

FAMILY ECONOMIC SUCCESS

A DISCUSSION GUIDE

Pursuit of the Dream

Cars & Jobs in America



THE ANNIE E. CASEY FOUNDATION

The Annie E. Casey Foundation is a private charitable organization dedicated to helping build better futures for disadvantaged children in the United States. It was established in 1948 by Jim Casey, one of the founders of UPS, and his siblings, who named the Foundation in honor of their mother. The primary mission of the Foundation is to foster public policies, human-service reforms, and community supports that more effectively meet the needs of today's vulnerable children and families. In pursuit of this goal, the Foundation makes grants that help states, cities, and neighborhoods fashion more innovative, cost-effective responses to these needs.

The Casey Foundation believes that the children in greatest trouble in America today are those whose parents lack the earnings, assets, services, or social support systems required to consistently meet their families' needs. Most of these children are growing up in impoverished communities that are disconnected from the economic mainstream. The Foundation is working to help these isolated families secure adequate incomes, stabilize their finances, accumulate savings and assets, and live in vibrant, economically viable neighborhoods through a combination of strategies known as building family economic success, or FES. This documentary is an educational tool and part of Casey's FES approach to help families connect with the mainstream economy.

**For more information about the
Annie E. Casey Foundation or the
Family Economic Success initiative,
please visit: www.aecf.org**

Pursuit of the Dream

Cars & Jobs in America

About this Documentary

Pursuit of the Dream: Cars & Jobs in America, produced by the Annie E. Casey Foundation, explains the importance of affordable, reliable transportation for building the economic success of low-income families and their communities. In order to attain self-sufficiency, stabilize their finances, and move up the economic ladder, low-income workers must be able to connect to good jobs and meet family obligations. A car is often a necessity. However, common obstacles can make it difficult for low-wage workers to improve their lives through car ownership.

Using three real-life stories, the documentary illustrates ways in which common pitfalls prevent families from reaching better jobs, better opportunities, and a better quality of life.

■ **Jesus works at two jobs to support his wife and children.**

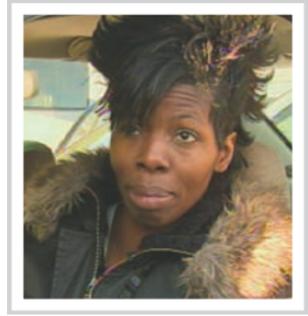
He attends school at night, trying to improve his work prospects.

Public bus transportation will not take him to all the locations he must reach. However, when he tries to buy a used vehicle, he faces exorbitant interest rates and large down payment requirements for cars with high mileage and questionable reliability.



■ **Tracy is a single mother who is working and also going to school to earn a degree in criminal justice.**

Years ago she had a bank loan for a car that continually broke down and required expensive repairs. Eventually the car was repossessed. Her next car was destroyed in an accident, leaving her with a loan to pay off and no transportation. Her credit was ruined and she struggled to find a way to get her life back on track.



■ **Cindy is a single mother of two sons who has overcome a history of substance abuse, domestic abuse and serious health problems.** Without a car, her job options were limited to places she could reach by walking or by bus. In one job she had to walk three miles home each night, in the dark, at 2 a.m. Cindy wanted to enter an apprenticeship program to attain a meaningful job with a promising future and health benefits, but she had no transportation to reach the training site. A community car program helped her to overcome this hurdle and her life was dramatically changed.

Following are some examples of common pitfalls low-wage workers often face when purchasing a car and recommendations on how to avoid them. This discussion guide also suggests ways to use this documentary in your community and includes resources for more information.

The *Pursuit of the Dream: Cars & Jobs in America* documentary is not intended to be a comprehensive overview of the car ownership problem in America but is a hands-on tool to help low-wage workers climb up the economic ladder through knowledgeable car purchase and ownership.



Tips to Avoid Them

Today, 88 percent of Americans drive their cars to work, with two-thirds of new jobs located in suburban areas away from public transportation systems. A car can be a critical factor in getting and keeping a job and moving up the career ladder toward financial independence.

Lack of access to a car creates serious difficulties for parents who juggle work, errands, and transporting children to school, child care, and other activities. Moreover, lower prices and a better selection of groceries, household items, and other services often are located in the suburbs.

Cars make commuting at night safer and decrease the vulnerability of families during emergencies. Cars also are important for building other assets: studies show that low-wage workers with cars are more likely to be homeowners than those without one, perhaps because car owners have a wider choice of locations for affordable, safe housing.

However, low-income people, who often have no bank accounts, poor credit ratings, or no history of obtaining loans, can be taken advantage of

when it come to purchasing a car. On average, low-wage workers pay more than other households to purchase and maintain a comparable car.

There are a number of car-buying pitfalls that low-wage workers may face:

Pitfall #1: **High-Interest Car Loans: “Buy Here/Pay Here” Lots**

At buy here/pay here car lots, it is the car dealer, not a finance company that extends credit to the buyer. As highlighted in the documentary, buy here/pay here lots often require high down payments and exorbitantly high interest rates for their loans. At the lot Jesus visited, they attempted to sell him a car with high mileage for a down payment that would have actually covered the entire cost of the car. This means that every payment made after the down payment would be clear profit for the dealer. On top of that, the loan had a 30 percent interest rate. If Jesus failed to meet the payments, the car would have been repossessed, allowing the dealer to resell it to another buyer, starting the cycle all over, and enabling the dealer to make his profit again on the same vehicle.

There are about eight to 16 million people with low and moderate incomes and poor credit who earn below \$40,000 a year who are subjected to the sub prime lending market. The Federal Reserve reports that those earning \$30,000 or less per year, such as Jesus, paid an annual interest rate that was 56.1 percent higher than people earning \$90,000 a year.

In addition, most buy here/pay here lots do not report payment history to the credit reporting agencies, which prevents consumers from strengthening their credit history through steady repayment of their car loan.



Tip #1: **Don't Get a Loan from a Buy Here/Pay Here Lot; Avoid Sub Prime (High-Interest) Loans; Build a Relationship with a Local Bank or Credit Union**

Low-wage workers often don't have checking or savings accounts or bank-issued credit cards due to fear or uncertainty about how banks or credit unions work. It is important for people to establish banking or credit union accounts to facilitate savings, help build credit, and provide a trusted and reliable resource to turn to when applying for a car loan.

As the banker said in the video, "I do think that there's fear and shame that gets in the way of people walking into a bank. I'd like people to know that bankers... we're not anybody different than anybody on the street. I'm a small-town kid with a self-employed dad who had an eighth grade education... most bankers want to connect with their community."



Pitfall #2: **Poor or No Credit History**

Low-wage workers often hit a stumbling block when trying to buy a car due to poor credit or no credit history. While there is a perception that low-income workers have poor credit, a significant number simply have no credit history.

Credit scores rate each individual's creditworthiness on a numerical scale from about 300 to about 850. The factors that influence a credit score include payment history, the amount of money owed, the length of



credit history, the types of credit, and the amount of new credit received. When individuals don't have credit cards or bank accounts or own their own home, it is difficult to obtain a loan due to their lack of credit history.

Tip #2: **Car Ownership Programs**

Buying a car from a traditional lot and getting a bank loan aren't always the only options. There are a number of programs, such as Vehicles for Change in Baltimore, MD, and Working Wheels in Seattle, WA, both highlighted in the documentary; and Ways to Work, with offices across the country, that help low-income workers achieve the goal of car ownership.

Given Tracy's credit history, she felt that car ownership was impossible. Once she heard about Vehicles for Change, however, she was able to purchase a reliable used car that carried certain guarantees and receive a low-interest loan to help rebuild her credit.

"This car right here probably would have been about \$2,000 or more if I had went to a car dealer. [Vehicles for Change] gave me the true value, the book value, of this car," Tracy said.

Pitfall #3: **Being Pressured into a Bad Deal**

Buying a car can be an intimidating experience for anyone, but especially for someone who has never done it before, has little credit history, or has language barriers. Used car lots are infamous for pushing buyers into a deal, even if they're not ready.

For people like Cindy, who have struggled with no credit, illness, and challenging life situations, a car can make the difference between creating a better life and being stuck in a bad situation.

As Cindy said in the documentary, “That car did it for me. The car was the final piece of the puzzle that I needed to complete my goals, which was getting into the apprenticeship and getting a better job and supporting my kids. I went to school, tried out for the Iron Workers and was accepted and...just went from there. But I couldn’t have done any of that without the car.”

Regardless of how desperately a car is needed, however, it’s vital to do research ahead of time and be well prepared before beginning the purchase process. Buyers should never impulse shop when it comes to buying a vehicle.

Tip #3: **Take Your Time: Research and Education**

It is important that low-wage workers take their time when buying a car and make sure that they can afford the payments and maintenance. Remember:

- Avoid buy here/pay here dealerships and stay away from dealer financing.
- Don’t purchase a car on the first visit to a car dealership.
- Understand “blue book” values (see Resources) and know what the car is worth.
- Negotiate on the purchase price of the car and nothing else. Do not take a car to be traded, as that complicates the deal and allows more room for dealer profit-building. Handle a trade separately, after the car purchase is finalized.
- Never negotiate on a “what you can afford to pay per month” basis.
- Insist on having the car inspected by a responsible and trustworthy mechanic before purchasing.

- Stay away from car lots that won't disclose the full purchase price and instead only talk about a monthly payment plan.
- Look into car programs that exist to help low-wage workers, such as Vehicles for Change, mentioned earlier, or Working Wheels, which helped Cindy to buy a car.
- Open a bank or credit union account.
- Know your credit score. If possible, work to repair your score before buying a car. (See Resources for information on credit scores, credit reports, credit repair.)

Most importantly, take your time when buying a car and stop the transaction if you feel pressured or confused.

Spread the Word

How to use this DVD

Pursuit of the Dream: Cars & Jobs in America is designed to be a helpful tool for a variety of audiences, including policymakers, community leaders, service providers, and low-wage workers. The DVD can be shown at a community event; at a local, state, or federal policymakers' forum; or at seminars and workshops. It also may be shown to low-wage workers at local car ownership or financial literacy programs. The goal of *Pursuit of the Dream: Cars & Jobs in America* is to contribute to the dialogue about car purchase and ownership issues.

Following the documentary screening, a group leader is encouraged to guide a discussion about the issues highlighted in the stories and provide handouts listing local resources and programs that offer car ownership assistance, low-interest loans, and practical help with financial and credit issues. Discussion questions and resources for materials that can be included in participant handouts are included at the end of this guide.

Audiences for This Documentary

Local, State and Federal Policymakers

Elected or appointed officials who represent low-wage workers and families—or have business owners in their district who employ low-income workers—should view the documentary to gain insight into the challenges their constituents face around transportation issues.

HOW THEY CAN HELP:

There are a number of legislative steps policymakers can take to support and improve transportation options, including:

- Improve the quality and frequency of service on heavily traveled inner-city bus and subway routes. This would better meet the needs of transit-dependent low-wage workers than increasing reverse-commute (commuting from city to suburb) options.
- Implement policies recognizing the cost of commuting, one of the only work-related expenses that receives no tax benefits in the U.S., as a tax on earned income and implement tax policy to alleviate those expenses.
- Encourage public investment in support for nonprofit car programs. Federal proposals for a pilot initiative like the Creating Access to Rides (CAR) Act are worthy of consideration, as is encouraging use of funding from the Job Access and Reverse Commute block grants for local car programs.
- Examine not only policy options that stimulate alternative markets for car buyers, but also those options that would reduce fraud, unfair practices, hidden excessive costs for the vehicle, and the high cost of credit for all car buyers. For example, some states and even municipalities have considered or implemented:

- **Caps on interest rates:** Some states have usury laws or other consumer finance laws that limit the interest rate that may be charged to finance used cars.
- **Caps on dealer markups:** In most low-income car purchase transactions, the dealer arranges the financing in addition to selling the car. Dealers typically contact prospective lenders and present the consumer's financial information. Lenders then will inform the dealer on what terms they will be willing to lend to that consumer. Often dealers will have consumers enter into financing arrangements at a higher interest rate than the consumer actually qualifies for. The dealer keeps most of the extra money that will be paid by the consumer due to the higher interest charges. Consequently the dealer has no inclination to find a low interest rate for the consumer, but rather an incentive to find financing that provides the dealer with the largest payment for putting the consumer in a more expensive loan. Some states have imposed limits on how much the interest rate may be increased above the rate for which the consumer actually qualifies.
- **Limitations on "AS IS" sales of used cars:** Low-income consumers need a reliable car for transportation. Unfortunately, consumers are often sold vehicles with known defects that are hidden from the purchaser. While most states have lemon laws that protect the purchaser of a new car, few states have effective used car warranty laws. In most states dealers will commonly sell used cars "AS IS" in order to disclaim the implied warranties that otherwise apply. Some states have used car lemon laws or limit disclaimer of warranties in used car transactions. Also some states require that used cars be inspected not just for safety, but also to make sure the vehicle is in adequate condition for high-way travel.

- **Yo-yo car sales:** “Yo-yo” car sales, commonly referred to by dealers as “conditional delivery” or “spot delivery,” have a devastating impact on low-income consumers. When a consumer drives away from a dealer’s lot in a newly purchased car, she typically believes herself to be the new owner and understands that the deal is done. Certainly if a problem or defect develops, the dealer will tell the consumer, “you bought it, it’s yours.” However, the sales documents often purport to make the transaction contingent on the dealer finding a lender willing to finance the sale. All too often the unsuspecting consumer will be called back into the dealer’s office and told that no lender could be found on the terms the dealer gave to the consumer. Often the dealer is simply bringing the customer back to get an even higher interest rate or add more profitable items to the sale. In such circumstances the consumer often believes there is no choice but to accept the new terms presented by the dealer. While such practices may violate state unfair and deceptive practices laws or federal laws such as the Truth in Lending Act, sometimes dealers structure these transactions to deprive consumers of any recourse. Possible policy solutions range from clarifying the moment the sale is consummated, allowing both the buyer and the seller equal time to rescind the contract, or prohibiting the dealer’s acceptance of any trade-in or down payment until financing is finalized.
- **Pricing requirements and limits for extra products and fees:** Many attempts to make the car market fairer have focused on informing consumers about the interest rate they are agreeing to pay and the price of the car. Facing such limitations, dealers may look to other charges that are extremely profitable and often pass unnoticed by the consumer. Products and services such as window etching, rustproofing, or undercoating are often added to purchase contracts and go unnoticed by the buyer. Dealers have also increasingly relied on “document preparation” fees

and other charges. Consumers often mistakenly believe that these fees are some sort of government-imposed charges related to title transfer or other regulated charges. In reality these fees and charges are almost pure profit for the dealer and have increased dramatically in recent years. Policy options for limiting such abuses include absolute limits on the prices of such fees and products, or requiring that such fees and products be negotiated and paid for separate from the sale and financing of the car itself.

- **Repossession issues:** If a consumer is unable to make a payment on time or comply with other financing requirements, the car will typically be repossessed without any court supervision, and unless the consumer can pay everything due under the loan, the car will be resold. Often the consumer will not only lose the vehicle, but also be responsible for the rest of the loan balance and often excessive costs and fees, less what the car is sold for after repossession. Such repossessed cars are often sold far below their market value, leaving the consumer liable for a large debt and unable to purchase another car. In some states the consumer has a right to pay the missed payment, also known as a “right to cure,” and avoid repossession. Some states also permit the consumer to pay the missed payments even after repossession, often known as a “right to reinstate.” Another policy option is to require that a procedure be followed before a vehicle may be repossessed to ensure that the consumer is treated fairly and that the lender really has a right to take possession of the car.

The National Consumer Law Center, with support from the Casey Foundation, is developing a policy guide for advocates interested in pursuing policy improvements. The guide will be available in the fall of 2008 on the National Consumer Law Center’s website: www.nclc.org/

Community Leaders and Service Providers

People who work with or advise low-wage workers and families in community-based agencies or institutions, such as social service agencies, faith-based institutions, nonprofit organizations, and financial institutions, as well as teachers, counselors, community development practitioners, and others should make viewing and sharing this video a priority.

HOW THEY CAN HELP:

Community leaders can play an important role in improving access to affordable, reliable transportation options to strengthen the economy and family well-being in a number of ways, including:

- Connect with the 150+ nonprofits around the country that are dedicated to increasing affordable, reliable, private automobile ownership for low-wage workers. Explore how your organization and community can support these initiatives.
- Know what nonprofit car provider organizations exist in your community, help to spread the word, and support the expansion of their work. While insurance companies and car dealers charge high rates to low-wage workers, nonprofit car providers are leading the way in changing the marketplace to reduce the impact of unfair business practices. These providers also help families improve their credit ratings and develop banking relationships.
- Pursue action steps to improve community and public transportation, including increasing options for bus service in dense urban areas where there are still many residents and jobs.
- Know what credit unions exist in your region and how they can help low-income workers (see Resources).

Low-Wage Workers and Their Employers

It is crucial for low-wage workers—and helpful for their employers—to know the options that exist when buying a car.

HOW THEY CAN HELP:

Employers and others can help educate their employees by using this DVD in a number of ways, including:

- Show the documentary to incoming employees as part of their orientation or during special training sessions.
- Host a community forum and invite low-wage workers throughout the community to watch the video and discuss it afterward.
- Have the documentary shown at a workforce development center's worker meetings or make it available for viewing in a waiting area.

DISCUSSION QUESTIONS

1. Were you aware of these car purchase or car ownership issues before viewing the video?
2. What type of car financing is currently available and prevalent in your community?
3. What programs are available in your area to assist people with car purchase and financing?
4. What educational programs (both for general financial matters and car purchases) are available in your community?
5. What economic problems do buy here/pay here lots create in your community?
6. Do you understand what credit scores are and their impact on car buying?
7. What do you consider to be a "reasonable" interest rate?
8. What economic and/or community issues could arise as a result of low-wage workers not having access to reliable transportation?



9. Which local policies or potential legislation for your community could address these issues?
10. Who are the stakeholders for improving transportation in your community?
11. What are possible next steps to take in your community?

RESOURCES

1. OPPORTUNITY CARS

Opportunity Cars is a network of more than 150 nonprofit organizations, such as Vehicles for Change, Working Wheels, and Ways to Work, that are dedicated to increasing private automobile ownership for low-wage working families to support their ability to find and retain quality employment. Cars' programs promote economic well-being and job security by distributing cars directly to families, making low-interest loans for car purchases, and facilitating matched savings for car down payments and purchases.

Their website provides a list of vehicle ownership assistance programs and car donation programs that offer full tax deductions. In addition, it offers a search function by city, zip code, and state to identify local initiatives across the country.

www.opportunitycars.com

2. AMERICANS FOR FAIRNESS IN LENDING

Americans for Fairness in Lending (AFFIL) raises awareness of abusive credit and lending practices, especially in vehicle financing, and publishes many resources on its website, including guides to loan types and car financing guides.

www.affil.org/consumer_rsc/car_finance.php

3. CREDIT UNION LOCATOR

This important website helps consumers locate a credit union near them and includes information about programs and membership requirements.

www.creditunion.coop/cu_locator/quickfind.html

4. NATIONAL CREDIT UNION FOUNDATION (NCUF)

The NCUF operates a program called REAL Solutions (Relevant, Effective, Asset-building, Loyalty-producing Solutions) which provides technical assistance to help state credit union leagues better serve low-income working families. NCUF is identifying best practices and models in

affordable auto lending and integrating these models into the REAL Solutions program.

www.ncuf.coop/home/programs/realsolutions/realsolutions.aspx

5. INCLUSION

The Mobility Agenda at the *Inclusion* website provides a clearinghouse of transportation policy briefs, news articles, and other resources.

www.inclusionist.org/transportation

6. CONSUMER REPORTS GUIDE TO BUYING A CAR

www.consumerreports.org/cro/cars/pricing/index.htm

The following list of websites, which comes from Consumer Reports, provides helpful information about purchasing pre-owned vehicles, securing loans and loan rates, and purchasing car insurance.

- **Guide to Certified Pre-Owned Vehicles:**

www.consumerreports.org/cro/cars/buyingleasing/consumer-reports-certified-preowned-vehicles-1205/index.htm

- **Keys to Getting the Best Loan Rate:**

www.consumerreports.org/cro/cars/guide-to-new-car-buying/financing/keys-to-the-best-loan-rate/index.htm

- **All about Car Insurance:**

www.consumerreports.org/cro/cars/suvs/car-insurance-a-quick-guide-405/overview/index.htm

7. PUBLIC CITIZEN

Public Citizen is a national, nonprofit consumer advocacy organization founded in 1971 to represent consumer interests in Congress, the executive branch and the courts.

www.citizen.org

Public Citizen has published a variety of reports on car ownership, including:

- *Rip Off Nation: Auto Dealers' Swindling of America:*
A comprehensive report for consumers on purchasing a car
www.citizen.org/documents/Rip-Off_report_only.pdf
- *Auto Purchasers' Top Five Defenses Against Yo-yo Financing Cons and Other Dealer Scams:* Consumer tips for car purchases
www.citizen.org/documents/Consumer%20Tips%20on%20Auto%20Purchases.pdf

8. GUIDES TO CAR PRICES AND VALUES

Kelley Blue Book www.kbb.com

Edmunds.com www.edmunds.com

9. INFORMATION ABOUT CREDIT SCORES, CREDIT REPORTS, CREDIT REPAIR

Consumer Federation of America

www.consumerfed.org/pdfs/yourcreditscore.pdf

National Consumer Law Center

www.nclc.org/issues/seniors_initiative/content/creditrepair.pdf

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