

was in 1958 before the banks got actively into the business of car loans. However, in a more recent case, last summer, a Toronto man paid upwards of 32 per cent in interest charges on a five-year-old Mercury Sedan from Arby Motors Ltd. financed through Danforth Discount.

Such charges are often made on the basis of a man's credit rating; in the latter case the purchaser had borrowed the down payment from a finance company and so he had no real equity in his automobile. In both instances, it's significant that the purchasers couldn't keep up their payments and the cars were repossessed.

THE SALESMAN GETS A CUT:

An even odder case, which I'd scarcely believe if I hadn't seen the contracts and payment books, involves a man who bought a two-year-old station wagon from Del Bodkin Motors in New Toronto. He made a substantial down payment and the contract shows his interest rate was only 14.4 per cent per annum. However, the Delta Acceptance payment book showed that monthly payments were four dollars a month higher than the contract showed. This brought his true rate of interest to 18.8 per cent per annum. He couldn't handle these payments and so traded down to a cheaper car. On this his rate of interest was 29.1 per cent.

In the automobile field the scales seem to be tipped against the man who wants to pay cash, just as they are tipped against the man who wants to pay off his loan at an earlier date than set.

Recently a customer who had bought a new car at a true interest rate of 16.8 per cent through General Motors Acceptance Corporation, decided to pay it all in the fifth month. The extra finance charges brought the cost of his loan to 25.3 per cent per annum. That's because there are certain fixed charges on these loans that can't be returned.

It's well known in the auto industry that some of the profit of cars comes as a result of cutbacks from acceptance companies. Part of this cutback is passed along to the car salesman on the floor which means that every man has a vested interest in talking his customers out of paying cash.

I have a copy of standard salesman's agreement put out by Hogan Pontiac, which uses General Motors Acceptance Corporation. This agreement shows that every salesman gets a bonus for every

car he finances through GMAC. On new cars this bonus starts at \$10 per contract. If he sells more than 15 contracts he gets \$15 for every car he finances—and that payment is retroactive. No wonder salesmen find it attractive to boost the easy payment plan. (Some used car dealers, who charge about 30 per cent interest make their profits almost entirely from financing. They're really in the loan business.)

QUOTING THE DISCOUNT RATE:

Here's a rundown of Operative 67's recent experience in trying to find out the true interest rate on a loan of \$1,500 from six auto firms selected at random.

Ensign Motors, Queensway: Salesman said rate depended on customer's credit rating and amount put down. If down payment was 25 per cent, loan was at six per cent; otherwise at nine per cent. He insisted rate was only charged on a reducing balance. An actuarial check on actual payment showed the "six per cent" loan ran at 13.4 per cent for 24 months and 12.3 per cent for 12 months; the "nine per cent" loan at 18.7 and 18.3 per cent respectively.

Plaza Chev. Eglinton: "I wouldn't care to work it out," said the salesman, "but it comes to 8 or 9 per cent." We worked it out: It came to 17.7 per cent over 30 months.

Renault, Canada Ltd., Golden Mile: They claim the interest is 9 per cent. It came to 18.8 for 30 months; 19.2 for 36.

Volkswagen, Canada Ltd., Golden Mile: They claim the interest on a new car for two years is 6 per cent. Payments worked out to 13.3 for 2 years, 14.1 for 30 months and 14.5 per cent on 36 months. They claim the interest rate on a used car is 7 per cent. It worked out to 16.5 on two years; 17.2 on 30 months. The interest here rises depending on the length of a loan, thus, from a sales point of view the longer term loans are the most attractive.

York Mills Pontiac, Yonge St.: The salesman said the interest would be exactly 11.14 per cent financed through GMAC. Actuarially the real rate works out to 22 per cent on 24 months and 22.8 per cent on 30 months.

Grant Brown Motors, Weston: Salesman said the interest rate would be 6.8 per cent (also financed through GMAC!) On the payment schedule he gave it worked out to 16.8 per cent over 30 months.