

Auto Loan Considerations

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If you find yourself shopping around for an auto loan there is much to consider before you ever sign the dotted line. The first thing to consider is if you want to pay a down payment on the vehicle. Many lenders today don't require a down payment but it is still a good idea to pay as much as possible, initially. The more you pay for a down payment, the lower your payments may be on the loan. If you have a used vehicle you can trade-in, the money you get for the trade-in can be added into the down payment. Don't expect to make a lot of money on your trade-in unless your car is in absolutely perfect condition. Any cosmetic flaws or mechanical work needing to be done on your old vehicle can significantly lower its potential trade-in value.

The next thing to consider is what your interest rate will be on the loan. If your credit is good you may qualify for a loan within the 4-8 percent range. If you have subprime credit the interest rate on your loan could jump higher than 20 percent. The percentage rate you pay on the loan will play an important factor in how much your monthly loan payment will be.

You also have to consider how long you would like the loan term to last. Many auto loans are usually available with anywhere from 3-6 year terms. The shorter the loan term, the larger the monthly payments will be. On the flip side, the total price you pay for the loan will be cheaper than a loan with a longer term. You'll pay less in interest on a loan with a shorter term.

Never take out an auto loan with a term that's longer than the amount of time you plan to keep the vehicle. Otherwise, you'll end up throwing away money on a vehicle you no longer own. Also, if possible, try to get a vehicle with a warranty that runs throughout at least most of the term of the loan. You don't want to get stuck paying for costly repairs at the same time you're paying off your auto loan.

The most important thing to consider before taking out an auto loan, is how much you can afford to pay for the loan on a monthly basis. Kelly Blue Book and Capital One suggest no more than 15-20 percent of your monthly budget should go toward your vehicle. If you'll end up spending more than that, even with a longer loan term, you should consider looking for a cheaper automobile.

By considering the many factors that influence the true costs of an auto loan you may save money in the long run and improve your credit rating. If you do your homework before signing the dotted line, you'll find a loan that is right for you.