

0% Auto Loan May not be the Best Deal for You

You've decided it's time to get a new car and as you flip through the auto advertisement, you come across the 0% APR auto loans. As great as it sounds, you may not save as much as you would expect with this type of incentive.

Since you can get an auto loan through a dealer or a lender, such as a bank or credit union, it's important to note that a 0% interest loan generally, if not always, is gotten through the dealer.

Automakers offer them to attract buyers to certain car models, especially ones that aren't selling well. There are a few things you should consider about 0% financing and why it might not be in your best interest to consider it.

1. **There may be better deals available**

Typically, you cannot receive multiple deals, such as a reduced rate and a cash rebate, when you buy a car, so you have to choose one. Manufacturers' cash rebates can range from a couple hundred to a few thousand dollars. Edmunds, a well-known auto research website, found that the cost of the incentives that automakers pay to attract buyers was around \$2,300 per car industrywide, which includes cash rebates and the cost of reduced financing.

While a 0% loan may sound appealing, a cash rebate might save you more money. If you buy a \$20,000 car that has a \$2,300 rebate, you are really paying \$17,700 plus interest. If the interest rate for a 5-year loan is 2.74% APR (the lowest rate offered by Ocean Financial as of October 15, 2018), then you would pay a total of \$1,264.61 in interest. That would bring the cost of the car plus interest to \$18,964.61, saving you \$1,035.39 compared with what you'd pay with a 0% loan.

2. **Your loan may last longer than the rate**

Some car models may have 0% financing for a limited term, such as five years, which could be less than the length of your auto loan. In the third quarter of 2015, the average loan term for a new car was five years and seven months, and the term for used car was five years and three months, according to Experian's State of the Automotive Finance Market report. These are the longest average terms calculated since the firm began collecting this kind of data in 2016.

Ocean Financial provides loans up to 84 months which could lower your monthly payment even more.

3. **The offer can be extremely limited**

A 0% rate may only be available on select models, especially newer cars and less for used cars and older models. But even if the car you want is one of the models that does qualify for 0% financing, in order for the buyer to qualify, a high credit score is required. If you can, check on the eligibility rules before going to the dealer.

As you review the various car prices and the dealer incentives, remember that trade-offs are part of the process when finally buying the car you want. Although a 0% interest rate may save you money in some case, you may also be missing out on some better savings opportunities.

If you're unsure of the right auto loan for you, speak with an Ocean Financial Loan Officer in a branch or by calling 516-620-8100.