

## Finance Fraud and Buying Cars.

Finance fraud is a type of dealership fraud. This pertains to the obtaining of credit, credit approval, credit terms or any other specific action pertaining to the financing aspects of the acquisition of either a new or used vehicle. This area is ripe for inappropriate conduct to occur.

### Bad Credit

It is not uncommon for an individual to tell you that you have "bad credit," which results in a higher interest rate. It is not uncommon that a portion of the interest rate ends up in the dealer's pocket as "reserve." The dealer is marking up the interest rate over the approved interest rate from the third party, usually the bank. However, a closer look at the transaction might reveal that you were approved at 17% by the bank and the dealership is adding three percentage points on top of the 17% as their own profit. The statement "you are approved" could potentially mislead you to think that that was the rate which the bank is charging. You need to ask very specific questions as to which rate the finance institution is charging and the amount of the "markup" by the dealership. If the dealership were to hypothetically tell you that you got the "best rate" available, this could potentially have the capacity to mislead you that this is the lowest interest rate that is available on this transaction. This would not be accurate since you in fact had the ability to negotiate the interest rate lower with the dealership, based on their own profit or markup. You have to be very careful because some courts have held that the dealer has no fiduciary duty in this regard.

### Credit Applications

It is imperative that the credit application not be signed in blank, wherein the dealership fills in additional information which is forwarded to the finance company. This is dangerous because ultimately the customer potentially could be responsible for a blank signed credit application where false information was ultimately inserted by a third party. This inappropriate or misleading or false information could result in a higher credit score or some negative impact pertaining to the transaction, so you must make sure that the information which is forwarded to the third party financing source is accurate, proper and truthful. Situations arise wherein the representatives completing the credit application, after it was signed in blank by the customer, had significant false information put in it, resulting in an approval where there would ordinarily not be an approval.

### Multiple Lenders

You must pay close attention to what the dealership is telling you as to how many banks they are going to submit your loan to in order to get it approved. The more banks the loan is submitted to, the more times your credit is pulled, the more damage is done to your credit report. Therefore, if the dealership will not tell you or tells you that they are only going to submit it to one or two lending institutions, you need to make sure that this is accurate and that this is all that is done. There is software used by the dealerships which can submit it to a specific amount of third party financing sources which can destroy your credit without ever having been approved. You need to make sure that you give the dealership specific instructions as to how many lending institutions they have the permission to submit it for financing.

### Conclusion

Ultimately, financing fraud is occasioned in circumstances in which the dealership had significant more knowledge than the consumer in processing the financing, loan application and final approval. The dealership has control of the knowledge, control of the information submitted to the third party lenders, and generally control of the entire situation. Extreme caution must be taken in the process of obtaining credit approval, obtaining a loan and having a

loan finalized for the acquisition of a motor vehicle. Another circumstance which occurs is called a "spot delivery" or a "yo-yo sale." Frequently the dealership will advise customers that they have been approved despite the customer having signed a conditional credit acceptance agreement which in essence says there is no approval despite verbal representations to the contrary. Weeks or months later, the dealership will then request the customer to sign additional paperwork or request the vehicle be returned when in fact the trade vehicle might have been sold and/or paid off. This frequently places the customer in a very awkward position pertaining to the ability to get to work and operate a vehicle.

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