

## ZERO PERCENT: THE AUTO FINANCING OF YOUR DREAMS?

Finding the vehicle you've always dreamed of is usually the easy part. The real challenge is how to get a good deal on it. A lot of factors go into this, but there's one thing that may catch your interest at some auto dealers – 0% financing. Is it really the dream-come-true that it seems to be?

- **Will it mean paying more for the vehicle?**  
Since the dealer earns no profit from 0% financing, you could end up covering the loss for the dealer somewhere else. For instance, you may have to pay full sticker price in order to qualify. Paying more for the vehicle may offset paying less for the financing.
- **Will it cause your monthly payment to be too high?**  
Most 0% loans are for very short time periods. As a result, your monthly payment could be higher than your budget allows. For many, it is easier to pay smaller amounts over a longer time frame, even if the interest rate is slightly higher.
- **Are you eligible?**  
Dealers often restrict 0% financing to those buyers with spotless credit records or may also require a large down payment.
- **Will you end up owing more than the market value of your vehicle?**  
You might if you've paid full sticker price because you've opted for zero percent financing. Here's why. Suppose you buy a vehicle at the end of the year when the New Year's vehicles are already coming in. The market value of your vehicle has started to fall, and it will fall even further once you drive it off the lot. Because you've paid full sticker price, there can be a substantial gap between what you owe and the market value of your vehicle (in other words, you owe more on your vehicle than you could sell or trade it for). This gap could affect you financially if you later trade it in or become involved in an accident.

### Other Shopping Tips

- Negotiate the price – You can often bargain on the sticker price, since dealer profit margins generally range between 10-20 percent.
- Do your homework – You'll be more savvy in your negotiation if you know dealer cost for specific models and options. Research also helps you determine up front what you want in a vehicle, making you less vulnerable to showroom pressure.
- Examine the service contract - this contract costs extra, while the standard warranty is free. Does it offer substantially more coverage than the warranty? Can repairs be made anywhere? How long does the contract last?
- Explore beyond the lot – ordering a vehicle can save you money, since those on the lot may have expensive options you don't want. But if you're in a hurry, or if the dealer offers incentives to clear out current inventory, buying off the lot will make more sense.
- Research your trade—you will often get more money for your current vehicle by selling it yourself versus trading it in. If you do opt for a trade-in, find out ahead of time how much it is worth so you can get the best possible deal.

In general, the number one tip for buying the right vehicle is to shop around – and this is equally important when it comes to finding the best financing. Annual percentage rate, length of loan and the vehicle cost will all affect the price you pay, so carefully compare dealer offers with those at other lenders.

*CUNA Mutual Insurance, January, 2003*

**Before you buy your next car, contact a loan officer to discuss the financing option best for you.**

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