

One 80 Financial Services

# 10 Tips To Avail The Best Rates On Your Car Or Equipment Loan



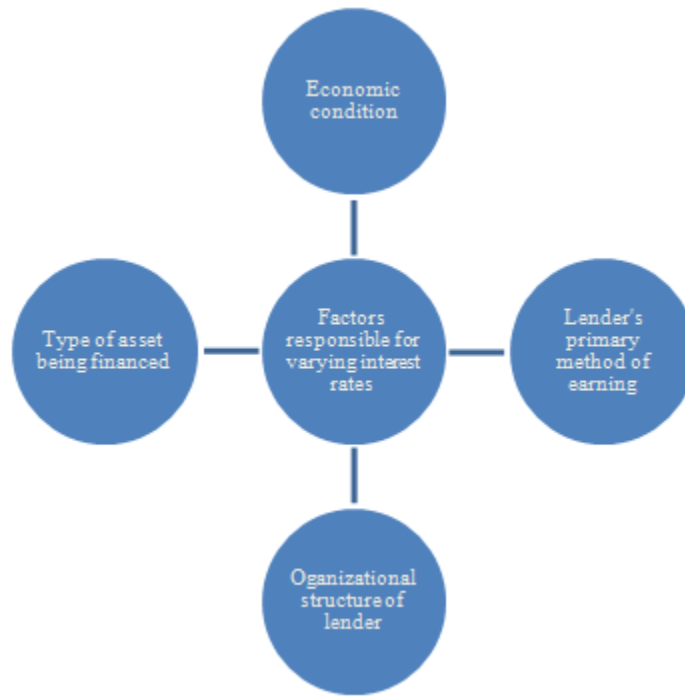
# Table of Contents

1. Introduction
2. Why the variation in car loan interest rates?
3. Tips on securing the best interest rates:
4. Defining your budget
5. Maintaining a good credit file
6. Buying a new vs used car. Which is a better option?
7. Having excellent net worth. How does that help?
8. Type of loan: short-term vs long term
9. Should you go for a pre-approval?
10. Car/equipment dealer vs financial broker – who should you approach?
11. Avoiding repeated loan applications immediately after rejection
12. Are your interest rates negotiable?
13. Shop around a bit and check for various rates plus offers
14. The bottom line

# Introduction

With an unlimited range of new vehicle launches and so many financing options, getting home a new car has become much more straightforward. However, while buyers spend most of their time researching on the lowest prices for their cars, they often miss out negotiating on the right loan deals. Keeping your finances in check is essential before approaching a car or equipment dealer, or else you may end up paying a high interest rate. Your focus should be on balancing your total loan cost against the equated monthly repayment amount.

# Why the variation in car loan interest rates?



The current market is packed with lenders offering different rates. Variations in interest rates may be due to several factors such as economic conditions, internal policies, types of assets being financed, and scoring of potential clients. It can be a minefield trying to navigate your way through all these to get the end result you want, which is a suitable interest rate.

*In this e-book, we shall concentrate on how to secure the best loan deal when investing in your dream machine. So here we go.*

| Loan amount (AUD) | Down payment (AUD) | Interest rate (%) | Loan term | Monthly repayment (AUD) |
|-------------------|--------------------|-------------------|-----------|-------------------------|
| 15,000            | 5,000              | 6.5               | 3 years   | 411                     |
| 17,000            | 3,000              | 6.5               | 3 years   | 534                     |

Apart from this, there are also other considerations you need to take into account such as goods and services tax (GST), registration fees, and insurance premiums.

# Tips on securing the best interest rates:



# Defining your budget

Your total budget shall involve two aspects – down payment (upfront amount you can pay through cash or trade-in) and monthly repayment (minimum amount you can afford every month).

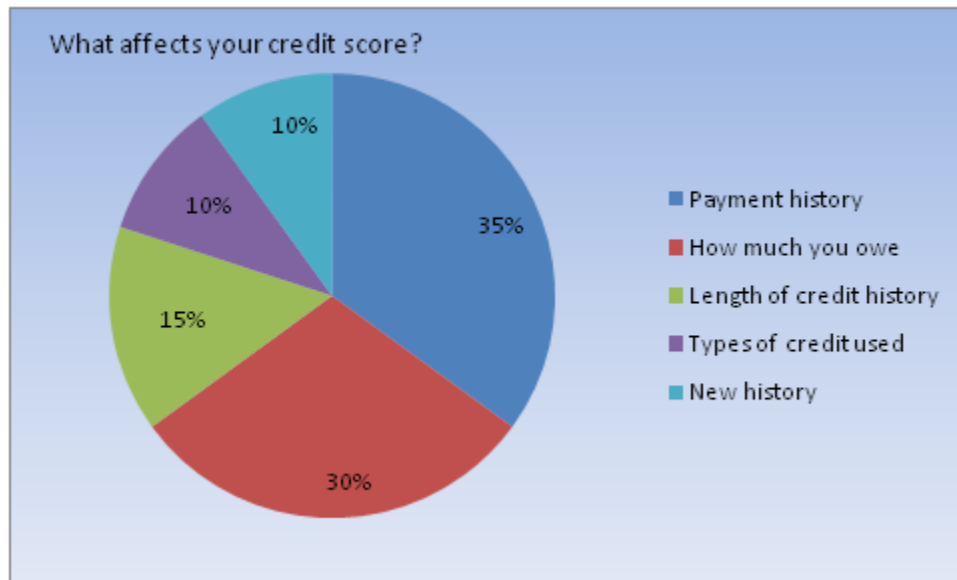
Therefore, go through your income and overall expenses in order to arrive at the correct figures you can spend comfortably on your car loan. Although you might get auto loans with very low down payment options (up to 5%), it shall increase your borrowed amount, thereby increasing your total loan cost. Hence we recommend to pay off as much as you can afford (up to 20%), so that your total rate of interest is lowered overall.

Here is an example on how your down payment affects your monthly repayment amount:

| Loan amount (AUD) | Down payment (AUD) | Interest rate (%) | Loan term | Monthly repayment (AUD) |
|-------------------|--------------------|-------------------|-----------|-------------------------|
| 15,000            | 5,000              | 6.5               | 3 years   | 411                     |
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**Apart from this, there are also other considerations you need to take into account such as goods and service tax (GST), registration fees, and insurance premiums.**

# Maintaining a good credit file



Yes, this is important. Your credit record shall determine your interest rates or if you will get a loan at all. A clean credit file ensures that lenders do not charge you an exceptionally high rate, A good credit score can be achieved by paying bills on time, updating current address (so that unpaid bills can be delivered without you missing out on them), and avoiding a defaulter status. A default stays in your records for five years, even after you have paid the amount.

Therefore, being proactive and regularly checking your credit history is paramount in reducing your car or equipment loan interest rate.



# Buying a new vs used car. Which is a better option?

Lenders are always drawn toward offering better rates when you buy a new asset; they believe that you will own the asset longer. Some dealers might offer rates as low as 0.0% for brand new purchases. Although these rates seem tempting, most of them are built into the new car price and hence you end up paying for it.

Now, if you have decided to buy a used car, then don't consider any model older than four years. In such a scenario, lenders usually hike the rate by at least 0.5%.

# Having excellent net worth. How does that help?

Now if you own a home or you have an excellent net worth, you have a better chance of getting a good deal. This is because a client with a home or asset – backed with cash savings – is considered more stable. To secure a good rate, keep documentation and proof ready to show your lender. A copy of council rates notice, bank statements for six to 12 months, and share portfolio statements will suffice in such cases.

# Type of loan: short-term vs long term

This is yet another aspect that plays a pivotal role in determining your monthly payment as well as the total cost of your financing. While a longer term signifies lower monthly payments, a shorter term results in higher monthly payments, but less money spent in total. Let us illustrate this with the help of an example where we compare a three-year loan vs a five-year loan:

| Loan term | Loan amount (AUD) | APR (%) | Monthly payment (AUD) | Total interest (AUD) |
|-----------|-------------------|---------|-----------------------|----------------------|
| 3 years   | 15,000            | 6.5     | 460                   | 1,550                |
| 5 years   | 15,000            | 6.5     | 293                   | 2,610                |

But in a real scenario, long-term loans will often come with a higher interest rate. Here, we have assumed that both the loan durations have the same rate i.e 6.5%. However, you can still see an increase in the total interest by AUD 1,060 (AUD 2,610 - AUD 1550) when you choose a long-term loan option. So, you can guess the difference when we compute the above amounts with actual, varying rates.

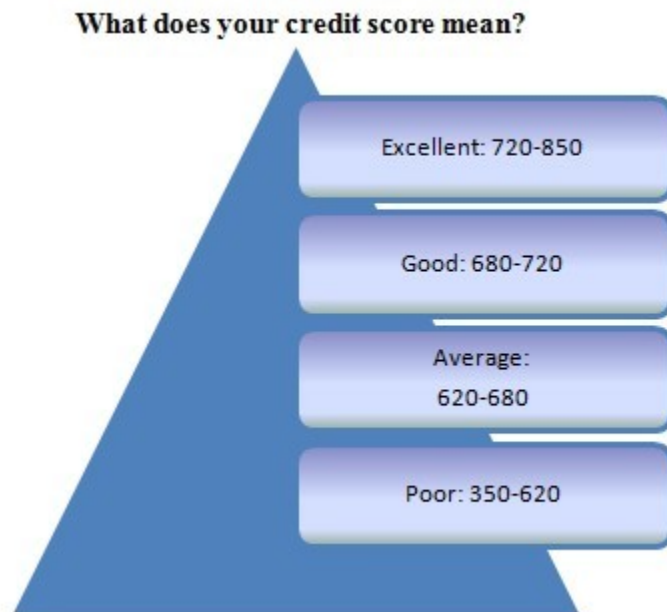
# Should you go for a pre-approval?

We do recommend getting a pre-approval prior to visiting the dealer. Not only does this streamline your negotiation process, but also lets you know your maximum spendable amount. You are now converted to a cash buyer who is able to concentrate only on the car's price, bypassing the extensive negotiation for monthly payment options.

# Car/equipment dealer vs financial broker – who should you approach?

You may think that getting your loan finalised through a car or equipment dealer is hassle-free. Dealers make most of their income by offering finance to fund the purchase of what they sell. Hence their rates are often higher than those offered by a lender or broker. A financial broker will have access to a panel of lenders and banks, giving you a wider base for negotiation. Selecting a larger, established finance broker firm is better since they have greater bargaining power with the lender for better rates, which in turn they pass onto their clients.

# Avoiding repeated loan applications immediately after rejection

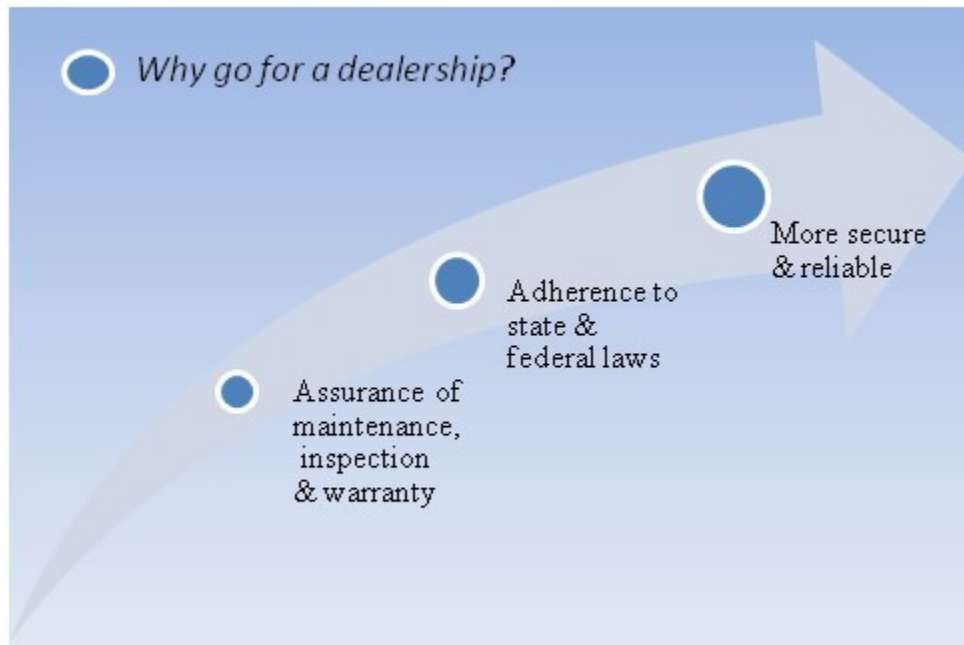


If your loan application is rejected, do not apply immediately for another loan. Repeated loan applications result in lowering your credit score further. This shall hinder your process of availing a prime-rate loan. Therefore take your time, enquire for the exact reasons of loan rejection, review your credit history, and take necessary measurements to improve your score. Once you are sure that there is a reasonable chance of your loan getting approved, prepare for your next application.

# Are your interest rates negotiable?

Yes, interest rates are usually negotiable with your dealers or lenders. So don't hesitate to ask. If the answer is positive and you are eligible for a discount, you can negotiate for another 0.2% (maximum) off on what they had quoted in the first instance. You can also negotiate on the bank fees.

# Shop around a bit and check for various rates plus offers



Just like you shop around for your car, explore different banks for different deals. Do not go by the loan offered by a bank with which the dealer has a tie-up. Do your homework, approach different lenders, and finalise the best available option.

Also, we would recommend buying from a car dealer rather than a private sale. A dealer will usually offer lower rates as lenders hike rates for private sales to account for extra costs involved with encumbrance and supplier checks.



# The bottom line

The entire process for obtaining a car or equipment loan need not be as complicated as it is often projected. With the right research and budget considerations, you can clinch a deal that is best for you. Read the fine print of your final loan document carefully before signing it. After all, your signature across the dotted line is a commitment for quite a while if not a lifetime!

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