ALL YOU NEED TO KNOW ABOUT

AUTO LOANS

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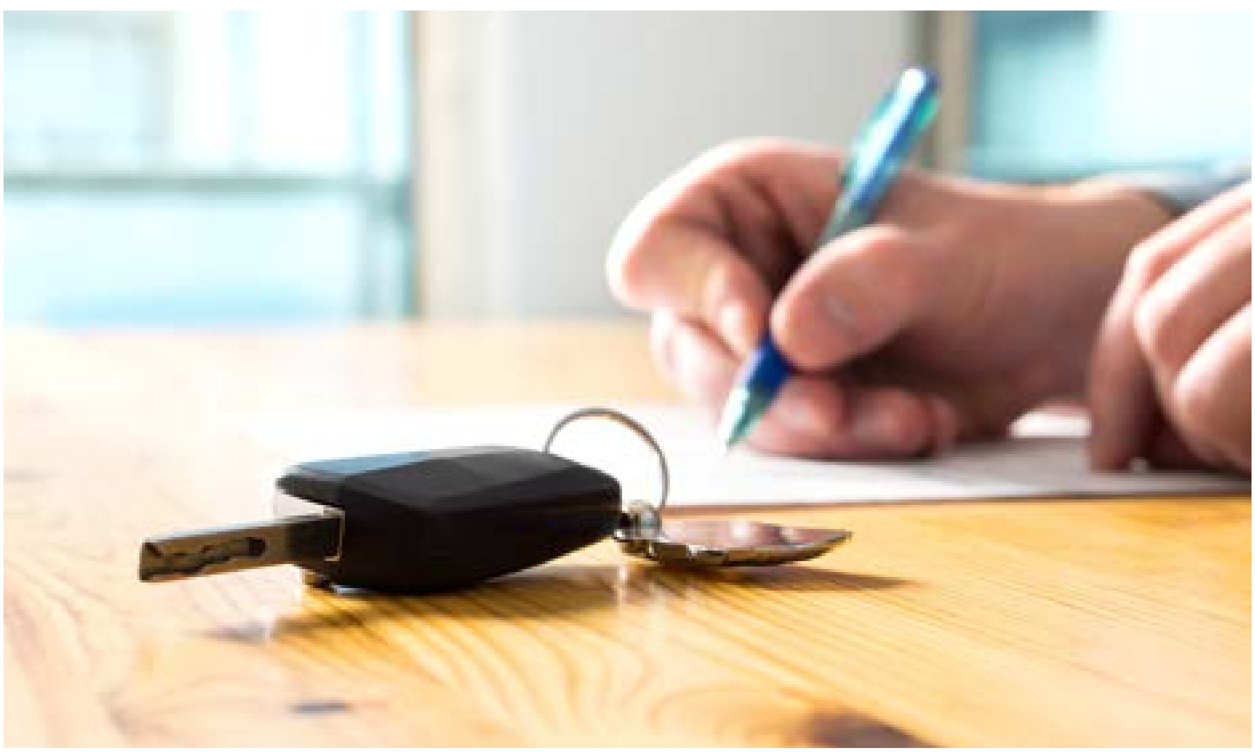
INTRO

Buying a car is a major deal for most consumers. As one of the largest purchases you'll likely make during your lifetime, it's a decision that deserves deliberation, research and time. Your auto loan is your key to finalizing that purchase, complete with its own choices and various factors to consider. How do you choose a lender? Is there a way to know whether you are really getting a good deal on a loan? How important is a preapproval? So many questions – and we've got answers! This ebook will walk you through the process of taking out an auto loan from beginning to end, answering all your questions and telling you all you need to know about this important decision so you can make the best choice for serving you well throughout the term of the loan (and possibly beyond it).



AUTO LOANS 101

If you're in the market for a new car or truck, you're likely also shopping for an auto loan. Your auto loan will affect your monthly budget for the full term of the loan, so it's important to do your research for making an informed decision before finalizing it. Here's all you need to know about auto loans and how to choose the one that's best for you.

How do auto loans work?

Auto loans make it possible for consumers to purchase a new or used car without having all the cash on hand at the time of purchase. With a car loan from a financial institution or private lender, you'll receive the funds you need to purchase the vehicle in one lump sum, for which you'll pay a portion back each month, along with interest on the amount owed, over the term of the loan, generally lasting 5-7 years.

Where and how do I apply for an auto loan?

There are two primary sources for auto loans:

1. **Direct lenders.** This includes financial institutions like banks, credit unions or online lenders. You'll likely have the opportunity to get preapproved for a vehicle loan through these lenders, which can make your car shopping quick and easy.
2. **Dealership financing.** This option enables you to purchase and finance your car in one location. Convenience aside, a dealership loan may be accompanied by a higher interest rate and enticing offers for

upcharge add-ons and/or extra protection that may or may not be worth the price.

How high will my monthly payment be?

Your monthly payment amount will be determined by several key factors:

- **The loan amount**. The amount you borrow will be equal to the value of the car you're purchasing, or less depending upon your situation. A great minimizer to the overall cost is making a sizable down payment and/or trading in your old vehicle when buying a new/used car.
- **The annual percentage rate.** Usually referred to as the APR, this is the effective interest rate you'll pay on your loan. Your interest rate is determined by the market averages as well as your personal credit score and other general creditworthiness or financial wellness factors.

- **The loan term.** The default length of most auto loans is five years, but some lenders offer to stretch the term to seven years or even longer. A longer-term loan means paying less each month, but it also means paying more in overall interest throughout the (longer) life of the loan. A shorter-term loan also means you'll own the car fair and clear sooner, though the monthly payments will generally be higher.
- **Add-ons, like extended warranties and purchase protections.** This can include things like mechanical breakdown protection, loan payment protection to cover your payments in the event of unemployment or injury and warranties for coverage beyond manufacturer warranties. It is very common for dealerships to offer these, but it is also common (and often cheaper) to purchase these protections through your direct lender. It's common for lenders (whether direct through them or via dealerships) to wrap the costs of these into the loan amount, thereby increasing the payment and total loan amount.

How can I score the lowest interest rate on my auto loan?

The interest rate on your auto loan will directly affect your monthly payments throughout the loan term, so it's important to make every effort to score the lowest rate possible. Here's how:

- **Shop around for a lender.** Don't accept the first offer you receive for an auto loan. Get quotes from several lenders to find the one that offers the lowest interest rate so long as the situation is right for your budget (beware of offers that look great but might end up costing more in the long run due to fine print details).
- **Boost your credit score before applying for a loan.** In the months before you apply for an auto loan, take steps to boost your credit score by (among other things) paying all credit card bills on time, working to pay

down outstanding balances, not opening new cards or having credit inquiries and reviewing your credit report for possible fraud or incorrect information.
- **Borrow less than you qualify for.** While it's tempting to max out your eligibility, consider borrowing less than you qualify for when taking out an auto loan. A smaller loan amount generally means a lower interest rate as well.
- **Save up a bigger down payment.** If you don't have a substantial down payment saved up, you may want to delay your auto loan application until you can save more, borrow less and qualify for a lower interest payment.

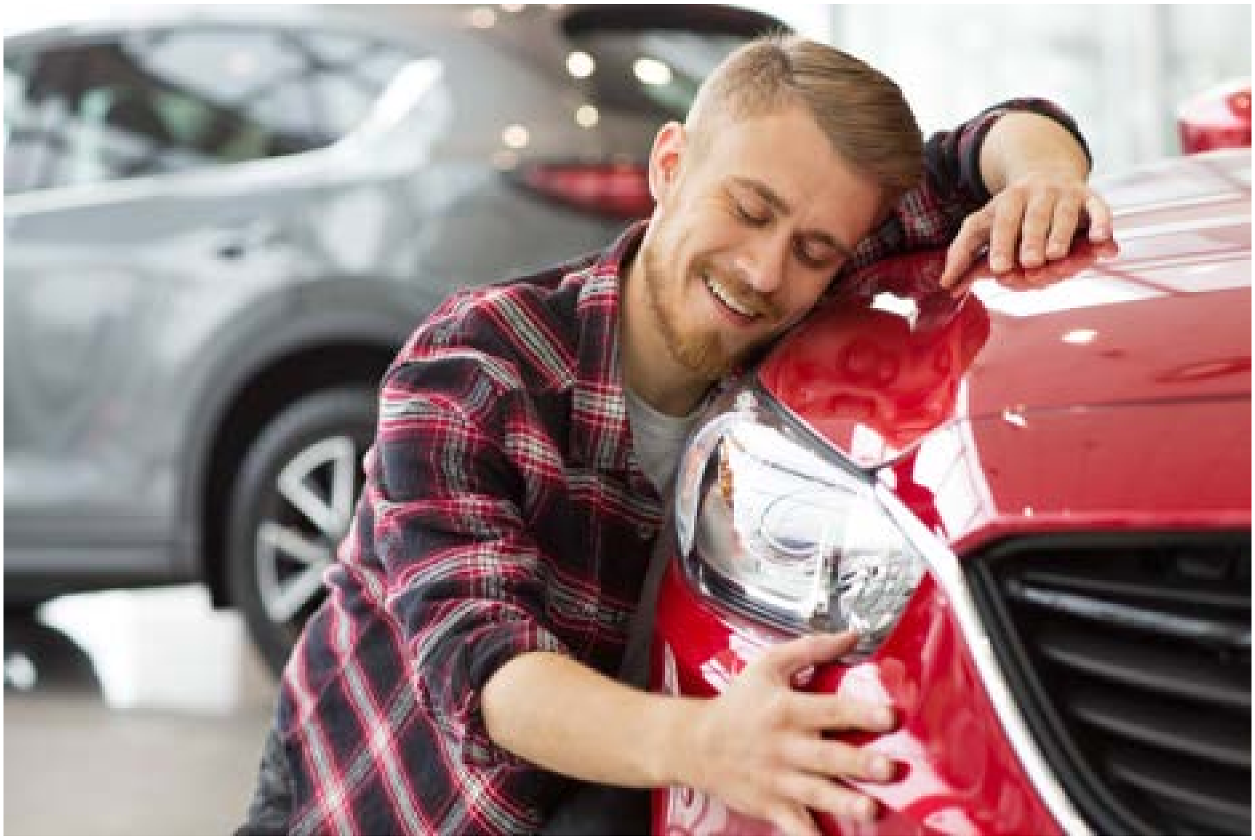
Shopping for a new car is exciting, and you may be itching to get behind the wheel of a newer vehicle. However, since your auto loan will directly impact your monthly budget for up to seven years, it's important to do your research carefully before finalizing your loan.

GETTING PREAPPROVED FOR AN AUTO LOAN

Getting pre-approved for a car loan is an important step to take before you start your search if you're in the market for a new set of wheels. You'll likely walk away with a better-priced deal and a more favorable interest rate on your loan, plus you'll make the entire process smoother. Here's how to get pre-approved for a car loan.

How to get pre-approved

1. **Determine how much you want to borrow.** You don't need an exact number at this point, but you'll want to have a ballpark figure to help your potential lenders base their decisioning.
2. **Prepare your documents and information.** You'll likely need to provide your lender with the following to complete your preapproval application:
- Residential address
- Social Security number
- Employment information, including employer name and gross monthly income
- A complete list of your assets and debts
- Basic description of the car you'd like to purchase
- An estimate of how much you'd like to borrow and your desired loan term
3. **Fill out the application.** You can generally fill out a preapproval application online by visiting the lender's website and searching for this option.



If your lender does not offer this feature, visit the lender's branch or office to complete out an application in person.

4. **Start shopping!** Once you've gotten your preapproval, you'll have 30-60 days to shop for a car before the preapproval expires.

Where to get your preapproval

You can get your preapproval from any auto loan provider. This includes banks, credit unions and private lenders. Most lenders are more than happy to help you apply for preapproval.

Why get a preapproval?

There are several important benefits to getting preapproved for an auto loan:

- **Set a realistic budget.** A preapproval tells you the exact amount of money you qualify to borrow and at what interest rate. Having this information in hand will help you budget for your new car with your monthly payments in mind.

- When considering your budget, it's best to look for a car that falls slightly below your maximum loan approval amount, as you'll need to reserve approximately 10% of the loan amount for taxes and fees. Also take your planned down payment into account since this can help offset the purchase price. Finally, when determining your monthly car expenses, be sure to include the costs of insurance, gas and maintenance in your budget.

- **Get protection from dealer markups.** Dealerships tend to inflate interest rates on loans in exchange for the convenience of buying a car and borrowing the money to pay for it in one location. Having your preapproval from an outside lender will help you avoid these "deals."

- **Negotiate from a position of strength.** When you hit the lot with your preapproval in hand, you're shopping like a cash buyer. This places you in a stronger negotiating position since you'll know exactly how much car you can afford.

- **Avoid high-priced upsells.** Having your exact loan amount in hand will help you avoid last-minute add-ons and unnecessary or excessively high-priced offers, which also increase the amount of the loan.

- **Save time.** Instead of finding out you're not approved for a loan after you've already chosen your dream car, you'll have purchase confidence and get behind the wheel in record time.

What if I'm buying a used car through a dealer or private seller?

A preapproval can work for almost every kind of car purchase, whether it's a new or used car. Most dealers will work with banks, credit unions and other lenders, and will be happy to sell you a car through these funding sources. You can enjoy the benefits of getting your preapproval before shopping for a used car at a dealer.

However, if you're purchasing your car through a private seller or smaller dealer, things will be a bit different. For a private-party auto loan, you'll generally need to select the car before you apply for financing. If and when you're approved, the lender will pay the amount you owe to the seller, and you'll then repay the lender over the life of the loan. Consequently, a pre-approval is not applicable in this scenario.

WHICH FACTORS DO I NEED TO CONSIDER BEFORE TAKING OUT AN AUTO LOAN?

Financing a new car is a big decision that will impact your monthly budget for the term of the loan. That's why it's important to weigh all relevant factors carefully before making your decision.

Here are five questions to ask before taking out an auto loan.

1. What is the actual cost of this car?

In many dealerships, the sticker price on a car and the one you end up paying can be vastly different. In some lots, you can negotiate with the salesperson to get them to lower the price. Meanwhile, on other lots, you may find out at the last minute that you need to pay extra fees, which will bring the price up significantly. Before you agree to an auto loan, make sure you know how much you're actually paying for your new wheels.

2. Is this the lowest interest rate I can get from any lender without extending the term?

The interest rate on your loan determines how high your monthly payment will be and how much you'll be paying overall for the privilege of financing

your car. The range of rates you'll be offered will depend on the lender, the market rates at the time and your credit score and credit history. Be sure to shop around and check out what different lenders will offer you before making your decision.

3. What will my monthly payment be with this loan?

Your monthly payment will be determined by the loan amount, the annual percentage rate on the loan and the loan term. It's best to use these details to run the numbers on a potential loan to be sure you can afford the monthly payments (there is no shortage of "monthly loan payment calculators" throughout the internet). Defaulting on an auto loan can mean risking the repossession of your vehicle and a massive dent in your future credibility. You'll also be better prepared to incorporate this new payment into your monthly budget if you have a number to work with before finalizing the loan.

4. Are there any available incentives that can bring down the cost of this loan?

Before closing on a loan, ask the lender about any available incentives that can help you save on the cost of the car. Here are two incentives you may be able to access:

- **The cash rebate.** This incentive allows borrowers to apply a dollar amount to the price of a vehicle, effectively bringing down the price. The borrower receives the discounted amount in the form of a cash rebate when the loan is finalized. These rebates are typically offered regionally or under specific circumstances, such as to repeat buyers of a certain brand, buyers who have left a competing brand, recent graduates or members of the military.
- **Dealer cash.** This incentive is similar to the cash rebate, but it's offered by the dealer instead of the automaker. Dealers may offer these incentives near the end of the month, quarter or model year, as they scramble to reach a quota that's set by the automaker. The dealer will be compensated for reaching this quota and is able to bring down the price for the buyer. However, you'll only know about this incentive if you ask.

5. Do I really need an extended warranty?

Dealers can be overly eager to sell extended warranties to new car owners, but these may not be in the buyer's best interest. If you're purchasing a new car, it likely comes with a factory warranty covering the vehicle up to

100,000 miles, making an extended warranty an unnecessary expense. If you're buying a used car, have it thoroughly inspected by a mechanic and get a detailed vehicle report on AutoCheck.com or Carfax.com to help you determine the true need for the extra protection that an extended warranty provides.

It's important to note that protections like these are generally lower from your direct lender than from the dealer (not always, but usually). The reason for this is simple: The dealership marks up to maximize profit and has no true interest once the purchase is complete. The lender, on the other hand, offers these to protect both the borrower *and* their own interests. Your credit union wants to make sure you are financially healthy in the event of income loss or damage to the vehicle for which you have borrowed money. They have a vested interest in making sure you are able to make your payments and not suffer financial loss, so they often offer these protections with low or no markup. True, they may not be necessary for all vehicles, but they are definitely worth considering when the situation is appropriate.

Are you ready to close the deal on a new car? **Your credit union** offers great terms, easy eligibility requirements for qualifying members and a quick application process. Call, click or stop by today to learn more.

FEELING STUCK IN YOUR CAR LOAN? CONSIDER A REFINANCE.

Bills are a lot like bad weather. They're going to come no matter what, so you might as well not try to fix them, right? For some bills, that's the case. For others, though, you can make a big difference in your monthly budget through a little legwork.

One of the bills you can change is your car payment. Refinancing your vehicle loan can lead to a lower monthly payment, a shorter term, or both! It depends on a range of factors, including the value of your vehicle, how much you owe on your current loan and your credit standing.

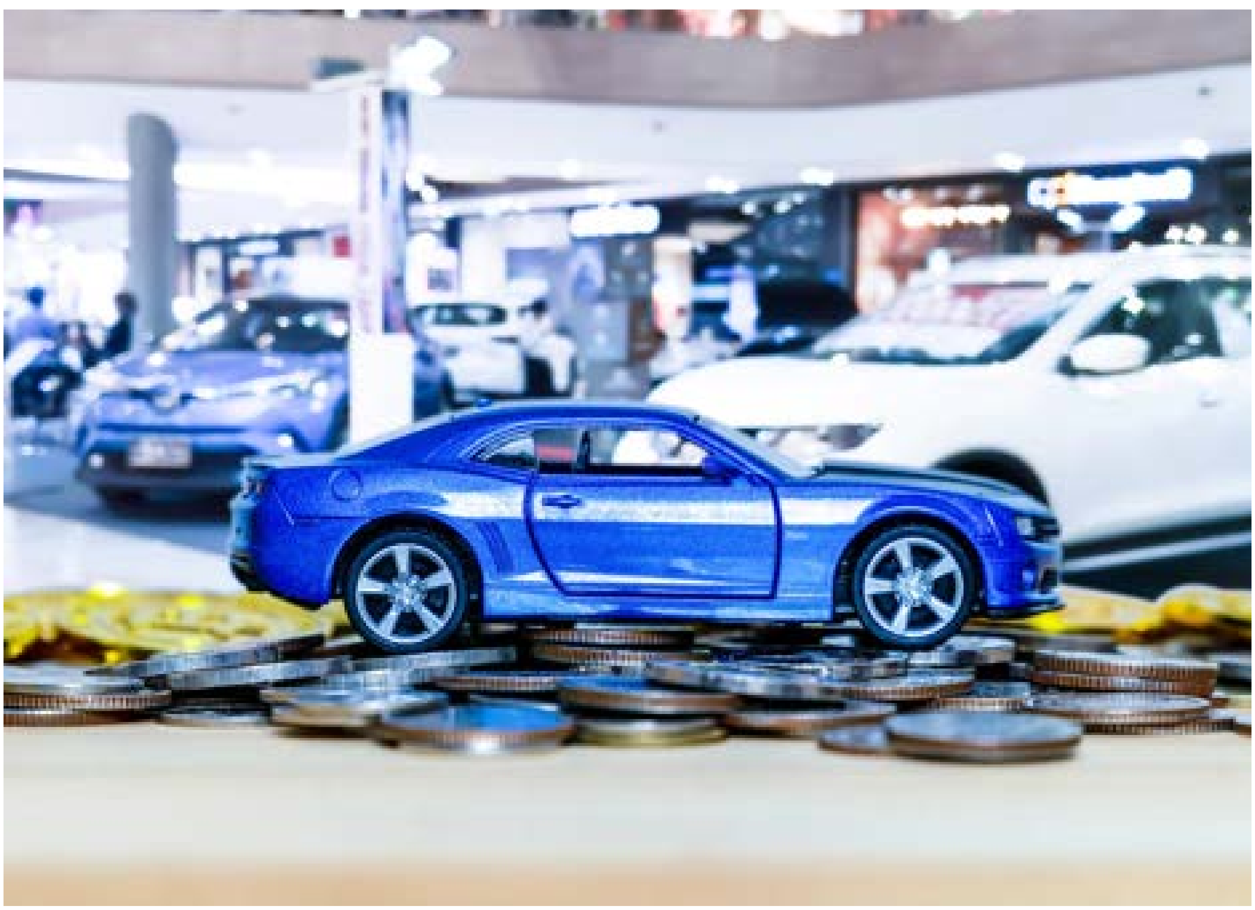
If any of these factors have changed since you bought your car, you owe it to yourself to check out your refinancing options. Let's look at some common life changes and when they might give you cause to look at refinancing. Read on to learn about three scenarios where refinancing makes sense for your car or truck:

1. Your credit improves

One of the biggest factors in determining your auto loan status is your credit score. When your lender is building a loan package, a credit report is pulled as a central part of that process. That number helps define your interest rate, whether or not you'll have to pay a premium for insurance and what other fees your lender might charge.

It's worth keeping a copy of the credit report your lender pulled. That can let you see if your credit score has improved. It can take as little as nine months of steady repayment to boost your credit score, and that could result in a lower-cost loan if you refinance.

If you didn't have much experience with credit when you purchased your vehicle, refinancing may do you a world of good. Interest rates as high as 18% are common for borrowers who have little to no credit history. Having even a few months of solid payments on your side can cut that rate in half or more.



2. You didn't shop around before you borrowed

Many people feel railroaded throughout the car-buying process. They pick a car they like, then they are told what the price is, what the monthly payment is and everything else. It may seem like the choice of lenders for your car loan is predetermined.

Dealers tend to have a smaller range of lenders with whom they exclusively work. Those lenders know they have limited exposure to competition, so they can charge slightly higher fees and interest rates. By doing your own comparison shopping, you can save quite a bit on both the loan and any ancillary insurances or warranties you may choose to purchase. Dealer rates tend to be 1 to 1.5% higher than those offered at smaller lenders, like credit unions.

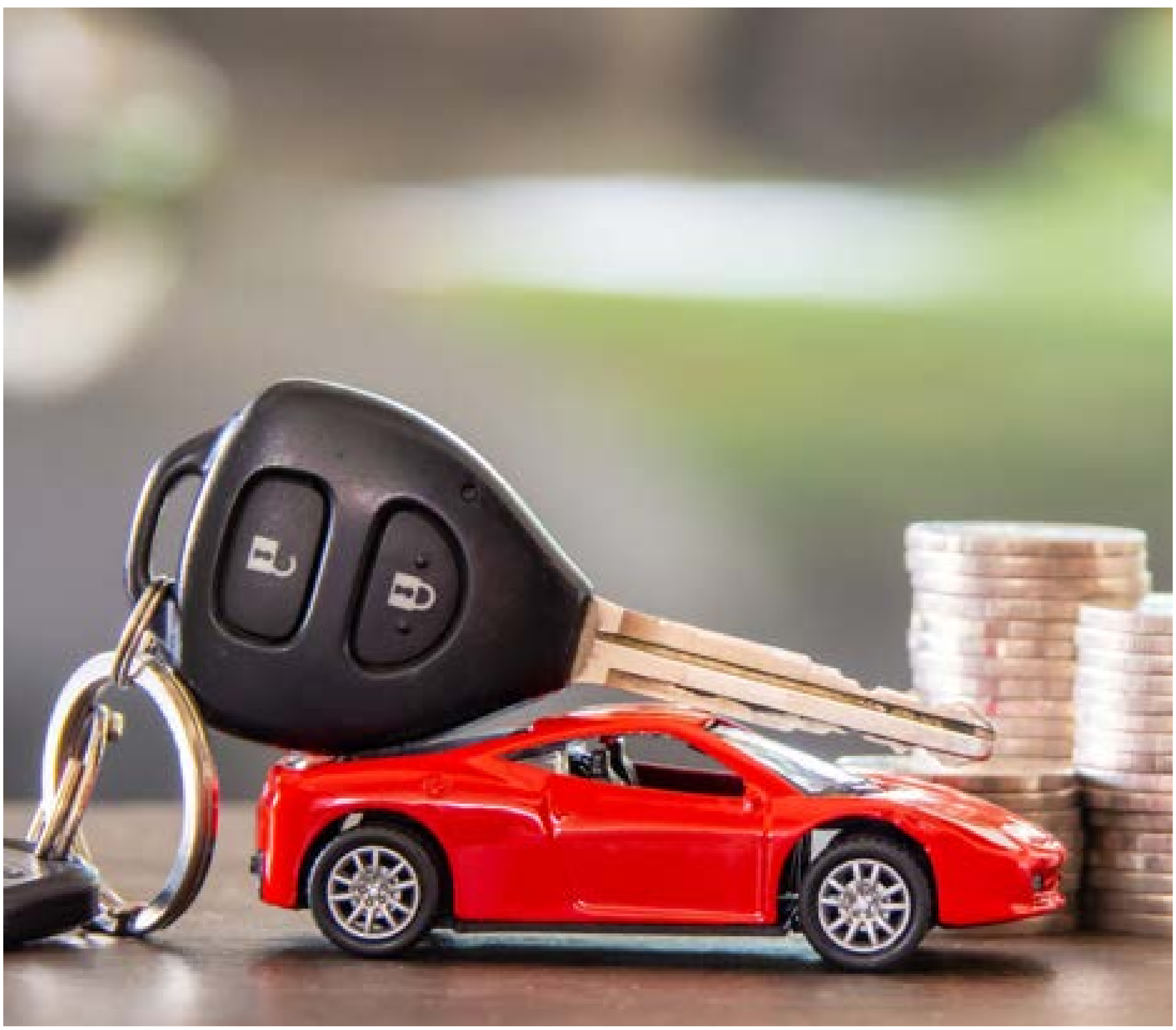
If you've never shopped around for a car loan, it's definitely worth doing. By getting multiple offers, you can ensure you're getting the best price available for your loan. Try to do your shopping inside a 15-day period. Otherwise, the multiple checks on your credit could negatively impact your credit score.

3. You need to change your monthly payment

You may be in a much better financial situation now than when you bought your car. You may have a better job or more security. You may have paid off credit card or other debt. All of these things free up how much you can pay per month.

Most people don't go into the refinancing process looking to increase their monthly payment, but you can save yourself money in the long term by committing to a faster repayment plan. If you can afford to pay more per month now, you can pay off the balance on your car faster. Shorter term loans usually also have lower interest rates since the lender assumes less risk in making the loan. Once the car is paid off, you'll have all that money to devote to other saving or spending priorities.

On the other hand, if money is tight, it might be a good idea to refinance into a longer term. While you might end up paying more in interest, you can reduce your monthly payment and save the money you need right now.



SHOULD I REFINANCE MY AUTO LOAN THROUGH MY CREDIT UNION?

Refinancing a large loan, such as an auto loan, into one that offers more affordable payback terms can make a huge difference in a monthly budget. Here are six reasons you may want to refinance your auto loan through your credit union.

1. Lower interest rates

Credit unions consistently offer interest rates that are lower than those offered by banks.. Refinancing your auto loan through your credit union can help you save a significant amount of money over the term of your loan.

2. Favorable terms

When you refinance a loan through your credit union, you can count on favorable payback terms to help ensure your payments are affordable. Our member service representatives will work with you to come up with a repayment plan that works best for your budget.

3. Easy eligibility options

As a member of our credit union, we always have your back. Our primary goal is to provide you with services and products that enable you to manage and save your money in the most optimal ways possible. To that end, our loans are always accessible and open to our members. Eligibility requirements are reasonable, and as long as you manage your money responsibly by meeting the payback terms, you'll likely be approved for a refinance on your auto loan.

On the flip side, when you apply for a loan through a big bank, you may be met with tight restrictions and strict requirements. But why jump through so many hoops to get the loan you need when your credit union is looking out for you?

4. Quick approval process

No one likes filling out paperwork. That's why our loan approval process involves minimal paperwork and as little wait time as possible. When you decide to apply for a refinance loan, we'll get you started on the application process and you can have the funds you need in as little as 24 hours.

In contrast, when you apply for a refinance loan through a big bank, you'll likely waste valuable time filling out an application and waiting for the loan to be approved (maybe even from someone at a headquarters that's not even close to your own community!). Why waste all that time if you can do it in a quicker and easier way through your local credit union?

5. Superior service

When you apply to refinance your loan at your credit union, you'll enjoy the personalized service and attention you've come to expect. As a member-owned and member-operated institution, we put your needs on the front burner and we're always happy to explain a process, assist with an application and/or answer any other questions you may have. Every member is part of the credit union family, and is treated as such.

Alternatively, when you apply for a loan at a big bank, the representatives are unlikely to know your name. You may have a limited amount of time for questions and assistance, and the entire process is likely to be cold and professional instead of warm and personalized.

6. The interest comes back to you

As a member-owned cooperative, your credit union passes the "profits" right back to its members. This means that, every time you pay interest on a loan that's funded through your credit union, the money comes back to you in the form of dividends on share accounts, investment in technology, classes on financial education and lower interest rates on large loans, like mortgages and auto loans.

However, when you pay interest on a loan taken out through a big bank, your money is used mostly to line the pockets of its CEOs and investors.

OUTRO

Buying a car and taking out an auto loan is a huge deal. Use the information presented here, as well as the resources and assistance available at your credit union, to help you make an informed decision you won't regret and to get behind the wheels of your new car sooner.

Happy driving!