

Brought to You by Your Credit Union



See What
0%
Financing
Really Costs

Shopping for a new car? If you're in the market and have decided to purchase rather than lease, you'll find several financing options. There's the credit union, of course, and these days, more and more dealers are offering 0% financing, low-rate loans, or cash-back rebates.

While it's nice to have choices, they can be downright confusing. And expensive. In the final analysis, you may be better off with conventional auto financing from your credit union. Here's why:

The hidden costs

Regardless of which financing option you're eyeing, a rebate vs. a low-rate auto loan, know the hidden costs in dealer financing options.

- Dealers' 0% financing, low-rate loans, and rebates almost always are available only on slower-selling models. These cars often have lower resale values.
- Dealers' 0% financing or low-rate loans can have bigger prepayment penalties and can require bigger down payments.
- Dealer financing plans usually are limited to dealer stock. That means you may have to sacrifice color, style, and/or options you want. Unwanted options can add 25% to 30% to the sticker price of your car.

How to use the tables:

Find where the credit union rate and dealer rate intersect; multiply that number by the thousands you're financing (i.e., 12.9 for \$12,900). If the answer is less than the rebate, the credit union loan—using the rebate to increase your down payment—is the better choice.

0% offers

If you are one of the few eligible for a 0% financing offer and decide to accept, you could save money. However, fewer than 10 out of 100 people who want to take advantage of this offer get 0% rates, according to a *Consumer Task Force for Automotive Issues* survey. Why? Because they didn't qualify for a 0% rate, according to the auto manufacturer.

"Qualification" is up to the auto manufacturer, who relies on a consumer's credit rating. Only consumers with "pristine" credit qualify. The definition of pristine credit varies among manufacturers and most are not willing to disclose that definition. What happens to all those not qualifying for the 0%? They get "moved up" to a higher rate.

Be sure to read the fine print in 0% offers

These offers usually are restricted to short-term loans such as 12 months or 36 months. With such short-term loans, the monthly payments may be more than you can handle. Payments could be \$800 or \$900 a month—out of reach for most buyers.

Not all car models qualify for the 0% offer, and the offer may be restricted to cars in stock—no special ordering the features, or perhaps color, you want.

You are unlikely to be able to negotiate the price of a vehicle and could end up paying more for a vehicle in order to get 0% financing. You also are less likely to get a good price on a trade-in—the dealer has to make up the money somewhere.

There may be a prerequisite for a larger down payment, such as 10% down.

Credit unions believe that consumers aren't being told all the costs involved with 0% financing deals and other auto financing offers. That's why credit unions are suggesting that the Federal Reserve Board require a disclosure stating that consumers who accept a low interest rate may be paying more for the car. A revision to the Truth in Lending Act could help consumers compare the true costs of loans by requiring that the finance charge and annual percentage rate reflect rebates offered to buyers, as well as compensation given to creditors who offer low-rate financing.

Low-rate offers

Again, the low rates that most dealers advertise are for short-term loans—so short that most people can't afford the monthly payment. For example, one dealer offers 1.9% financing, but

that's only available on two-year loans. A new \$20,000 car with a \$2,000 down payment (10% down) will require financing \$18,000. This translates into an astounding \$765 monthly payment.

The same dealer offers other options, which become less attractive as the loan term lengthens. The dealer's three-year loan has a 4.9% rate, while its four-year loan has a 5.9% rate, and its five-year loan has a 6.9% rate. Financing \$18,000 on your \$20,000 car at the dealer's 5.9% rate for four

		When a Rebate is Better Than a Two-Year Dealer Loan									
		Dealer rate									
		0%	1%	2%	3%	4%	5%	6%	7%	8%	
Credit union rate	5.0%	\$50	\$40	\$30	\$20	\$10	*	*	*	*	
	5.5	55	45	35	25	15	\$5	*	*	*	
	6.0	60	50	40	30	20	10	*	*	*	
	6.5	65	55	45	35	25	15	\$5	*	*	
	7.0	69	60	50	40	30	20	10	*	*	
	7.5	74	64	55	45	35	25	15	\$5	*	
	8.0	79	69	59	50	40	30	20	10	*	
	8.5	83	74	64	54	45	35	25	15	\$5	
	9.0	88	78	69	59	50	40	30	20	10	
	9.5	93	83	74	64	54	45	35	25	15	
	10.0%	\$97	\$88	\$78	\$69	\$59	\$49	\$40	\$30	\$20	

* Credit union loan is a better deal regardless of any dealer discount

		When a Rebate is Better Than a Three-Year Dealer Loan									
		Dealer rate									
		0%	1%	2%	3%	4%	5%	6%	7%	8%	
Credit union rate	5.0%	\$73	\$59	\$44	\$30	\$15	*	*	*	*	
	5.5	80	66	51	37	22	\$8	*	*	*	
	6.0	87	73	59	44	30	15	*	*	*	
	6.5	94	80	66	51	37	22	\$7	*	*	
	7.0	100	86	72	58	44	29	15	*	*	
	7.5	107	93	79	65	51	37	22	\$7	*	
	8.0	114	100	86	72	58	44	29	15	*	
	8.5	120	106	93	79	65	51	36	22	\$7	
	9.0	127	113	99	86	72	58	43	29	15	
	9.5	133	119	106	92	78	64	50	36	22	
	10.0%	\$139	\$126	\$112	\$99	\$85	\$71	\$57	\$43	\$29	

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years results in a monthly payment of \$422—a more realistic outlay for many budgets. But you likely can do even better at your credit union, by using the next option.

Rebates

If you choose the dealer's rebate plan, you forego the low-interest-rate loan, but get a \$1,500 or \$2,000 cash rebate. Adding the rebate to your down payment can make credit union financing very attractive—because the larger down payment reduces the amount you need to finance.

So which alternative is best—taking the dealer's low-rate loan or the credit union's loan with the dealer's cash-back offer? To find out, refer to the tables. They show the minimum cash back (expressed in dollars per thousand you finance) you

need to match or improve on the dealer's offer.

Look at the four-year loan table to see how it works: Assume you can get a credit union loan for 8.5%. The table shows that with a dealer rate of 5.9% (rounded to 6% in the example) a dealer discount of \$47 per thousand financed equalizes the financing options.

In other words, if you are going to finance \$18,000, a dealer rebate (or discount you negotiate) of more than \$846 (47 x 18) makes the credit union loan the best option.

The dealer's \$1,500 rebate is much more than the \$846 break-even rebate, so the credit union loan would be your clear choice.

Refinancing

Perhaps you purchased a vehicle when interest rates were higher. Or you took advantage of the recent 0% financing deals and now your financial situation has changed—you've lost a secondary job, had work hours reduced, and so on. The bottom line is, you no longer can afford that hefty car payment.

If you bought a \$20,000 car at 0% dealer financing, with a loan term of two-years, your monthly payment would be about \$833—out of reach for most buyers. If you refinanced at your credit union, for example, at a rate of 7.5%, and lengthened the loan term to four years, your monthly payment would drop almost in half to about \$443. Of course you'll pay interest for the length of the loan.

Or you may have a loan at a higher interest rate. If you financed a car in the past year or two, it's worth taking a look at refi-

ancing. Even by pushing the interest rate on your auto loan down a percentage point or two, the money you save by refinancing adds up.

Say you purchased a \$20,000 vehicle last year, financing it at 10% on a five-year term, and your monthly payment is about \$425. If you refinance that vehicle at the credit union, say at 7.5% on a four-year term, your monthly payment would be about \$405. You'd save \$20 a month and about \$950—a substantial savings—over the life of the loan.

No matter what your situation is, when you have questions about the best vehicle financing, talk to the people at your credit union.

When a Rebate is Better Than a Four-Year Dealer Loan

	Dealer rate									
	0%	1%	2%	3%	4%	5%	6%	7%	8%	
Credit union rate	5.0%	\$95	\$77	\$60	\$39	\$20	*	*	*	*
	5.5	104	86	67	48	29	\$10	*	*	*
	6.0	113	95	76	58	39	19	*	*	*
	6.5	122	104	85	67	48	29	\$10	*	*
	7.0	130	112	94	76	57	38	19	*	*
	7.5	138	121	103	85	66	48	29	\$10	*
	8.0	147	129	111	93	75	57	38	19	*
	8.5	155	137	120	102	84	66	47	29	\$10
	9.0	163	146	128	111	93	75	56	38	19
	9.5	171	154	136	119	101	83	65	47	28
	10.0%	\$179	\$162	\$145	\$127	\$110	\$92	\$74	\$56	\$37

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