

0% Financing – Should we be enticed?

Looking to increase sluggish sales, many auto manufacturers have again begun to advertise interest-free financing offers. At face value, these 0% Annual Percentage Rates (APRs) rates appear very attractive, but there are a few issues to consider before accepting this type of promotion:

- **Credit Rating** – Many of the deals are for “well-qualified” buyers only. Unless you have excellent credit, this financing rate may not be an option. In fact, statistics from CNW Research show that only about one-third of buyers who apply for zero-percent financing actually qualify.*
- **Shorter Loan Terms = Higher Monthly Payments** – Many of the 0% deals are for short-term loans, such as 36 months, making the payments much higher.
- **Down Payments** – Dealers often require large down payments in order for you to receive the 0% special rate. In addition, most of the 0% deals will not apply to those who have a trade-in with negative equity, when they owe more on their current vehicle than the car is worth.
- **No Rebate** – The customer may be asked to choose either zero-percent financing or a cash rebate. You can often do better by taking the rebate off the purchase price, applying it to the purchase, and financing the difference.
- **Less Choice** – You may be limited to what cars a dealer has in stock, resulting in sacrifice of color, style, or options. Additionally, unwanted options may be included, which can add 10% to 20% to the sticker price of a car.
- **Failure to Negotiate** - Many people who go to a dealer for the zero-percent financing get so distracted by the offer that they forget to negotiate the price of the car. They don't realize the price of the car and the cost of financing are two separate issues. While they got a good rate on the loan, they can end up paying thousands more than they need to for the car.

As a result of the above issues, only around 10% of consumers who visit a dealer and qualify for the 0% rate actually close the deal.** However, if none of these issues apply to you, a 0% financing offer allows you to essentially get money for free! A good plan would be to compare the deals offered by your Credit Union as compared to those of the auto dealer (be sure to compare apples-to-apples). “We encourage the Members of IBM Southeast Employees’ Federal Credit Union to comparison shop before purchasing their next vehicle. Although the APR is low, the benefits of financing through the Credit Union might actually outweigh those of the car dealership,” says John Zells, Executive Vice President and Chief Marketing Officer at IBM Southeast EFCU. Your Credit Union offers competitive rates and terms, a car finder service, and auto insurance, payment protection, GAP insurance and extended warranty options. Whether it’s financed at your Credit Union or the auto manufacturer; now is a great time to purchase a new car.

*Source: Consumer Reports online; November 2002.

**Source: NADA Chief Economist; November 2002.