

The Truth About 0% Car Loans

Car-Buying Tips from RTN Federal Credit Union



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During times of economic uncertainty and declining sales, car manufacturers and dealers may offer '0% financing' to attract buyers. While there is no denying that these offers may have value for some consumers, many times the deals are too good to be true.

If you are thinking about purchasing a vehicle, here are a few points to keep in mind as you make your decision.

Restricted Selection

Extraordinarily low and 0% financing typically are only available for new car purchases. If you are looking to buy a certified or used car, you probably won't be able to take advantage of these special rates.

'For Well-Qualified Buyers'

An incredibly low annual percentage rate (APR) is most often only available for consumers with near-perfect credit. Phrases such as 'For well-qualified buyers' and 'Not all buyers will qualify' are tell-tale signs many buyers won't have the option of a 0% APR financing offer.

For example, during the first week of July 2020, industry statistics showed that 23% of car buyers received 0% financing.

That means 77% of buyers received car loans at a higher rate. Many of these buyers may have been enticed to the dealership because of the 0% financing offer only to end up paying a higher rate.

77% of consumers paid a higher rate

Limited Models Available

Dealers and manufacturers many times offer special financing rates on a limited number of vehicle models — in other words, those that they are not selling as well. Models that sell briskly do not need incentives to be sold.

Limited Loan Terms

Another strategy is to offer special financing for short-term loans only. Short-term loans have monthly payments for the consumer. For example, the monthly payments on a 36-month car loan at 0% financing are higher than the monthly payments on a longer-term loan at a higher rate.

\$22,000 Car Loan Comparison		
	Monthly Payment	First Month's Principle Payment
0% for 36 months	\$611	\$611
2.49% for 60 months	\$390	\$345

Less Ability to Negotiate Price

If the dealer knows you are interested in the 0% APR financing offer, they may be less willing to negotiate on the price. One way you can avoid the trap of paying more for the vehicle is to get a loan preapproval—this way you know in advance what you can afford.

0% Financing vs. Cash Rebate

Dealers may offer the buyer the option of either

Taking the 0% APR loan

OR

Receiving a cash rebate

Most times it's more beneficial to take the cash rebate and obtain financing elsewhere. With a cash rebate, you will not only pay a lower price for the car, you'll also pay less sales tax.

0% Financing vs. Cash Rebate		
	0% Financing	Cash Rebate
Initial Amount	\$22,000	\$22,000
Available Rebate	\$0	\$3,000
Loan Amount	\$22,000	\$19,000
APR	0%	2.45%
Term in Months	36	60
Monthly Payment	\$611	\$337
Financing Expense	\$0	\$1,207
Sales Tax Savings @ 6.25%		-\$188
Net Vehicle Cost	\$22,000	\$20,019

Believe it: The Rate is Secondary

As strange as it seems, the rate on your car loan is a secondary consideration. The simple truth is most of your car payment is applied to your loan balance. This fact makes the price and loan amount of your vehicle purchase the overriding considerations in your car buying experience.

Late Payment Penalties

Special financing often comes with penalties if the payment is late. Rates may increase significantly for the remainder of the loan if you skip a payment.

Consumers Pay for the Dealer Bargains

The fact is car dealers have many areas they can make a profit on when selling you a vehicle.

While they appear to offer a terrific price on a new car, they may pay you less on the value of your trade-in. Not trading in a vehicle? Then the lower profit on the sale of the vehicle might be made up with higher prices on GAP and Extended Warranty protection plans.



The RTN Advantage

As your trusted credit union for the past 75 years, RTN is committed to helping you and all our members with their financial needs. You can depend on us to provide you with high-quality products and services along with financial guidance. We are here to help you understand your options and make sure you receive the loan that suits you best.

Competitive Rates, Great Benefits

We offer competitive rates and many benefits (including money-saving extended warranty plans and GAP insurance) on all our vehicle loans. We do not increase your rate should you miss making a payment on time. When you take a car loan from us, you know exactly what your payment and rate will be for the entire loan period.



Easy Payment Options

Instead of having to manage one car payment each month, you have the option of making half your monthly payment every other week. Making a smaller loan payment more frequently reduces your loan balance quicker and therefore lowers the interest you will pay over the life of the loan while shortening the time it takes to pay it back.

For example, instead of paying \$390 once per month on a \$22,000 loan, making a \$195 payment every other week results in the loan being paid off in just over four-and-a-half years instead of five years.

Worry-Free Automatic Payments

Setting up automatic payment is another tool to make your life easier. You'll never forget a payment since your loan will be paid automatically from your savings or checking account.

For More Information

Contact Member Services at 781-736-9900 or go to rtn.org.