

Dealer Finance Departments May Be Losing Ground According to New Study: Many New Car Buyers Plan to Obtain Financing Prior to Dealer Visit

Kelley Blue Book Study of In-Market Car Buyers Reveals Consumer Views on Vehicle Financing Options

Today's in-market car buyer is increasingly turning toward the Internet to research everything from actual vehicle transaction prices to insurance. Financing and funding a new vehicle purchase is no exception. According to Kelley Blue Book's latest "New Vehicle Buyer Attitude Study" on vehicle finance options, seven out of 10 new car shoppers plan to research financing online and 54 percent plan to obtain financing prior to visiting the dealer while only 46 percent of respondents indicate that they intend to finance their purchase at the dealership, showing that car buyers are increasingly aware of alternate financing methods. The popularity of researching and funding loans outside of the dealership, often at discounted rates, could be a telltale sign for the F&I (Financing and Insurance) departments at local dealerships.

The top reason consumers plan to obtain financing prior to purchasing is because they feel they can secure a lower interest rate than at the dealer (43%). Interestingly enough, consumers who plan to finance through the dealership also say they plan to do so because they feel they can secure a lower interest rate (52%).

"Most consumers do not qualify for the zero percent or low rate financing offers today and are left searching for the best interest rate and it's not always at the dealership," said Charlie Vogelheim, Executive Editor, Kelley Blue Book. "With increased competition and awareness of alternate financing options, on and offline, manufacturers may need to get creative to keep car buyers financing at the dealerships."

Snapshot of an In-Market Car Buyer

- * More likely to seek financing outside the dealership
- * Prefer a longer loan with smaller payments
- * Will most likely use cash as a down payment
- * Will, on average, finance 85 percent of the vehicle's cost

According to the study, 33 percent of all new vehicle buyers plan to obtain a loan before purchase through a local branch of their bank or credit union, but online financing appears to be playing a larger role in today's vehicle purchase process. In 2002, Jupiter Research reported that online financing represented only 1 percent of the vehicle financing market. However that trend may be shifting as consumers are researching alternative online options. The Kelley Blue Book study shows that 13 percent of total car buyers anticipate financing their next loan online (8 percent via bank or credit union Web sites and 5 percent via online financing companies).

"The results from the Kelley Blue Book survey confirm a consumer trend we are seeing in the marketplace," said Brian Reed, Internet Director for Capital One Auto Finance, the nation's largest direct-to-consumer vehicle lender. "Consumers who do their research before going to the dealership are empowered to negotiate the best interest rate possible."

A key reason for choosing to obtain financing prior to purchasing a vehicle is for greater control in the negotiation process (36 percent). This contrasts with those

planning to finance at the dealership who indicate convenience (33 percent) as a reason for doing so.

"The Internet empowers you to do the research yourself, so you can make an educated decision without having to rely on someone else to feed you information," said Joey Wright of Houston, who recently financed a new Toyota Highlander through Capital One Auto Finance online. "It gives the consumer a way to take control of the car-buying process."

Additional Statistics from the "New Vehicle Buyer Attitude Study" on Finance:

Of those planning to obtain financing prior to purchasing a vehicle:

- * 61 percent still plan to finance offline at their local bank or credit union
- * 24 percent plan to finance their next vehicle online
 - * 15 percent on their bank or credit union Web site
 - * 9 percent with an online financing company
 - * 15 percent some other way

Women are more likely than men to:

- * Research financing options online
- * Be drawn to dealership financing due to the easy process/convenience
- * Prefer a longer loan with lower payments
- * Plan to source their down payment from a trade-in only

Younger consumers are more likely to:

- * Research financing options online
- * Find having control in negotiations to be important
- * Prefer a longer loan with lower payments
- * Use both cash and a trade-in as a down payment, but plan to put down a lower total percentage

For the complete results of the Finance Study or more information on future KBB New Vehicle Buyer Attitude Studies please contact Robyn Eckard at 949-770-7704 x8349. All study results may be used for public and/or private use with clear attribution to Kelley Blue Book®. As long as clear attribution is present, no further permission is required for use.

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SOURCE: Kelley Blue Book

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