



Auto Financing Glossary

AMOUNT FINANCED

The dollar amount of the credit that is provided to the buyer.

ANNUAL PERCENTAGE RATE (APR)

The cost of credit for one year expressed as a percentage, including the dealer finance income. The APR is also known as the “finance rate” or the “contract rate.”

AWARE

This group—Americans Well-informed on Automotive Retailing Economics—is a coalition of auto dealers and financial services companies involved with auto financing. It was formed to provide consumers with the information, tools and resources they need to make informed decisions when financing an automobile. The group’s mission is to ensure that this system remains available and affordable for the broadest possible spectrum of consumers.

BANK OR CREDIT UNION FINANCING (ALSO OFF-SITE FINANCING)

A buyer gets a loan from his or her bank, credit union or other financial institution to pay for a new or used auto.

CO-BUYER

An individual who assumes equal responsibility for the contract. The account history will be reflected on the co-buyer’s credit history as well as the buyer’s. For this reason, consumers should exercise caution if asked to be a co-buyer for someone else. Since many co-buyers are eventually asked to repay the obligation, people need to be sure that they can afford to do so before agreeing to be someone’s co-buyer.

CREDIT APPLICATION

When applying for credit, the form that a buyer submits to the dealership may require: name, Social Security number, date of birth, current and previous addresses and length of stay, current and previous employers and length of employment, occupation, sources of income, total gross monthly income, and financial information on existing credit accounts.

CREDIT INSURANCE

There are two common types of credit insurance. Credit life insurance is optional insurance that pays the scheduled unpaid balance if the buyer dies. Credit disability insurance (sometimes called credit accident and health insurance) pays the scheduled monthly payments if the buyer becomes disabled. As with most contract terms, the cost of optional credit insurance must be disclosed in writing, and if the buyer wants it, the buyer must agree to it and sign for it.



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CREDIT REPORT

A report containing information about the buyer's current and past credit obligations, payment record and data from public records (e.g. a bankruptcy filing obtained from court documents). For each account, the credit report shows the applicant's account number, type and terms of the account, credit limit, most recent balance and most recent payment. The comments section describes the current status of the applicant's account, including the creditor's summary of past-due information and any legal steps that may have been taken to collect.

DEALER FINANCING (ALSO ON-SITE FINANCING)

A consumer buys a new or used auto from a dealership and obtains financing from the dealership rather than directly from a bank, credit union or other financial institution. The consumer enters into a contract with the dealership agreeing to pay the amount financed, at an agreed-upon finance rate, over a specified period of time.

DEALER FINANCE INCOME

This is a portion of the finance charge that is paid to or retained by the dealer as compensation for the dealer's participation in providing financing to the buyer. All finance charges, of which the dealer compensation is a part, may be negotiated. Dealer finance income is sometimes referred to as dealer reserve.

DOWN PAYMENT

An amount paid at time of purchase that reduces the amount financed.

FINANCE CHARGE

The dollar amount that the credit will cost the buyer.

FIXED RATE FINANCING

An annual percentage rate that remains the same over the life of the financing contract.

GUARANTEED AUTO PROTECTION (GAP)

Optional protection that pays the difference between the amount the buyer owes on the auto and the amount the buyer receives from his insurance company if the auto is stolen or destroyed before the buyer has satisfied the credit obligation. In some cases, the buyer may be responsible for the insurance deductible.

LENGTH OF CONTRACT

The total number of months the borrower has to pay the amount financed.

MONTHLY PAYMENT AMOUNT

The dollar amount due each month agreed upon in the financing agreement.

NEGOTIATED PRICE OF AUTO

The purchase price of the auto agreed upon by the buyer and the dealer.

NUMBER OF PAYMENTS

The number of payments the buyer is required to make according to the financing agreement.

OFF-SITE FINANCING (ALSO BANK OR CREDIT UNION FINANCING)

A buyer gets a loan from his or her bank, credit union or other financial institution to pay for a new or used auto.

ON-SITE FINANCING (ALSO DEALER FINANCING)

A consumer buys a new or used auto from a dealership and obtains financing from the dealership rather than directly from a bank, credit union or other financial institution. The consumer enters into a contract with the dealership agreeing to pay the amount financed, at an agreed-upon finance rate, over a specified period of time.

VARIABLE RATE FINANCING

With a variable financing rate, the annual percentage range and the amount you pay may change over the life of the contract.

