

Problems in Used Car Financing

Financing properly is more important in financing a used car than when buying a new car. Most problems that occur in buying a used car are due to there being a problem connected with the financing. Getting the used car financing worked out properly is the key to a successful used car purchase.

Most buyers aren't aware of how important the paper work is to making the deal a successful one or a failure. They view it as paperwork that should be completed as quickly as possible so they can drive away in their new car.

To start with, it's very important to get the deal agreed upon by the salesman to be put in writing in the contract. This often involves determining monthly auto loan payments based on an interest rate. Sometimes, the interest rate a customer qualifies for is inflated so the dealership can make extra profit.

This headache can easily be avoided by obtaining independent vehicle financing before going to the dealership. This means the consumer can proceed as a "cash buyer" and negotiate only the price of the car. Car salesmen prefer customers to be "monthly payment" buyers because, in this way, it is easier to obscure the total cost of the vehicle.

Independent car financing can be obtained from a bank, credit union or on-line lender. With the popularity of the internet, applying for used car refinance is proving to be simple and very easy to do. Many on line lenders respond very quickly - sometimes as short as 15 minutes by email or telephone. If the application is approved, the borrower is given a credit limit at an established interest rate. Sometimes a blank bank check is issued with no obligation to use it.

"For the majority of consumers, even if you know you have good credit, there is a little apprehension and tension around applying," one lender said. "So instead of going into a dealership and giving them your information and being sent to the coffee machine to wait for an answer, you can apply on-line, 24/7."

Most people familiar with how used car dealerships operate confirm that obtaining independent car financing is beneficial to most consumers.

The most common problems that have a negative impact on a person trying to finance a used car --and their solutions - to ensure that things go smoothly are the following:

Problem #1: Many consumers don't know what their credit rating is when they apply for an auto loan. The strength of their credit score largely determines what kind of interest rate they will receive. Therefore, it's critical to make sure your credit report is in the best shape possible before shopping for a car.

SOLUTION: Order a copy of your credit report and look for items that may stand in the way of you getting a good rate. Correct any issues or errors promptly. Are all of your lines of credit in good standing? Are there any signs of identity theft? The credit bureaus will tell you how to correct errors when they send you the report. The following numbers and Web site addresses will assist you in checking your credit.

Problem #2: Many consumers are tempted to overspend once they get to the dealership.

SOLUTION: It's a good idea to set a sensible price range for the car you want to buy and stick with it. Experts suggest that monthly car payments and related expenses should not exceed about 20 percent of your monthly net income. You can even bring a printout of your budget to the dealership as a reminder.

Problem #3: Most consumers arrive at the dealership without having researched the current interest rates being offered in the marketplace, so they have no idea if they're being offered a competitive rate.

SOLUTION: Use the Internet as a research tool to compare rates. Check out Web sites like bankrate.com for national averages, and the Web site of your own financial institution.

Problem #4: Most consumers arrive at the dealership without approved auto financing in hand. This is either because they are not aware of all the financing options available, or they assume they will qualify for a low rate at the dealer. This approach deprives the consumer of bargaining power when it comes to negotiating the lowest possible interest rate.

SOLUTION: Become an "empowered buyer" by getting a no-obligation loan before visiting the dealership. Having your own loan could save you significant money.

Problem #5: Many dealers offer a choice between discounted (or zero-percent) financing or a rebate - but not both. Consumers may erroneously assume that the zero-percent loan will deliver the most savings.

SOLUTION: Sometimes it's better to take the cash rebate and apply it against the purchase price of the vehicle - and then use your own pre-approved car loan to finance the vehicle. The savings chart below shows how a low-interest rate and a rebate can "beat" a zero-percent deal.

36-Month Car Loan Comparison

APR.....0.....3.99%

Cost of car.....	\$20,000.....	\$20,000	Less equity in trade.....	\$4,000.....	\$4,000	Less rebate.....	\$0.....	\$2,000
Amount to finance.....	\$16,000.....	\$14,000						
Monthly payment.....	\$444.44.....	\$413.27						
Total cost.....	\$16,000.....	14,877.85						
Savings.....	\$0.....	\$1,122.15						

Source: Capital One Auto Finance

Problem #6: By the time they get to the finance department, many consumers are mentally worn out and don't review the contract thoroughly before signing. As a result, they may agree to buy things they didn't plan on (such as an extended warranty, rust-proofing, etc.).

SOLUTION: Before you sign any papers or hand over any money, check the figures in the contract and understand all the charges. The sudden appearance of extra fees should be questioned. Sometimes dealers add extra fees - so-called "junk fees" - to retake profit they have lost by selling cars at invoice.

PITFALL #7: The consumer feels rushed, pressured and confused by the dealership's staff. In some cases these buyers have second thoughts about completing the deal - but sign the documents anyway.

SOLUTION: Consumers who feel out of their comfort zone should walk away. The buyer - not the seller - should be the one in control of the process. Remember, the federal "cooling off" law does not apply to cars.

If you do your homework ahead of time, and know what to expect before hand, the paperwork process can go quickly and easily. But more importantly, you will receive a deal on your car loans that you can feel good about for the life of the car.

About the Author

[New car loan](#) and [used car financing](#) are being processed every day in the thousands through online car loans application. People with good credit, bad credit, and very poor credit are being accepted and allowed to drive away in the car of their dreams, because they applied online to competitive lenders that specialize in special credit situations.

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