**Auto repo: how to avoid a losing situation**

**By Steven Lang, Chicago Tribune,** [**http://www.chicagotribune.com/classified/automotive/sc-cons-0226-autocover-repossession-20150220-story.html**](http://www.chicagotribune.com/classified/automotive/sc-cons-0226-autocover-repossession-20150220-story.html)

**Auto repos on the rise, but they all have one thing in common: They all lose money.**

**Avoid the spectre of auto repossession by denying long-term loans and staying in contact when you're behind.**

**Don't fear the repo man: staying in touch and avoiding long-term loans lessen the risk of losing a vehicle.**

**When a deal goes south in the car business and a vehicle is repossessed, there is no winning, just degrees of losing.**

**It starts with your mobility and credit rating, but it quickly snowballs from there to everyone else who has done business with you.**

**As a remarketing rep for Capital One Auto Finance I was responsible for liquidating these rolling cadavers of modern transportation after they went unpaid for months on end.**

**Now as a dealer who finances cars for a living, I see far more repossessions than I did a year ago. The same is true nationwide for subprime buyers, who have registered an astounding 70.2 percent increase in the repossession rate in the second quarter of 2014 versus 2013, according to Experian. As car sales increase, so do repo rates.**

**Every repo has one thing in common: They all lose money.**

**Banks lose thousands of dollars on every vehicle that gets repossessed. Most banks and finance companies net only about 30 percent on a financed dollar when they sell a repo at a wholesale auto auction.**

**That 2011 Ford Focus you bought for $18,000? Three years later, it's worth only about $8000, if that. The bank also has to pay off a lot of middlemen: The repo company that took the car; the storage fees at the impound yard; and the company that transported the vehicle from the impound yard to the wholesale auction.**

**These three steps cost about $600 to $800, and that's before the bank has a chance to touch your now defunct daily transpo.**

**Once the vehicle arrives, they need to have it cleaned up for the auction block. Old mail. Old fast-food containers. Old soiled diapers. It's amazing what some people leave in their cars and what it costs to get all those substances and smells out.**

**The car then has to become "front-line ready." Repairs are often done so that the car can be sold at auction under a "green light," which means the car has a "ride and drive" guarantee for the engine and transmission. Not having one means the repo sells "as is," also known as a "red light," which translates into a final bid that is thousands less than a "green light" car.**

**All these costs average an extra $500 to $600. And there's more.**

**There is a "sell fee" at the auction. There also are administrative costs that come with sending the title work and state-mandated paperwork. And, finally, paying an inspector to fly to the auction to check the vehicle before it sells.**

**The whole thing stinks for everyone. Repossessions are big money losers. The bank has to spend money to lose money and you're left with nothing in the end.**

**So how do you avoid a repo?**

**First, by becoming the easiest person to deal with over the phone.**

**If you have a problem paying, call before the payment is overdue. The word "before" can't be emphasized enough. A lender wants to know about issues beforehand from someone who has the intention of making things right.**

**People who contact their lender early on about a payment issue get more time than those who intentionally avoid contact. The creditor makes a lot more money when you make good on your loan. Banks are in the business of lending money, not selling cars.**

**Second, give a reasonable promise to pay. Let them know when you are going to be able to make a payment, even if it's two weeks or two months later. Many will waive late fees if they get advance notice.**

**I'm a small-time operator, and I tell folks, "I'll accept everything, even chickens and tomatoes." I've had cars detailed, vehicles transported, and, yes, I have been paid in chickens and tomatoes, although there were plenty of squash, green beans and zucchini thrown in there too.**

**Finally, don't take out long-term loans and always read the contract. Your job won't be there forever, and seven-year loans have become the financial meth of the car business. Most long-term jobs last slightly less than four and a half years, according to the Bureau of Labor Statistics. If you must finance a car, make it no more than a five-year loan and buy one that is well within your means.**

**Lenders want their customers to become full owners instead of debtors. When a note is paid on time and eventually paid off, that payment record makes it easier for a bank or finance company to access new funds for auto loans. A low default rate also helps them get a better selling price for that note on the asset-backed securities market, which in turn, allows them to offer car dealers like me more money whenever we sell a car to a customer.**

**Avoid the debt trap of car ownership and learn to be a keeper. Nine times out of 10, the best car you can invest in is the one you already own.**

**Copyright © 2015,**[**Chicago Tribune**](http://www.chicagotribune.com/)