, sex, marital status, national origin, receipt of income from a government benefit program, disability or religion.

- The **Fair Credit Reporting Act ("FCRA")** allows consumers to correct errors on their credit reports, and to acquire a credit report from each of the three major credit reporting agencies credit, for free, every 12 months.

- The **Truth in Lending Act ("TiLA")** requires lenders to fully disclose all the costs of the loan, including the APR (annual percentage rate), the total finance charge, the monthly payment amount, the term (length) of the loan, and whether or not the interest rate can change.

State Laws

- **Maine's Consumer Credit Code**, **Title 9-A**, contains a wide range of consumer protections. Several chapters have sections that affect lending and credit sale practices. Many of these laws are designed to give consumers protections and rights that federal laws do not offer. Title 9-A includes:

  - **Delinquency Charges**: A consumer cannot be charged more than 5% of the monthly principal and interest payment for being delinquent on a loan. A late fee may be assessed only after a payment is 15 days late. Title 9-A, §2-502.

- **Right to Prepay**: Maine consumers are allowed to prepay their loans, in part or in full, at any time. Title 9-A, §2-509.

- **Maine's Fair Debt Collection Practices Act** requires that all debt collectors and repossession companies attempting to collect from Maine residents be licensed with the State. This law also sets the rules of conduct for repossession companies and for the sale of repossessed collateral. Title 32, §11017 and §11031-11040.

- The **Maine Lemon Law** applies to any <u>new</u> car, motorcycle, van, truck or RV <u>purchased or leased in Maine from a dealer</u> for the length of the manufacturer's express warranty, 3 years from the date of delivery to the original registrant, or 18,000 miles of use — whichever comes first. Maine's Lemon Law only applies to problems which substantially impair the use, value or safety of a vehicle. It does not cover defects caused by owner negligence or resulting from accident, vandalism, unauthorized repairs or alterations, or defects that shake the buyer's confidence in the vehicle. Some program or leased vehicles are also covered by the Lemon Law. For more information on Maine's Lemon Law, contact the **Office of the Attorney General** at 207-626-8800 or toll free (in state) at 1-800-436-2131. Title 10, §1161-69.

- **Maine's "Spot Delivery Law," Title 10, §1194**, prohibits dealers of new or used vehicles from cancelling the sale of a vehicle unless the dealer disclosed to the buyer at the time of sale <u>and</u> the time of cancellation that if financing could not be obtained, the consumer could receive:

  - Reimbursement of the entire purchase price, including any pre-paid finance charges on the purchased or leased vehicle

  - Reimbursement of all charges pertinent to the contract, including, but not limited to, sales tax, license and registration fees and similar government charges

  - The vehicle traded in or, if the vehicle is not available, the trade-in value of the vehicle established in the contract

  <u>Title 10, §1194 does not apply to any sale canceled due to misrepresentations made by the buyer.</u>

Returns and Right of Rescission

In Maine, <u>there is no right of rescission on the purchase of a vehicle</u>. If you buy a vehicle, you can't simply change your mind and bring it back. Unless you have something in writing from the dealer indicating otherwise, when a dealer runs a program where you can "return the vehicle," it's <u>in exchange</u> for another vehicle in their inventory — not the ability to walk away from your current contract.

Glossary of Terms

Accrued Interest: Interest earned by a lender that has not been paid by the borrower.

Amortization: The liquidation of a debt by installment payments.

Annual Percentage Rate ("APR"): The total annual cost of credit expressed as a percentage rate. The APR includes non-interest charges and fees.

Balloon Payment: A large payment due at maturity on a non-amortizing loan.

Buy Here Pay Here: A type of financing in which credit is extended directly from a dealership to a consumer.

Captive Financing: Financing provided by a subsidiary of the company that manufactured a vehicle (*e.g.*, Ford Motor Credit, Chrysler Capital).

Cash Rebate: A rebate that is applied to the cost of the new car. Cash rebates range from a few hundred to several thousand dollars.

Collateral: Something pledged as security for repayment of a loan, to be forfeited in the event of a default.

Commercially Reasonable Sale: The sale of a repossessed vehicle is considered commercially reasonable if the disposition of the vehicle is made under normal circumstances in a recognized market, at the current market value at the time of sale (whether or not the current market value is the same as the amount owed by the borrower).

Compound Interest: Interest charged on both principal balance and previously accrued interest.

Credit Report: A detailed record of a consumer's credit history prepared by a consumer reporting agency. Credit reports are used by lenders as a means of determining a potential borrower's creditworthiness.

Credit Score: A statistically-derived representation of a consumer's creditworthiness, expressed as a number between 300 and 850.

Dealer Holdback: A percentage of MSRP or invoice price repaid to a dealer by a manufacturer after the sale of a vehicle. Generally 0-3% of MSRP.

Dealer Reserve: *See* ***Yield Spread Premium***

Dealers-Only Auction: A vehicle auction open only to licensed auto dealers. Dealers-only auctions are generally considered commercially reasonable. *See* ***Commercially Reasonable*** *Sale, pg. 25*.

Debt-to-Income Ratios: A fractional number used by lenders to gauge risk, calculated as monthly debts divided by monthly income. Lenders use two types of ratios: the front-end-ratio includes the total housing payment of principal, interest, taxes and insurance; the back-end-ratio includes all other debt including the total housing payment.

Deficiency Balance: The remaining balance owed to a lender if collateral securing a loan is sold for less than the outstanding balance of the loan.

Delinquency: Failure to make a payment on a debt obligation when due.

Destination Fee: A fee covering the cost of transporting a vehicle from the manufacturer to the dealership.

Documentation Fees: A fee covering the cost of processing paperwork related to a vehicle sale.

Down Payment: An amount or percentage of the sales price that a consumer must pay up font before financing the balance of the sales price. Down payments made by a borrower lower risk to the lender.

Equity: The difference between the amount property can be sold for and the claims held against it.

Excise Tax: In Maine, an annual tax levied for the right to operate a vehicle on public ways.

Extended Warranty Plans: An extended service contract covering the cost of repair services for a period after a vehicle's factory or dealer warranty expires.

Finance Charge: The cost of credit, including interest but not including charges incurred in a comparable cash transaction. In general, the maximum finance charge on auto transactions in Maine is 18%.

Grace Period: A period of time between the monthly due date of a loan payment and the date by which a late fee may be assessed. Maine law provides a grade period of 15 days before a creditor may charge a late fee.

Invoice Price: In theory, the price paid by an auto dealer to a manufacturer for a vehicle. The actual cost to a dealership is often lower than listed invoice price.

Late Fee: A fee imposed by lenders for late payments, calculated as a percentage of monthly principal and interest. *See* ***Grace Period***.

Loan Term: The period of time within which payments on a loan must be made.

Manufacturer's Suggested Retail Price (MSRP): The price an automobile manufacturer suggests a vehicle be sold for.

Monroney Label: A piece of paper that the manufacturer is required to have visible on the car (normally glued inside a window). This paper reflects pricing information, costs, serial numbers — allowing consumers to verify information dealerships may give them.

Negative Equity: When a borrower owes more money on a vehicle than the vehicle would be worth when sold.

"No Money Down" Financing: A financing plan that does not require a down payment.

Rate Markup: *See* ***Yield Spread Premium***.

Repossession: When a creditor takes possession of collateral from a buyer who is in default on a loan.

Right to Cure Notice: A notice, from a creditor to a borrower, notifying the borrower that they have missed a payment and informing them that the creditor may exercise their rights under the law, including repossession, unless payment is made by a specified date. Right to cure notices remain active for twelve months after the date they were sent.

Sales Tax: A tax on the sale of goods. In Maine, sales tax on a vehicle is currently equal to 5.5% of the vehicle's purchase price.

Sticker price: The amount a dealership lists as the selling price for a vehicle.

Temporary Vehicle Registration Plate: A temporary license plate valid for two weeks, until a consumer officially registers their vehicle and receives permanent license plates.

Title Fee: A fee paid when registering an automobile, to transfer ownership of the vehicle to a consumer.

Total of Payments: The total amount paid back on a loan, including interest and other charges.

Trade-In: A used vehicle accepted by a retailer as partial payment for another vehicle.

Tradeline: An entry on a credit report made by a creditor describing the details of a consumer's account, including status and activity.

Unfair Trade Practice: Any deception by a lender or automobile dealer involving the conditions of a contract, the circumstances of a loan or misrepresentation of the condition of a vehicle.

Wholesale Price: The price a dealer paid for a vehicle.

Yield Spread Premium: A bonus payment auto dealers receive from lending institutions or finance companies for selling customers loans with higher interest rates than the customer qualified for.

EQUIFAX Experian TransUnion

Annual Credit Report Request Form

You have the right to get a free copy of your credit file disclosure, commonly called a credit report, once every 12 months, from each of the nationwide consumer credit reporting companies, Equifax, Experian and TransUnion.

For instant access to your free credit report, visit www.annualcreditreport.com.

For more information on obtaining your free credit report, visit www.annualcreditreport.com or call 877-322-8228.

Use this form if you prefer to write to request your credit report from any, or all, of the nationwide consumer credit reporting companies. The following information is required to process your request. **Omission of any information may delay your request.**

Once complete, fold (do not staple or tape), place into a #10 envelope, affix required postage and mail to:
Annual Credit Report Request Service P.O. Box 105281 Atlanta, GA 30348-5281.

Please use a Black or Blue Pen and write your responses in PRINTED CAPITAL LETTERS without touching the sides of the boxes like the examples listed below:

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z 0 1 2 3 4 5 6 7 8 9

Social Security Number: ___ - __ - ____

Date of Birth: __ / __ / ____
Month Day Year

Fold Here Fold Here

First Name M.I.

Last Name JR, SR, III, etc.

Current Mailing Address:

House Number Street Name

Apartment Number / Private Mailbox For Puerto Rico Only: Print Urbanization Name

City State ZipCode

Previous Mailing Address (complete only if at current mailing address for less than two years):

House Number Street Name

Fold Here Fold Here

Apartment Number / Private Mailbox For Puerto Rico Only: Print Urbanization Name

City State ZipCode

Shade Circle Like This → ●

Not Like This →

I want a credit report from (shade each that you would like to receive):
- ◯ Equifax
- ◯ Experian
- ◯ TransUnion

◯ Shade here if, for security reasons, you want your credit report to include no more than the last four digits of your Social Security Number.

If additional information is needed to process your request, the consumer credit reporting company will contact you by mail.

Your request will be processed within 15 days of receipt and then mailed to you.

31238

PUBLICATIONS

Be sure to check out other free booklets from the
Bureau of Consumer Credit Protection:

- **Downeaster Common Sense Guide: Credit Reports and Credit Scores —** Learn the basics of credit, gain insight into how credit reporting and scoring work, and discover the impact your credit history has on your ability to borrow with this publication from the Bureau of Consumer Credit Protection.

- **Downeaster Common Sense Guide: Finding, Buying and Keeping Your Maine Home** — This guide is a resource for first time homebuyers, and provides an overview of the mortgage lending process, types of mortgage lenders and loans, and other related topics.

- **Downeaster Common Sense Guide to Student Loans** — A comprehensive guide for the prospective college student on the world of educational loans. This book covers loan types, the FAFSA process, how to apply for scholarships and grants, and the rights of a student debtor in the repayment/collection process.

- **Downeaster Guide to Elder Financial Protection —** The "how-to" guide for Maine seniors who are interested in stopping unwanted telemarketing calls, pre-approved credit offers, and junk mail. This guide has sections on how to stop identity theft and how to recognize and stop elder financial exploitation.

- **Downeaster Guide: Consumer Credit 101 —** This comprehensive booklet explains the "ins and outs" of : auto-buying and financing, credit cards, mortgage loans, buying land, debt collection rights, credit reports and credit histories, plus a partial listing of Maine and federal consumer credit laws and regulations.

These guides are free to Maine residents. Out-of-state orders are $6.00 each, or at a volume discount of $4.00/copy on orders of 50 or more (shipping included).

To order, call 1-800-332-8529 (in-state) or 1-207-624-8527 (outside of Maine).

Consumer Protection Resources

Maine Bureau of Consumer Credit Protection	1-800-332-8529 TTY Maine Relay 711
Maine Bureau of Insurance	1-800-300-5000 TTY Maine Relay 711
Maine Bureau of Financial Institutions	1-800-965-5235 TTY Maine Relay 711
Maine Office of Aging and Disability Services	1-800-262-2232 TTY Maine Relay 711
Maine Office of the Attorney General (Consumer Hotline)	1-800-436-2131 TTY 1-207-626-8865
Maine Office of Professional and Occupational Regulation	1-207-624-8603 TTY Maine Relay 711
Maine Office of Securities	1-877-624-8551 TTY Maine Relay 711
Maine Public Utilities Commission (Consumer Assistance Division)	1-800-452-4699 TTY 1-800-437-1220
Maine Real Estate Commission	1-207-624-8524 TTY Maine Relay 711
Consumer Financial Protection Bureau (CFPB) (Federal)	1-855-411-2372 TTY 1-202-435-9742
Federal Reserve Consumer Hotline	1-888-851-1920
Federal Trade Commission Consumer Response Center	1-877-382-4357
Federal Trade Commission ID Theft Hotline (after dialing, press "0" to reach a live operator)	1-877-438-4338
Internet Crime Complaint Center (IC³)	www.ic3.gov
National Credit Union Administration (NCUA)	1-800-755-1030
U.S. Postal Inspection Office (Ask for the Portland, Maine Field Office)	1-877-876-2455

Sustainable Payments

Use this table as a guide to help you decide, before shopping, how high a monthly automobile loan payment you can afford. The recommended maximum monthly payment is 12% of monthly gross household income, a percentage that takes into account additional household expenses such as rent or mortgage payments, utilities and insurance. Since everyone's household financial situation is unique, this chart is intended for use as a general guide only.

Annual Gross Household Income	Recommended Maximum Monthly Payments
$15,000	$150
$20,000	$200
$25,000	$250
$30,000	$300
$35,000	$350
$40,000	$400
$45,000	$450
$50,000	$500
$55,000	$550
$60,000	$600
$65,000	$650
$70,000	$700
$75,000	$750
$80,000	$800
$85,000	$850
$90,000	$900

Annual Gross Household Income	Recommended Maximum Monthly Payments
$95,000	$950
$100,000	$1,000
$110,000	$1,100
$120,000	$1,200
$130,000	$1,300
$140,000	$1,400
$150,000	$1,500
$160,000	$1,600
$170,000	$1,700
$180,000	$1,800
$190,000	$1,900
$200,000	$2,000
$225,000	$2,250
$250,000	$2,500
$275,000	$2,750
$300,000	$3,000

NOTES

This book is not intended to be a complete discussion of all statutes applicable to consumer credit. If you require further information, consider contacting our agency or an attorney for additional help.

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