Choosing the Right Vehicle Loan

Choosing the right vehicle loan is about more than finding the best interest rate or the lowest payment. There are many considerations: How long should it be? Where should you purchase the loan? Can you do anything to improve your chances of getting a good interest rate? These are all reasonable questions that can be answered.

We spoke to Joseph Montanaro, Certified Financial Planner at USAA to get his best tips on choosing vehicle loans.

1.) Stick to a loan term that’s five years or less.

While Montanaro says the average auto loan length is 66 months, it’s best to choose car loans with a maximum term of five years, he says. “Too often when people are looking to buy cars they get caught up in the monthly payment game,” he notes, but small monthly payments can equal paying off vehicles for a long time. Instead, he suggests looking for a payment that’s no more than 10 to 15 percent of your monthly income with a five-year or shorter loan term.

2.) Read loan contracts fully.

The last thing you want is to pay an extra charge for paying off your loan early. According to Montanaro this is just one of the items that can appear in the fine print. Read the full contract before signing anything.

3.) Research loan terms before arriving at the dealership.

“Getting financing in advance can take one negotiating piece off the table [at the dealership],” says Montanaro. “You can see if you can get a competitive interest rate, and you don’t have to be at the mercy of the dealer.” You should always call your bank or credit union before visiting a dealership to ask about interest rates offered and loan terms.

4.) Know your credit and do a spring credit cleaning.

One of the main factors affecting interest rates is credit history. Check your credit in advance. Make sure there aren’t any blemishes that you can’t clean up or correct that can cause you to pay a higher interest rate,” he says. Use annualcreditreport.com to view your credit report free of charge.
5.) Consider GAP coverage with an auto loan.

Sometimes people end up with a loan that is more than what the car is worth, “and if the car gets totaled the insurance company will only pay the fair market value of the car,” he says. For example, “the lender might give you $18,000 for the loan, but the car is only worth $15,000. And, if by chance you drive off the lot and you get into an accident that totals the car, insurance will only pay $15,000, so you are sitting on $3000 that you have to come up with to pay back the loan. GAP insurance makes sure that this doesn’t happen,” he suggests.

There are many auto loans out there that can be a right fit for you. The process may seem a tedious, but finding a loan you can afford makes driving your dream a lot more fun because it’s not accompanied by a financial headache.

Article from iGrad.