

## HOW TO BUY A CAR WITH BAD CREDIT

Your credit score is not the only way to prove your credit worthiness. It does do a good job of indicating what type of credit customer you might be; however, today the credit system is being used to exploit people and unfairly exclude people from society. It's also a tool of some species of extortion which has yet to be made into a criminal statute. In any case, there are certain steps you want to consider when buying a car with a low credit score, or no credit.

A co-signer is an option of course, but what will happen is that the lender will underwrite the loan only under the co-signer's credit and title the car in his name, and you won't get the credit. I'm writing this article with the objective of showing you how to buy a car without a co-signer when your credit score is low or you don't have one.

If you've never had credit before, don't start with buying a car. Get a credit card first, even if it's secured or for only \$100, or rent an apartment, and be sure that the creditor reports to at least one or two of the credit bureaus. After a few months, you will have a low credit score.

Some of you have a low score because of non-payments, defaults, judgments, liens and other derogatory items. As abusive as this system is, I still believe it's an effective way to "apply the brakes" to someone's undisciplined use of credit. Chances are that you have a low score because you took on too much debt and you probably don't know how to use money. This may not be true for someone who is the victim of identity theft, but generally speaking, you have to look in the mirror first.

First, it's easier to buy a used car on credit than a new one, so this is the time to be very practical and buy a car that suits your needs, and is not simply to try and impress your friends. Second, it's easier to buy a used car on credit with a 50% down payment than a 10% down payment, so try and factor something close to this into your plan. Third, it's easier to buy a car when you can prove that you have regular income (a job, pension or annuity income for example). The longer you've had the job, the better.

If you have these things, then you need to make a record of your income starting with your pay-stubs or W-2, deposits in a checking and savings account, and a record of saving a portion of that money along with a record of paying your other bills on time. I would go as far as to have a bookkeeper take these records and create a personal balance sheet and income statement summarizing the cash flow on one page. This demonstrates intelligence and discipline. You can show your accounting summary to the dealer and if he asks, you can prove anything on that statement with your records. Aim for a short-term loan, such as 18 months, maybe 36, I prefer no more than a year however.

### **Make Car Payments to Yourself**

The moment you decide to buy a car, start setting aside some of your cash flow for that purpose. If you are going to buy the car on credit, decide what your monthly budget will be for car payments, insurance, fuel and maintenance. Begin setting aside this much money each month, or a portion of it. Let's say you want a car where the total monthly costs are \$1,000, but you can only afford \$500 right now. That just means you'll have to set aside the \$500 for twice the number of months that you will have the debt to pay and you're not going to do it under any contract, it's just your own discipline.

Let's also be reasonable, for most of us, you won't want to look for an \$80,000 brand name, new luxury car. You will want a "pre-owned" car (with a certifiable maintenance, repair

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and damage history, may include “car fax” report for example along with a mechanic’s certification) that is a quality brand, not just any car. You will still pay more for a quality brand, but it will last longer and have less maintenance costs and chances are that the previous owner took care of it and followed the maintenance schedule. It’s well known in Europe that the best cars include, BMW, Honda, Mercedes, Audi and Toyota with 250,000 miles on them. There are other brands and I’m not saying these in order to promote them. I’m only speaking from personal experience.

I bought my mother-in-law a car so she could have some autonomy while she’s in the states. It was a 2005 Toyota Corolla that I bought in 2009 for about \$7,500. Eight years later, she’s still driving it every day and has had virtually no major problems with it. I didn’t buy on credit however, but this might also be true for you, if you set aside enough money quickly enough. I’m not saying that your solution to bad credit is to pay cash for everything, but sometimes it does make sense. Why buy a car for \$25,000 when I can get the same deal for \$7,500? However, if you want to buy a car for \$25,000, make your plan and do it.

### **Non-profit Lenders**

As an alternative, look for a nonprofit lender that offers personal loans. Capital Good Fund, for instance, offers car loans from \$8,000 to \$20,000 for residents of Florida and Rhode Island only for the purchase or refinance of a new or used car; while this organization finances vehicles sold through most dealers, it also encourages borrowers to work with dealers like Hertz, Enterprise Car Sales, or others that have high levels of customer satisfaction. In addition, it offers loans up to \$2,000 for a variety of purposes, including the purchase or repair of a vehicle or paying off high-interest debt, to residents of Florida, Rhode Island, and Delaware. It’s an example of a United States Treasury certified Community Development Financial Institution, or CDFI. Look up the nearest CDFI in your area to see if it can help you.

There is a program that helps both low and moderate income individuals solve their transportation issues by providing them with low interest rate auto loans. Ways to Work is a non-profit organization that can help solve employment or job training transportation needs. The agency provides small dollar amount, low interest rate, short-term loans to working families that need a car or that need a repair done.

Individuals of all backgrounds and circumstances can apply. The program may even be able to assist those applicants that have either no or poor credit histories, or someone with a job that is looking to re-enter the workforce. Funds from Way to Work can also be used to pay for a number of transportation expenses, including car insurance, the purchase of a new or used automobile, or repairs.

The typical loan amount provided is around \$4,000, but the exact amounts will vary. It provides an alternative to families so that they do not need to use so called predatory lenders, payday companies, or other high interest rate options. The Ways to Work program and organization is funded by the federal and state governments, as well as private foundations.

### **Auto Loan Brokers**

An auto loan broker can be the key to getting the best rates and terms on a car loan. They are generally independent businesses that have developed relationships with a wide

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variety of lenders. These relationships give the broker an advantage in negotiating that most buyers would never have.

A car loan broker has information on interest rates and qualification guidelines from multiple banks and car loan lenders. With this information, the broker has the tools to shop for the best rates and terms for your loan. Typically, car dealerships have an employee, commonly known as the financing and insurance (F&I) manager who does work that is similar to a loan broker.

Buyers with good or excellent credit often never consult with auto loan brokers as their bank is typically willing to give them a great deal without any haggling. However, those with bad credit find that an auto loan broker may be just what they need. Many lenders will try to take advantage of those with damaged credit due to a bankruptcy or a few late payments by offering exceptionally high interest rates on car loans. You never have to accept unfair terms, just continue shopping and loan brokers can certainly help improve your odds of finding a really good deal.

### Peer to Peer Lending

This is not a new concept. For many years people who didn't have the cash to buy a car relied on friends and family for a short term loan to buy a car. This was before the banking system monopolized this practice, turned it in a multi-billion dollar industry and exploited everyone.

Thanks to cryptographic currency and the Internet, people are now facilitated in lending and borrowing while escaping the evil clutches of the banking system. This new version of lending is known as "peer-to-peer" lending. Please are using hard cash instead of creating money out of nothing and then pretending you were lent something.

I want to first mention that there are some of the old style banking dinosaurs that have slithered their way into the new "peer-to-peer" (P2P) lending business with the cryptos; however, you should know that they are the same animal as before. These are not peers of borrowers as they are the same financial institutions that gave rise to cryptos and the need to escape them. You may see some of them, such as Lending Club and Prosper. These are not peers of people, they are sophisticated broker-dealers, so just be aware of who you are dealing with and the terms of the contract. If the loan contract looks like it was written by 75 attorneys over the last 100 years, run away, far and fast. Look for a true peer.

A true peer-to-peer loan would be someone who put in some cash through an escrow type service for the purpose of lending you hard cash in exchange for holding your car title as collateral until it's paid. The loan will be short term, 18 months, but it could be 60. You will probably be required to make a large down payment, such as 20% - 50%. The lender could be a "guy" or several people, or it could be a group of people that simply pooled their money into a secure system of lending for people like yourself.

The general idea of a peer-to-peer loan is to match an individual lender with an individual borrower. P2P lending sites are where borrowers go to find a lender. The application process is actually pretty simple. Visit the site and fill out the online application. If you qualify, then you will be shown a list of potential lenders along with the terms and interest rates for taking out a loan. If you like what you see, then you finalize the loan and get your money. It's not always that simple as you could imagine.

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Much of the same rules apply. If you default on the loan, your car can and will be repossessed. The lender will probably require that you deliver the car title to hold until the loan is repaid. I'm sure you can find some that won't do this, but I'll be your interest rates would be unreasonable. And the facilitator of these lenders in finding borrowers will be able to report items to your credit file. It only requires an annual subscription to a credit reporting agency to do this, a few hundred dollars a year. This of course is not the solution for buying a car on bad credit, it just gives you more options if your credit isn't perfect and you lack the ability to find a deal on your own.

### **Lenders Want You to Buy Assets**

This may sound like a long term project, but it's really the best practice when buying a liability such as a car. I've spoken with prospective clients before and asked if they had any assets and quickly discovered that they believed their homes and cars were assets. It is true that cars and homes are assets but they are not the owners' assets. These are the assets of lenders, auto-repair shops, contractors, and insurance companies. Make no mistake that a car is a big fat liability. Once you know that a lender is more likely to lend to a borrower who is buying an asset, why don't you consider buying an asset for a balance sheet, and then use that at a later date to buy a liability, such as a car. You may have to read this last sentence several times, go ahead, I'll wait.

People don't normally talk this way, especially people who aren't rich. The way people get rich is that they do not use their employment income and personal credit to buy liabilities, they know that this practice keeps you poor. They use a business to acquire assets and credit and tax breaks, and then use that business to buy liabilities. Boy, that sounds like a lot of work just to buy a car right? Well, maybe you're at a age where it's time to adopt better habits. It is very possible to establish a new cash flow from a business or even from a property right within a period of about 18 to 60 months.

Here are two examples. Research online a popular topic. Write a 60 page book about it with your research, have it edited for about \$150 and published through a turn-key self publisher on Amazon. You could even have it on the shelves at Barnes n Noble within 6 months. If it has a snappy title and catches one, you could make a few thousand dollars, or maybe a few thousand dollars a months for a few years, maybe more. If it's really successful, you could franchise it and create a series, such as the books series "for Dummies".

Once you create your cash flow, you can then produce a balance sheet and income statement separately from your personal credit score and use that to obtain financing for many things. You could get financing to expand your balance sheet with a new idea or buy a personal liability, or a liability for the business that you can use personally.

My daughter is looking at buying her first car and she will need to find her own cash flow, not necessarily a job. She will probably be using Bitcoin and its rate of appreciation against the dollar to give herself a head-start, and she will certainly be using the principles I've explained here. I could easily lend her the money, but she needs to gain the learning experience from doing it herself.

Judging the current status of the used car industry, prices are on a downward spiral as the dealers are flooded with too much inventory and most people don't know how to use credit to buy, so they are excluded simply because they lack knowledge. This will help those who understand and those who follow the principles I've explained here. At the same time,

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we know that many of the quality cryptographic currencies are increasing in value against the dollar, especially Bitcoin. It makes sense to save some of your cash into Bitcoin while you're waiting for that day when you can buy a car on credit with 50% down for example.

Another example of assets you can easily buy while building your balance sheet are tax lien certificates. Sometimes people cannot pay their property taxes, for example, in your state. Your state taxation department may sell the resulting tax lien for a discount at auction, giving the buyer the cash flow and right to foreclose unless it's paid with guaranteed interest and penalties. About half of the states sell tax lien certificates and half sell tax deeds. You can buy these one by one, or entire portfolios at a time. You should understand what's required in managing this type of asset, but it's something you can easily do with a little effort, maybe a few hours a week. You can buy a tax lien certificate for \$50 or \$1,500 that might be worth three times what you paid. You list that as an asset on your balance sheet along with payments you may have received as income from the asset, and abracadabra, you have something to show creditors. This asset is scalable, unlike income from a job, you can only work 168 hours in a week, assuming that would even be legal, it's not likely. But owning assets such as guaranteed cash flows from real estate tax liens and deeds is how people get rich, but it's how you can get what you want from credit without being victimized by a score.

One more point, when you buy assets to offset the cost of a liability, once the liability is paid, or at least the debt service is paid, and you have asset income paying for the costs of having the liability, you still have the assets, even after you sell the liability.

You will still want to improve your credit score, especially to get better insurance rates; unless of course, you have your own risk pool and understand how to organize a company to carry your own car insurance (technically, it's "financial responsibility" in this case and not "insurance").

### **Have Confidence**

Avoid taking just any deal on a car simply because you believe that your low credit score makes you "less worthy". Get into a sales contract that makes sense and is close to your plan. If you are not able to get the deal that is close to your plan, and you've reached the end of what you can negotiate, continue shopping. Don't be eager to buy a car.