

FINANCING YOUR NEW CAR

By Attorney Michael H. Wald

It seems today that everyone owns an automobile. However, the act of purchasing an automobile is still an intimidating experience. Very few people are comfortable with the details involved in financing a car. The following are a few of the things that may help you when purchasing a car.

When purchasing a car there are three ways to go about financing. One, you can pay cash for the car. This is the simplest and least expensive. Two, you can arrange for the financing yourself through a local bank, savings & loan, credit union, finance companies, etc. If you choose this method you need to have your financing arranged before you are actually ready to make the purchase. Third, you can use the financing provided by the dealer. The dealer can arrange financing through the manufacturer's credit source, or they can arrange it through banks and finance companies (just as you could).

Although the contracts used by most dealers are standardized contracts provided by the finance companies, always read the contract before signing. Once you complete the deal it is done. There is not a three day grace period in which you can bring the car back.

A contract should show the term (number of months of payments), interest rate, and the total amount being financed. It also should include a disclosure statement. This can be included in the contract or it can be on a separate form. The disclosure statement should show you the annual percentage rate, finance charges, amount financed, and the total of your payments. These forms should be filled out in their entirety before being signed.

In most instances the interest rate charged by the dealer is negotiable. The dealer completes the

contract, then he sells the contract to a local bank or finance company. The difference in what they charge you and what the bank charges them is how he makes his profit. This also allows you to try and negotiate a better interest rate.

The length of the contract is also negotiable. Contracts can be for any period of time. Dealers or financiers will try and set them up for the longest period they can. By setting the contracts up for a longer period of time they earn more interest. However, by decreasing the length it could increase the amount you will have to pay each month.

Payments can vary due to several other reasons. The type of car you buy of course can greatly affect the amount of your payments. Your credit record can also affect the amount of your payments. If you have a poor credit rating you are considered a greater risk, so you will be charged a higher interest rate than someone with a good credit rating. Your payments may also vary according to the amount that you wish to pay down on the car. The more that you pay down the less that has to be financed. There is usually no prepayment penalty in car financing loans.

Dealers can also make deals on trading in your old car. If you own a car and you still owe money on it, the dealer usually can arrange to include the payoff on the old car in the note for the new car. Dealers also have options that are available to you, such as credit life, which will pay off the loan if you should die, accident and health, which will make payments for you if there was an accident that prevented you from working; and an extended warranty.

You are not required to get these optional items, however, there are some items that, generally, you must have. You are required to have physical damage or collision insurance. You are also required to have comprehensive insurance in case the car is stolen or damaged.

Just remember that the automotive industry is very competitive. So shop around and don't be

afraid to negotiate. You never know what kind of a deal you might find.

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