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## Zero percent financing not always the best option

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Newspapers

A new round of discount financing and the arrival of 2003 models are bringing car and truck buyers back into showrooms.

But in addition to kicking the tires and taking a test drive, consumers need to shop hard to make their way through an array of auto loans.

Despite a rocky economy, U.S. auto sales in August were up nearly 18 percent compared to a year ago and 2002 is shaping up as another strong year. Discount financing was credited with clearing 2002 models off dealer lots.

Sorting out financing options - from credit unions, savings and loans, banks and automakers - has grown increasingly complicated, even at a time when rates are low.

"Car shoppers negotiate and negotiate" on the price of a car, said Mary Butler, senior editor at cars.com, "and then walk into the finance-and-insurance office and forget it all."

General Motors is offering no-interest financing on loans of up to 60 months for qualified buyers on all its remaining 2002 models. On 2003 models, GM and Chrysler are offering no-interest loans for three years on 2003 models, plus special low rates for longer-term loans.

Ford Motor Co. is taking a different tack, offering no payments on loans until January, plus no-interest financing or cash rebates up to \$3,500 per vehicle.

While zero percent and low-rate car loans are alluring, only about half of all shoppers qualify for those rates, which require strong credit.

That leaves half of new-car shoppers, as well as most used-car shoppers, looking for traditional financing from banks and credit unions or loans from other financiers. And that's where doing your homework really comes in.

It isn't a case of one size fits all. Loan rates vary, largely depending on the borrower's credit but also by lender, by the term of the loan, by the amount borrowed compared to the value of the vehicle.

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9/4/2003

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Even credit unions, which for decades quoted only one interest rate for all their members, now offer varying rates based on the borrowers' credit records.

"Among our members, about 60 percent qualify as 'A' credits," which is the best rating, said Kyle Coke, senior vice president of lending at Fort Worth (Texas) Community Credit Union. Another 20 percent are "B" credits and another 20 percent rank as "C" credits, he estimated. Shoppers who can qualify for zero percent or other discount financing still should consider another alternative: the manufacturer's rebate. Buyers of inexpensive vehicles or those who make a larger down payment and hence borrow less need to look at whether discount financing or a rebate is a better deal.

"If you've got great credit and qualify for 6 percent anyway, maybe a \$3,000 rebate is better," said Rick Cantalini, general manager of Vandergriff Buick and Chevrolet in Arlington, Texas. "In some cases, the payment will be cheaper."

For example, a \$15,000 loan for 6 percent over 48 months would cost \$1,909 in interest over the life of the loan. If the rebate is more than that, take it; if it's less than that, look at the manufacturer's discount financing. Another wrinkle comes if the discount financing is limited to a relatively short term, like two or three years. Even at zero percent, a \$20,000 loan would cost \$555.56 a month to repay in just three years - too steep for many household budgets.

A four-year loan at a discounted rate of 2.9 percent would mean a monthly payment of \$441.80. That might fit the budget better, even though it will mean paying \$1,207 in interest over the life of the loan. You could get the payment lower, to \$376.51, with a five-year loan at a discount rate of 4.9 percent, although that would mean paying \$2,591 in interest.

A good business calculator that can handle loan payments is a big help here. Or use one of the many online calculators, such as those at [bankrate.com](http://bankrate.com) or [cars.com](http://cars.com).

Consumers who arrange auto financing through a dealership are likely to pay a little higher rate for that convenience.

Here's how it works: Dealerships solicit loan bids from lenders based on credit information supplied by the potential buyer, along with the size and length of the loan desired. The rate at which a lender is willing to make a loan to that particular buyer is called the "buy rate."

The dealership can bring that rate back to the borrower; if accepted, the dealer will earn a fee, most commonly \$50 to \$100, from the lender as compensation for originating the loan. A similar fee is paid for arranging the factories' discount-financing offers.

But the dealership may also choose to quote a higher rate to the borrower.


Fort Worth area dealers said dealer mark-ups on loan rates constitute a reasonable fee for arranging financing but also said that competition keeps the mark-up limited.

Cantalini said the practice isn't as lucrative as often portrayed.

"We don't really think that charging a lot of added rate is a good business practice," Cantalini said. He said that when Vandergriff dealerships arrange a loan it typically includes a markup of less than 1 percentage point.

Don Allen, general manager of Jerry's Pontiac-Buick-GMC and Nissan dealerships in Weatherford, Texas, also said the mark-up is generally less than a percentage point.

"This is a service we perform, to keep the buyer from having to shop for a loan," Allen said. "We want these customers for life," he added, so it wouldn't make sense to abuse a buyer by jacking up the interest rate excessively.



Reese Hillard, owner of three Saturn dealerships in Tarrant County, Texas, said the variety of manufacturer financing has diminished the number of loans with mark-ups.

"In the mid-1990s, factory financing wasn't as prevalent and you could make money on the spreads," Hillard said. But now, he estimates that close to 85 percent of his new-car buyers qualify for discounted financing through General Motors Acceptance Corp.

 [RETURN TO TOP](#)