



Action Plan:

HOW TO SHOP FOR A CAR LOAN

People tend to spend a lot of time shopping around for a car, and very little time shopping for a car loan. Keep yourself in the driver's seat when you walk into that showroom. Know how much car you can afford and shop for the best rates and terms available to you before the negotiations begin.

Some car dealers might offer you last-minute loans that sound attractive, but if you've done your homework, you'll be better prepared to compare rates and fees. Shopping for loans isn't hard, but it does take some time. This Action Plan will help steer you in the right direction.

- 1 Improve your credit score.** Before you start shopping for a car loan, take some steps to improve your credit score so you can qualify for better interest rates. Get copies of your credit report and fix any errors, pay all of your bills by the due dates, and keep your credit-card balances to less than 25 percent of your credit limits for at least a month before you apply for a car loan.
- 2 Build up a down payment.** Many lenders are looking for at least at 10 percent down payment if you are buying a new car and a 20 percent down payment for a used car. If you can afford a larger down payment, you might qualify for a lower-interest loan and will have to pay interest on a smaller amount. Start building your savings several months before you plan to buy a car.
- 3 Calculate how much car you can afford.** Car dealers tend to make cars look more affordable than they are by focusing primarily on the monthly payments—often spreading the loan out over five or six years. That will cost you a lot more money in interest over time. Instead, calculate how much car you can afford before you go to the dealer. Look at the total cost over the life of the loan, the monthly payments over three or four years and other expenses such as sales taxes, registration fees and insurance. Decide whether you'd like to limit your search to new cars or used cars.

DIFFICULTY:

MODERATE

WHAT YOU'LL NEED:

- A copy of your credit report
- Details about several car loans

- 4 Ask your bank or credit union about their car loans.** You might be able to get a good deal on a car loan from a financial institution where you already do business. Ask your bank or credit union about the rates and terms they could offer you. If you don't qualify for their best rates, ask what you need to do to get there.

Find out whether the interest rates are fixed over the life of the loan—or variable with potential high payments through time. Also get a list of loan fees. Ask if a bigger down payment would lower your interest rate and whether there is a penalty for paying the loan off early. Use the worksheet below to keep track of the information you get.

- 5 Ask the local car dealers about their loans.** On your first call or visit the lot, ask only about financing. You want to separate this step from the actual car purchase. Salespeople will do whatever they can to keep you at their desk. Avoid this tactic to wear you down by letting them know up front that you are not prepared to buy today. Ask about all elements of the sale. Some dealers might offer you a lower interest rate loan, but then reduce your trade-in value or boost the price of the car you're buying.

- 6 Ask about special incentive packages.** These packages might include rebates or low-interest offers. Be sure to get all the details and a disclosure form that lists fees and penalties. Make sure that you are not required to add on any extra charges to the car sale to qualify for the lower rate, such as buying rust proofing or an extended warranty that you might not need.

- 7 Choose the length of the loan carefully.** Consider how long you plan to keep the car. A longer-term loan will have lower monthly payments, but you'll pay more in interest over the life of the loan. If you take out a very long loan and make a low down payment, you could owe the lender more than the car is worth. Do not get a long-term loan just because it has lower monthly payments. Compare the overall costs.

- 8 Get preapproved.** After you pick a lender, get preapproved so you'll know what kind of loan you qualify for before you choose the car. This will help you shop for a car you can afford. It will also make shopping easier by narrowing down your choices.

Identity theft is always a possibility. See our [Protect Yourself from Identity Theft Action Plan](#) to learn how you can avoid being a victim.

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