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November 9, 2001

Zero Percent: The Fine Print Counts

By WILLIAM J. HOLSTEIN

BY promising to shave hundreds or thousands of dollars in interest over the span of a car loan, zero percent financing deals have made auto sales one of the economy's few bright spots since Sept. 11. Cars and trucks sold at an annual rate of 21.3 million in October, the industry's strongest month ever. But many of those buyers ended up with loans that charged interest, and some may have agreed to higher prices than they would have under other buyer-incentive plans.

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General Motors kicked off the free-financing bonanza in September, a move that was quickly matched by Ford Motor and DaimlerChrysler. Several other companies subsequently announced interest-free or reduced-rate financing, at least for a few models. Some deals have expired, but many have been extended through mid- or late November. Toyota said yesterday that it planned to stop offering free financing at the end of the month.

For consumers, the challenge is figuring out which models are covered, and whether the deals apply to leftover 2001 models, to new 2002 models, or to both.

And would-be buyers should heed the fine print, especially the stipulation that only "qualified buyers" are eligible for zero-percent deals. For instance, the little type at the bottom of Toyota's television ads says that only buyers with Tier 1 and Tier 2 credit ratings qualify for the best rate.

Even those who qualify — generally buyers with pristine credit — may find that the offers are restricted to loans of 12 to 36 months. In the fine print of G.M. advertisements, the key language is "length of contract limited." With short loans, the monthly payments may be more than a consumer can handle, which is why many buyers like to stretch payments over 48 or 60 months.

And if a buyer has a trade-in or wants to make a big down payment, it may be wiser to take a cash rebate and pay a slightly higher interest rate.

"Zero percent actually makes it more complicated" to buy a car, said Jeremy P. Anwyl, president of Edmunds.com, a Web site that provides information to car buyers. "Everybody is wheeling and dealing. It's a bizarre market."

While it would also seem to be a buyer's market, it is not yet clear whether customers are getting good prices as well as favorable financing. It will not be known for another month whether average selling prices have gone down or up — whether cars are actually selling for less or for more than would have been expected if the special financing deals had not been offered.

If a customer is mesmerized with a zero- percent offer, he or she may be willing to pay a higher price. "If the percentage of folks qualifying for zero is lower than the percentage qualifying for low rates in previous incentive plans, that would be outrageous," said Jack Gillis, author of a buyers guide, "The Ultimate Car Book."

While some lawyers and consumer advocates say the climate is right for abuses of consumers, there appear to have been few complaints to consumer advocates or state attorneys general.

Dealers say they are trying to move metal at competitive prices. "You have to remember that we're not the only Chevy dealer in our town," said Bob Serpentini, who owns five Chevrolet dealerships in the Cleveland area. "People still shop. You still have to be competitive in the marketplace." His dealerships sold 850 vehicles last month, compared with an average of 400 in previous Octobers.

It is not clear how many buyers are getting zero percent; some dealers say it is only a quarter of the people walking in the door, and neither G.M. nor Ford would disclose what percentage of their recent sales were financed interest-free.

Consumers have some tools to navigate the complexities of zero-percent financing. A first step may be to figure out your credit rating. You can contact credit agencies like Equifax and TRW, or you can fill out a self- ranking questionnaire online at Edmunds.com that can help you determine whether you rate as platinium, gold, silver or bronze, depending on your use of credit and your history of late payments.

Automakers' credit arms use slightly different terms and metholodogies — G.M.'s financing unit, the General Motors Acceptance Corporation, gives rankings of 1 through 5 to an individual's credit. But the concept is the same: there are tiers of creditworthiness that determine who gets the best deals. Manufacturers are loath to discuss credit policies, but some offer zero percent to the top two tiers; others like Mitsubishi restrict deals to only the top tier.

Cars.com offers another handy tool for shoppers. If you click the zero-percent icon on that Web site, up pops a list of which manufacturers are offering deals on which vehicles. The list is updated daily.

Then there is the challenge of pricing. Even before the sales frenzy of October, it was hard to pin down a fair price for a car. Mary Butler, senior editor at cars.com in Chicago, said consumers should start negotiating from the dealer's invoice — not from the suggested price on the window sticker — information that is readily available on her Web site, at Kelley Blue Book (www.kbb.com) and many others.

She urges buyers to keep a rational eye focused on the actual purchase price rather than being swept up in the emotion of zero percent. "You may be gaining in one area like financing, but losing by having your trade-in depreciated," she said. "Keep your eye on the ball, which is the final price when all is said and done."

For manufacturers, the big question is whether the burst of interest-free financing has permanently altered the marketplace. Gary Flom, president and chief executive of the Manhattan Auto Group, which sells various car lines owned by Ford, including Jaguar and Mazda, says he thinks the October frenzy "borrowed" some sales from September, when the market was ice cold, but not from future sales. "I do not think we have significantly changed the psychology of the shopper," he said.

Others are not so sure. Mr. Anwyl of Edmunds.com said there had been huge swings in sales numbers, on a daily basis, depending on whether the zero-percent deals were in place. "Without that sweetener in the marketplace, demand dries up," he said.

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