

## Activity 6: Beware of Dealer-Lender Relationships

### Instructions

- Read the scenario carefully.
- Write down some things that Sam could have done differently.
- Be prepared to explain your answers.

### Scenario

Sam assumed the dealer would give him the best deal and did not shop around for a car loan. After all, he was able to negotiate the best price at this dealership – \$6,000 for a used pickup truck. The dealer told Sam that if he put up \$1,000 as a down payment, he could get a car loan for 16 percent. Sam accepted the agreement without researching other possibilities.

This is what happened:

- The car dealer had called several lenders in the area for Sam. Lender A told the dealer that Sam qualified for a \$5,000 car loan for as low as 10 percent.
- However, Lender A had an agreement with the dealer stating that for any rate over 10 percent, the lender and the dealer would split the profit. This gives the dealer an incentive to work with Lender A and to charge Sam a high interest rate.
- The difference between a 16 percent loan and 10 percent loan is \$921. That means Sam paid \$921 more than he had to. The dealer and Lender A split the \$921.

What could Sam have done differently?

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