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Falling auto values leave buyers trapped in loans

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Long-term loans and low down payments, coupled with falling auto values, are leaving some South Florida motorists "upside down" in their cars — owing more than their vehicles are worth.

Consumer advocates worry that this trend will become increasingly problematic over the next year, as cash-strapped consumers — desperate to dump their gas-guzzling SUVs, trucks and cars — discover they can't get good financing on their negative equity trade-ins.

The values on "clean, 1-year-old" vehicles have dropped in the past year — by between 9 percent and 38 percent, depending on the make and model — according to the National Automobile Dealers Association. Car industry statistics released last week show auto sales are at a 26-year low.

For years, some dealers have offered financing that rolls a customer's negative equity into a new car loan, which is legal. Or consumers with little to put down on a new car may opt for extended terms that today can stretch as long as seven years, to keep their payments low.

But advocates say many buyers don't understand that these transactions can lock them into a downward financial spiral that's tough to escape. And they question whether all dealers are disclosing the negative equity in these trades.

Such financing "means a car probably will die or need expensive repairs before it's paid off," said Rosemary Shahan, founder of the California-based Consumers for Auto Reliability and Safety. "People are sinking deeper into debt on a product that depreciates rapidly." About one-fourth of new auto sales this year left consumers upside down, according to Edmunds.com, an auto shopping service, with them owing an average of \$4,421 on their loans over their car's value. The percentage of negative equity sales has hovered around that mark since 2003, although the negative balance on those loans is about 25 percent higher.

CARS was one of several consumer groups in Washington, D.C., last week, as Congress discussed the auto industry bailout, promoting additional protections for auto buyers, including more transparent sales tactics and financing.

In the worse-case scenario, a buyer who uses his negative auto equity on a trade-in could find himself on the hook for two car payments.

That's what happened to Carlos Dominguez, a graphic designer who exchanged his Volkswagen Jetta, and \$4,000 in negative equity, for a \$30,000 new Mazda sports sedan at Mazda of Kendall. When the dealership went into bankruptcy several months later, Dominguez said the Volkswagen's lender was holding him responsible for the outstanding Jetta payments because the dealer never had paid off the car.

And when he went to buy a more affordable car this year, Dominguez realized he owed thousands more than the Mazda was worth as a result of a financing plan that included 96-month repayment terms. "I have a thing for cars, but the

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financing part is pretty scary and confusing," said Dominguez, who filed a lawsuit to settle the case involving both cars.

California auto buyers in Dominguez's situation can petition their state's Consumer Recovery Fund, created last year, for reimbursement if a dealership didn't pay off their loan. Florida does not have such a law.

Officials with the Florida Office of the Attorney General said dealers legally are required to disclose negative equity in loans. But Alex Kurkin, an attorney for the Florida Automobile Dealers Association, said exactly how that should happen is a "murky subject area." Kurkin said he drafted an explanation, based on his reading of Federal Trade Commission commentary, of disclosure requirements that was sent to the 825 new-car franchise dealers that are association members.

South Florida attorneys who represent consumers in auto cases say they aren't seeing many negative equity cases involving large franchise dealerships. "We're seeing more compliance because the word has gotten around," said Robert William Murphy, an attorney in Fort Lauderdale.

But Tim Blake, the Miami lawyer handling Dominguez's case, said he has been flooded with calls about smaller auto sales companies, including one that went out of business without paying off the loans on trade-ins belonging to at least five clients. "Dealers are cutting corners just to get deals done," Blake said.

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