

Car Loan

Getting car loan preapproval is a great way to start before purchasing a new car. This will ensure that you have the confidence around your budget and funds available and put you in better position to negotiate for better deal at the car dealership. Here are some tips that we have developed to help you get started.

What is the maximum term for car loan?

Generally, the maximum term for a car loan is 5 years.

Can I have interest only loan with my car loan?

Interest only repayment isn't available with your car loan. Similar to a home loan, car loan uses the principal of amortization where you will pay down the loan principal along with interest repayment with each loan repayment.

Are variable interest rate available with car loan?

Most lenders offer fixed interest rate car loan although there are a few lender that may offer variable interest rate. With fixed interest rate, your monthly loan repayment is fixed throughout the loan term and this is set out in the car loan agreement. Depending on the lender, early termination fee (paying out the loan or paying down the loan faster) may be applicable.

What is balloon payment?

Balloon payment refers to the lump sum payment that you will have to pay at the end of loan term in addition to the scheduled regular repayments. In general, the lender allows you to choose a residual value (balloon payment amount) of up to 30% of the purchase price of the car. For example, if you purchase a car for \$30,000 and elects to have 30% balloon payment and a car loan of 5 years, you will pay scheduled loan repayments of \$21,000 loan plus interest and at the end of loan term, pay a final balloon payment of \$9,000 to the lender. If you select balloon payment, your monthly repayment will naturally be lower than the loan without balloon payment.

My car dealer offers 0% car finance, should I go with them?

The car dealer/financier will generally need to borrow or raise the money to provide you with car financing, or they will tie up with a credit provider and provide you with the finance under an arrangement between the 2 parties. No finance is provided without cost and the cost is usually factored in the form of additional fees or a higher car price compared to the car price available to cash buyers. This is a great marketing tool adopted by many car dealerships to attract potential car buyers who do not understand how the finance costs can be incorporated elsewhere in the deal.

Can my car loan be refinance?

Yes, you can refinance your car loan to save on interest cost or lower the car loan repayments. However, it is important that you go through your current car loan agreement and find out about any applicable early termination fee before refinancing your car loan.

Should I lease the car or buy?

When you lease a car, you do not own the car until the end of the loan term. Getting a car loan to purchase the car allows you to own the car outright with the obligation to repay the car loan secured by the car (like a mortgaged property). This is generally how most people purchase their car in Australia. Depending on your situation (say if you are running a business), there may be merits to lease instead of buy with a car loan. We recommend that you consult your tax accountant on which option suits your situation better.

Disclaimer: Please note that this guide is developed without taking into account your objectives, financial situation or needs. It should not be used, relied upon, or treated as a substitute for specific professional advice.