

Interest rates and car loans

By Karin Price Mueller/NJMoneyHelp.com August 29, 2016 2:00 PM

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Q. I'm 23 and I will need to buy a new car soon – I think – I can take a loan but I don't know what down payment I will need and how much of a payment I can afford.

— Needing wheels

A. Lots of people love the smell of a new car, but it comes at **a huge cost** and it's not always the best investment.

First, think about whether you actually need a new car or if it might make sense to purchase a previously owned car, said Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains.

“If you have a mechanic you know and trust available to do a full checkup of the car, it may be worthwhile to consider the purchase of a used car,” she said. “The cost savings could be significant if you are willing to consider used.”

Aznar said if you decide to buy, the amount that you put down will impact the amount of the loan, of course, and hence the monthly payments. **The more you put down**, the lower your monthly

your payment will be, Aznar said. “And finally, the lower the interest rate that you are able to secure, the lower your payments will be.”

If you have some savings accumulated in excess of an **emergency fund**, which you should always keep on hand, and if you have paid off all high-interest rate credit card debt, and if your biggest concern is having a low monthly payment, you might want to consider **putting down a higher deposit**, she said. If you do not have savings accumulated or need your savings for other goals, then you will have to manage with a slightly higher payment each month.

Keep in mind, the longer the term of the loan, the lower your monthly payments will be, but the more you will pay in interest over the life of the loan.

“The interest rate you secure will be partially dependent on **your credit score**,” she said. “If you have good credit history, you should be able to secure a fairly low interest rate on the loan.”

To help you with some real numbers, Aznar offered the following example. If the purchase price is \$20,000 and you have a \$2,000 deposit, that leaves you with a loan of \$18,000. If you receive a 3 percent interest rate, you’d pay monthly \$523 for a three-year loan, \$323 for a five-year loan and \$273 for a six-year loan.

And in case you want to consider a lease, **read this story**.

Good luck with your new wheels!

Email your questions to **ask@njmoneyhelp.com**.

*Karin Price Mueller writes the Bamboozled column for The Star-Ledger and she’s the founder of **NJMoneyHelp.com**. **Click here** to sign up for the NJMoneyHelp.com weekly e-newsletter. Like NJMoneyHelp.com **on Facebook** and **follow it on Twitter**.*