

# Let's Talk Finances

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## Auto Loans: How to Get a Good Deal



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Many young people look forward to getting their own car but overlook what they may need to do to comfortably afford it, especially if they'll be borrowing money. Here are strategies to consider before you take that trip to the dealership.

- **Start saving early.** “The more money you put down, the less you have to borrow – and that means the less money you'll pay in interest on a loan, if you need to borrow at all,” said Phyllis Pratt, an FDIC Community Affairs Specialist.
- **Decide how much you can afford to spend each month on a car.** In addition to car payments, consider how much you'll need for insurance, taxes, registration fees, routine maintenance and unexpected repairs. Online calculators can help you figure out what you can afford.
- **Remember that there are alternatives to buying a car.** Lease payments may sometimes appear lower than loan payments, but at the end of the lease you will not own the car and you may have to pay more money for excess mileage or body repairs. If you need a car only once in a while, consider using a service that rents cars for periods as short as an hour.
- **Shop for a loan at your bank as well as several other lenders.** Compare the offers based on the Annual Percentage Rate (APR) you're quoted by each lender. The APR reflects the total cost of the loan, including interest and certain fees, as a yearly rate. Then consider getting “pre-qualified” by the lender offering the best deal. That's not the same as a loan approval, but it will expedite the process once you find a car you like.

Before you start shopping for a loan, review your credit report. Correcting wrong information ahead of time can help you qualify for a lower interest rate. In addition, a dealer's special financing (such as zero-percent interest) may not be the best value if it means foregoing an extra discount on the car. In that situation, you may come out ahead if you borrow from a financial institution, even at a higher interest rate, and save on the purchase price. Also, don't purchase a more expensive car than you feel you can comfortably afford, even if you qualify for a larger loan.

- **Whether you are buying or leasing, negotiate with the dealer based on the total cost of the car, not the monthly payment.** Why? “By extending the length of the loan, a dealer can offer a more expensive vehicle with the same monthly loan payment you were quoted for a less expensive car, but you will pay more in interest costs,” said Luke W. Reynolds, Acting Associate Director of the FDIC's Division of Depositor and Consumer Protection.