



Car Loans 101:

Car Buying Made Easy

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Introduction

Buying a car is a major financial decision. In fact, outside of your home, your car may be your most valuable possession. Before you head into the dealership to start shopping for a car, make sure you do your homework. Research current buying conditions and possible demand and supply chain hiccups to prepare for what you can expect.

With an understanding of the current market in addition to some guidance and planning, you can find a great car at a great price, and get a loan that fits your needs. Before you shop for a car, take some time to read this guide to learn what you need to know about cars and car loans.





Best Time to Buy a Car and Get a Car Loan

Once you have a handle on your local buying conditions and external factors that may impact your car buying journey, you may not be able to wait to base your purchase around a certain time of year.

If you discover that shortages and supply chain issues are causing less than an average number of cars on the dealership lot, or if you do not have the luxury of waiting a few months to buy your next vehicle, your car buying strategy will greatly shift.

In order to beat the competition and save time, be sure to drill down on your preferred models while remaining flexible. This strategy helps reduce the amount of time you'll spend walking car lots and taking test drives. It also proves useful as you navigate through what is available on the lot.

Your flexibility must continue to your features wish list. In addition to keeping your eye out for energy-efficient vehicles which may feature possible incentives, be sure to understand that the vehicles on the lot may or may not have the exact features you

are looking for. Some vehicle makers may build models without heated seats due to missing parts but will install them retroactively once they become available. Make sure to research various models because external factors impact the industry differently.

If you do have the luxury of time, you can see if timing your purchase around the calendar will help lower the price. Here are the typical times that result in extra savings.

Choose the Right Month

First, consider the month you shop. Typically, October, November, and December are normally the best time to buy a car. There are two reasons for this. First, dealerships are nearing the end of their quota calendars at this time, and they are motivated to reach their annual sales goals. Second, dealerships are anticipating a flood of new vehicles for the coming calendar year. The current year's model will be discounted to account for this because they need to move them out of the door.

Choose the Right Time of the Month

Dealerships have quotas not only for the year but also for the month. If they are not close to meeting their goals, they may offer better pricing or incentives if you shop towards the end of the month.

That said, the very last day of the month may not be the best time, but rather a few days before the month's end. Each dealership has its own time frame for quotas, and they may not sync perfectly with the calendar month.

Choose the Right Day of the Week

Finally, the day of the week you shop has an impact on the price of your vehicle. Weekends are prime shopping time for car dealers, so you can't expect a good price on a vehicle if you shop on the weekend. Instead, consider shopping early in the week, when the salespeople are starting to look for new sales to increase their income for the coming week.

Holidays can also bring discounts on new vehicle purchases. Three specific holidays tend to bring big discounts on vehicles, including:

- **Memorial Day:** If you're going to need a car in the summer, shop during Memorial Day sales for the best price.
- **Black Friday:** Skip the lines at the retail stores and shop for a car instead on the busiest shopping day of the year.
- **New Year's Eve:** New Year's Eve brings many dealerships to the end of their calendar years, so you have a holiday sale working with quotas to help you get a good price.



Timing Your Car Loan

Timing has less of an impact on your car loan than it does on your vehicle purchase. However, if a lender receives commissions on car loans, shopping toward the end of the month can help you get a slightly better rate or faster approval.

For more tips and other factors to consider while searching for your new vehicle, [review our most recent blog on the best time to buy a car.](#)





What Is MSRP and How It Impacts the Sales Price

Once you've chosen the right time to buy your car, the next step is to learn about the prices you will see when you walk into the dealerships. If you understand the pricing on the sticker of the cars you're looking at, your negotiation skills will increase.

What Is the MSRP?

The MSRP is the “sticker price” on the vehicle because it's the price listed on the window sticker on the vehicle as it sits in the dealership. MSRP stands for “**manufacturer's suggested retail price**,” and that's exactly what it is. This price is what the manufacturer suggests the dealership sells the vehicle for. This does not mean it is the selling price. It also does not mean it's the price the dealership paid for the vehicle.

What's Not Included in the MSRP?

The MSRP is simply a suggestion. It gives the dealership and buyer a starting point for negotiations. It does not include several things that impact the total cost of purchasing the vehicle, including:

- **Destination charge:** If the dealership had the vehicle shipped to the lot, it must pay the cost of that shipment.
- **Dealer-installed options:** If the dealership adds an anti-theft device or other option to the vehicle after arrival, that increases the price.
- **Taxes, fees, and registration:** These fees, mandated by the state, are non-negotiable but will add to the cost of your vehicle.
- **Dealership fees:** Some dealerships charge additional fees, such as document prep fees, dealer prep fees, and advertising fees, which may be negotiable.

How MSRP Helps Buyers

The MSRP is a good tool used to compare vehicles and apply for your car loan. It gives you a ballpark for what the vehicle will cost and allows you to compare the cost of similar vehicles to each other. While it may not be your out-the-door price, it is a good benchmark to use as you shop.

The MSRP also gives you a starting point as you negotiate. If the dealer is highly motivated to sell, they will negotiate below this benchmark. However, you may actually pay more than this price. If you're shopping for a vehicle that's in high demand, the dealership can put an asking price on it that's higher than the MSRP. Remember, MSRP is nothing more than a suggestion.

For more information on how the recommended selling price impacts your car loan application, [review our most recent blog on MSRP.](#) 

Finding the Best Car and Car Loan for You

Now that you understand the pricing and timing for your vehicle, it's time to start shopping. How can you find the best cars and the best car loan rates to make that vehicle affordable? By carefully considering your needs and then shopping based on those needs, you will quickly find the best car loan and vehicle for your situation. Here is a step-by-step guide to finding the right car.

Step 1 – Consider Your Needs

The first step is writing out your needs. What, exactly, do you need in your new vehicle? Does it need to carry a certain number of passengers? Do you need to be able to haul a trailer? Is technology, like a backup camera or in-vehicle movie players, important to you? Make a list of the things you know you need in your vehicle, then make a list of the things you might want.



Step 2 – Set a Budget

A budget is helpful before you begin shopping. Typically speaking, your car payment should not be more than 15% of the money you bring home every month. You can find cars that are more or less than this amount but keeping your budget in mind will help you shop smart. If you're not sure what the monthly payment would be for a specific price range, use an auto loan calculator to help.

Step 3 – Research Costs of Ownership

As you consider the vehicle that's right for your needs, you must consider all of the costs of ownership. Some things that can vary from one vehicle to the next include:

- Gas mileage
- Cost of insurance
- Cost for major repairs
- Vehicle depreciation

If you're trying to decide between a few similar vehicles, weighing these costs of ownership can help make your final decision.

Don't forget to consider costs for additional coverage or insurance when considering your overall costs. If you are unsure if Gap Insurance is necessary, [review our recent blog that explores five reasons why you may need Gap Insurance.](#)





Step 4 – Take Some Test Drives

Before deciding on the best car for your needs, take some test drives. Sitting behind the driver's seat of a vehicle and feeling the vehicle's responses to your driving habits will help you find one that not only fits your checklist but also feels great to drive.

Schedule some test drives before you start shopping in earnest. If you can, take the vehicle through some of your typical driving experiences, such as freeway driving or rural driving, depending on your commute. Look over the location of the various controls, listen to the sound of the engine, and even take time to listen to the stereo and sound system. Sometimes a test drive will help you rule out a vehicle you thought you'd love, and this will make your search for a new car easier.

Step 5 – Find a Car Loan

A car loan is an important part of the shopping process. You have three basic choices for your car loan. These are:

- Get a car loan through the dealership
- [Get a loan through a credit union or bank](#)
- Get a car loan through another lender, such as an online car loan company

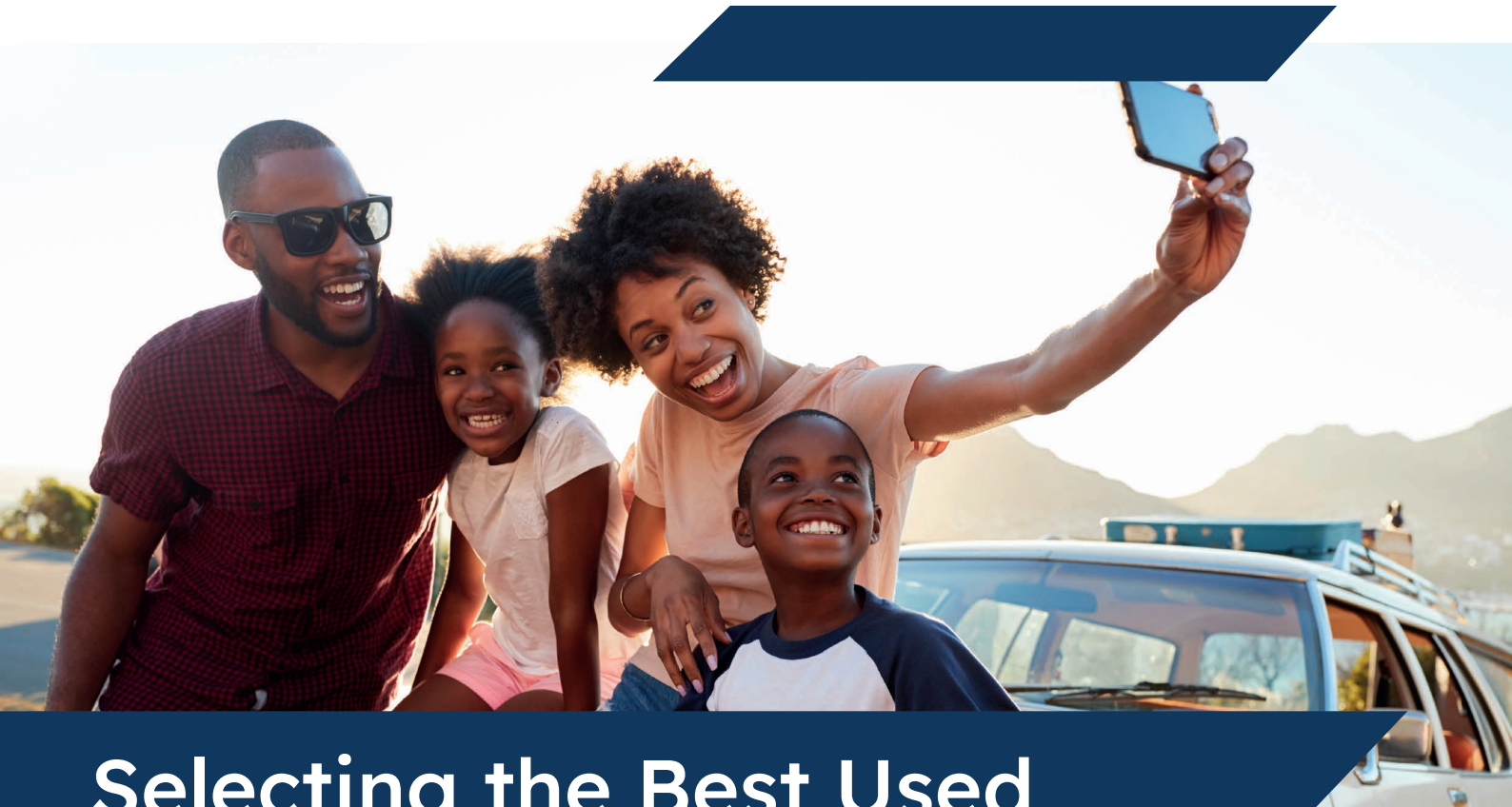
Instead, [consider working with a credit union or a bank](#). Get pre-approved for a car loan early in the process, then shop knowing what you can afford to spend.

The one exception may be when shopping for a new car. New car incentives often include a car loan in the overall incentive package. Zero-percent financing or large cash rebates can make your new car purchase more affordable. Keep in mind that these types of incentives often come at a cost somewhere else in the process, such as a higher sales price or less value for your trade-in, so do your research before signing the loan documents.

A search for the best cars available and conducting due diligence does not have to be a stressful or uncertain process. For more tips on how to save time and money,



[be sure to review our recent blog on finding the best car and car loan for you.](#)



Selecting the Best Used Car and Car Loan for You

If you're shopping for a used vehicle instead of a new one, you may have additional considerations. While you will still want to follow the previously mentioned steps, including the test drives, vehicle research, and needs estimations, you will need to dig a little more deeply to avoid buying a lemon. Here's how you can protect yourself.



Know Where to Look

If you're shopping for a used vehicle, you don't have to shop only with the dealership. You can also look in classified ads or shop online to find private sellers. If you buy from a private seller, make sure you carefully research your options and the seller to avoid scams. There are several steps you can take to ensure that the vehicle itself is worthwhile as well.

Check the Vehicle History Report

A Vehicle History Report is invaluable in your search for a used car. The best used cars will have few owners and no accidents in their history. If you notice serious flaws in the Vehicle History Report, the price should reflect that. [CarFax](#) and [AutoCheck](#) are both popular websites that let you see the car's full history based on its VIN.

Have Your Mechanic Check it Out

If you get serious about a used car from a private seller, ask if you can have your mechanic check it over before you purchase. A reputable seller will be willing to let you do this, provided they can come with you to the appointment. If the seller isn't willing to let you have your mechanic check the vehicle, chances are they are hiding something.

Get a Used Vehicle Car Loan

Like new vehicles, used vehicles offer similar car loan options with one difference being you have fewer incentives at the dealership because the special financing offers are rarely available with used vehicle purchases. Due to this large difference, the best used car loans are typically [through a credit union or a bank](#), rather than at the dealership.



What You're Missing in Your Search for the Best Car Loan Rates

Now that you know what to do to find the best used cars and new cars, the next step is to figure out the right car loan. The most important factor to consider in your car loan is the rate. Car loan rates are the interest rates charged for borrowing money to buy a car. Understanding how they are figured out and where you will get the best rates is critical when shopping for a car. Car loan rates are based on the vehicle, your credit score, current interest rates, and the lender's requirements.

Credit Score and Your Car Loan

Your credit score directly impacts the rate. The better your credit, the better your rate. Checking your credit rating, and taking steps to improve it before applying for your car loan, can help you get a better rate.

Choose the Right Vehicle

The vehicle you choose also impacts the loan rate. Typically, car loans for new vehicles tend to be lower than car loans for used vehicles. This may not make sense to you since new vehicles cost more. However, lenders look at the vehicle's value, and used vehicles tend to be worth less than new vehicles, so they have slightly higher interest rates. This protects the lender if you fail to make your monthly payments on time.

Watch Interest Rates

Car loan rates are based on federal interest rates. When the federal interest rates increase, so do the rates for car loans. When the rates drop, so do the rates for car loans. [Consider applying for pre-approval from your credit union or bank](#) when you see low rates or rates that are steadily decreasing because chances are they will increase again in the future.

Shop Around

Finally, shop around carefully for your loan. Don't assume that your only or best option is at the dealership. While some buyers will find the dealership offers a good choice, they are not the only choice. You can, and should, approach multiple lenders if you're looking for the best rate on your car loan.

For more tips on saving money during your car and car loan search, [review our blog on finding the best car loan rates.](#)



What You Should Know When Using an Auto Loan Calculator

An [auto loan calculator](#) is a great tool to use when shopping for a new or used car loan. It will help you understand not only the amount of your monthly payment but also what different changes to your loan terms will do to that monthly payment. Here's how you can use one as you make your vehicle purchase.

What It Includes

An auto loan calculator allows you to input various aspects of your loan. These include:

- Term in months
- Interest rate
- Vehicle price
- Sales tax
- Down payment
- Trade-in

Once you input these values, you will see how much each month's payment is. You may also be shown how much interest you'll pay over the life of the loan.

Calculate Your Monthly Payment

The best thing to do with an auto loan calculator is to calculate your monthly payment. If you know the interest rate on your loan and your estimated car purchase price, you can plug that information into the calculator to see the amount of your monthly payment. Change the loan's term to see how that changes your monthly payment amount.

Determine the Change Different Interest Rates Make

If you are shopping for different loans, an auto loan calculator lets you see the difference they will make on your monthly payment and the overall cost of the loan. Even a change of just one percent can add up to big changes. Using an auto loan calculator will show you those changes quickly, and this may motivate you to shop harder for a different loan.

Calculate the Difference a Trade-in or Down Payment Makes

Maybe you're considering selling your existing car first or using it as a trade-in. Perhaps you're considering how much money to put down on the car you purchase. Again, an auto loan calculator will help you decide how to handle these questions. By plugging in the values, you can see which choice makes the most financial sense.



Looking to Refinance Your Car Loan? Here's What You Need to Know

Many car owners don't know that they can refinance their car loans. Doing so may let you get a better interest rate, shorter term, or lower monthly payment. If your current car loan is too expensive for your needs, or you want to pay it off more quickly, [refinancing may be the option](#). Before you refinance, make sure you do your homework.

Research Pre-Payment Penalties

Before you refinance, check the terms of your existing loan. Many lenders charge a fee if you pay the loan off early. If you have a pre-payment penalty, understand how this affects your refinance.

Does Refinancing Make Sense?

Before you refinance your car loan, make sure it makes sense financially. Some reasons that it makes sense to refinance include:

- **Interest rates have lowered since the original loan.** If the interest rate on a \$25,000 loan drops from 7 to 5 percent, you can save about \$10 a month and over \$2,000 over the life of the loan.
- **Your credit rating has increased since the original loan.** This can earn you a lower interest rate.
- **Your financial situation has improved.** This may allow you to refinance for a shorter term, which, then, helps you pay off the car more quickly.

- **You didn't research your options the first time.** There may be a better loan out there if you take the time to research.
- **Your loan is too expensive.** Sometimes it makes sense to refinance if your current loan doesn't fit your monthly budget. A longer-term can lessen the monthly payment amount.

When Does Refinancing Not Make Sense?

There are times when [refinancing does not make financial sense](#). Here are some circumstances when you should just stick with your current car loan:

- **You're hoping to apply for a loan soon.** If you know you're going to be looking for a mortgage or large personal loan in the near future, don't refinance your car loan. It will impact your credit rating and could hurt your ability to seek your loan.
- **The fees outweigh the benefits.** You will pay fees to refinance your car loan. Make sure you stand to gain more than you will be paying to refinance.
- **Your car isn't in good condition.** A lender will only lend for a car that has value. If you're upside down, the car has significant damage or mileage on it, or it has little value for some other reason, your lender may not be willing to loan you the money you need.
- **You're almost done repaying your loan.** If you are close to the end of your loan, just stick with the existing loan terms. Refinancing will not pay off.

How to Find a New Loan

If you think refinancing your car loan makes sense, then take your time to research your loan options. Talk to several lenders, including both banks and credit unions, to find out what your options are. You will find a bit of variety from one lender to the next, so it makes financial sense to do your homework.

Buying a new car takes time and research. Once you put in that time and find the right car loan and the right car, you can move forward with confidence, knowing your newly purchased car and loan will both be a good fit.

For more information on the best time to refinance,
[review our recent blog on refinancing a car loan.](#)





We're Here to Help!

If you have more questions about [new or used auto loans](#) as well as car loan refinancing or you are ready to [apply for an Auto Loan](#), please [contact us](#) today, we are happy to help.



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