



Auto loans are financial products used to purchase vehicles, with the vehicle as collateral. Borrowers repay the loan, plus interest, through monthly installments. The Maryland Office of Financial Regulation oversees auto loan lenders to ensure they comply with the State's consumer protection and lending laws. Federal laws, like the [Truth in Lending Act](#) and the [Equal Credit Opportunity Act](#), also apply.

### Auto Loan Considerations and Consumer Protections

- **Licensing:** Before signing a loan or financing agreement, check the lender's status on the [Nationwide Multistate Licensing System](#) to ensure they're licensed and in good standing. Dealerships offering loans must be licensed. Banks and credit unions do not need to be licensed.
- **Conditional Financing:** If you take a vehicle home before financing is approved, both parties must sign a notice and you must receive a copy. If financing is not approved within four days, you must return the vehicle and you are not obligated to sign a new agreement. The dealer must return any down payments or trade-ins.
- **Add-ons:** You are not required to purchase extended warranties or other add-ons as a condition of financing.
- **Credit Checks:** Dealerships may shop your loan to multiple lenders. Multiple credit checks within a short period should only count as one inquiry on your credit report.
- **Trade-Ins:** You're not required to trade in your vehicle; selling privately may be an option.
- **Repossession:** Occurs when a borrower defaults on a loan. [Learn more about Auto Repossessions.](#)
- **Consumer Protections:** State and federal laws ensure fair and transparent financial transactions and prohibit discrimination. The lender must clearly disclose the loan terms and costs.

### Interest Rates and Fees

- Maryland law has limits on interest rates. The limit is typically 24%, but this depends on the type of loan you received and the amount you are borrowing. In addition, the lender cannot charge late fees in excess of Maryland law.
- If you have questions about either the interest rate or late fees, please review your contract with an attorney before purchasing the vehicle.
- **Origination Fees:** Some lenders charge fees for the cost of processing the loan.
- **No Prepayment Penalties:** Maryland prohibits fees for paying off loans early.

### Loan Qualification Criteria

- **Credit Score:** Impacts interest rates and terms.
- **Proof of stable income and employment:** May be required.

## AUTO LOANS (CONT.)

- **Debt-to-Income Ratio:** Helps determine loan eligibility.
- **Larger down payments:** Can lead to better terms.

### Types of Auto Loans

- **New Car Loans:** For purchasing a new vehicle.
- **Used Car Loans:** For pre-owned or certified used vehicles.
- **Refinance Loans:** Replacing an existing loan to secure better terms or a lower interest rate.
- **Lease Buyout Loans:** For purchasing a leased vehicle at the end of the lease term.

### Loan Components and Definitions

- **Principal:** The original amount of money borrowed.
- **Interest Rate:** Cost of borrowing, expressed as a percentage.
- **Annual Percentage Rate (APR):** Includes interest and fees, providing a complete picture of the loan's cost.
- **Loan Term:** Repayment period, typically 36 to 72 months.
- **Down Payment:** An upfront payment that reduces the loan amount.

### Consumer Tips for Auto Loans

- **Dealership Financing:** Compare rates from banks or credit unions before agreeing to dealership financing.  
You may receive better loan terms by bringing pre-approvals from other lenders to the deal.
- **Shop Around:** Compare offers from multiple lenders.
- **Negotiate:** Don't accept the first offer; negotiate rates and terms.
- **Understand Terms:** Read all disclosures before signing.
- **Pay Extra When Possible:** Additional payments can reduce interest costs and shorten the loan term.  
Confirm with your lender that extra payments are applied to the principal.
- **Budget Carefully:** Consider total ownership costs, including insurance, maintenance, and fuel.

## Questions & Concerns

If you believe an auto loan lender has violated Maryland law, file a complaint with our Office by visiting [www.labor.maryland.gov/finance/consumers](http://www.labor.maryland.gov/finance/consumers).  
Call 410-230-6077 or email [CSU.Complaints@maryland.gov](mailto:CSU.Complaints@maryland.gov) for assistance.

