



How to Negotiate an Auto Loan

Negotiating an auto loan is essential if you want to save money on your vehicle purchase. The vehicle's auto loan is a big source of profit for the dealership, so it's important to know what can be negotiated and how to do it.

Before Going to the Dealership

- ☐ Check your credit score before you go to the dealership. There are several different credit scores that lenders use, but the most common is the FICO score.
- ☐ Have some sort of down payment prepared for the auto loan. Most times, the minimum is 10% of the car's price, but depending on your credit score, it can be as high as 25 or 30%. Most lenders require at least 10 to 20%. If you have no down payment, there's no point in applying for the car loan. Very rarely, shoppers who have excellent credit scores are not required to give a down payment. If you have a trade-in vehicle, that can be used as your down payment.
- ☐ Get pre-approved financing through your bank, credit union or private lender to see if the dealership can beat the interest rate you've been offered. This gives you the upper hand in the negotiations. Keep all your auto loan applications to a one or two-week timeframe so your credit score doesn't take a hit.

Focus on Vehicle Price First

- ☐ Negotiate the price of the vehicle first. Look up the vehicle's dealer invoice price online before you go to the dealer, to see what they pay for the car. This gives you a starting point for your negotiations. See if there are any cash rebates, auto loan rate incentives or dealer incentives for that particular make and model.
- ☐ How much will sales tax cost on the negotiated price of the vehicle? You may want to bring a small calculator with you or use your cell phone to quickly calculate the tax. Six percent tax on a \$20,000 vehicle will cost you an extra \$1,200, which will be rolled into the auto loan, increasing your monthly payment.

Auto Loan Application

- ☐ You'll then fill out the auto loan application. The finance manager will pull your credit report and your credit score. Your auto loan specific credit score will also be pulled. They will shop you around to their lenders to see who wants to lend you the money. The lender wants to know your income, down payment amount, credit score, negotiated price of vehicle, debt-to-income ratio and payment-to-income ratio.
- ☐ Now the finance manager will tell you what you were approved for through one of its lenders. They'll tell you the interest rate and loan length and down payment required. If you know what your credit score is, you should know immediately if this is a fair offer. For example, if you know you have a bad credit score, an offer of 15% wouldn't be outrageous. If you know you have a high credit score and are being offered 10% or higher, then you know you're getting ripped off.

Auto Loan Application Continued...

- ☐ At this point, you have a few options. If you have pre-approved financing at a better rate, simply use that financing and reject the dealer's offer. If you don't have pre-approved financing, you can tell them that the rate being offered is too high for your credit score and they can either do better or you'll leave and find outside financing. Since the dealer will want to sell you the car right then and there, they'll most likely come back with another offer, whether it's a lower interest rate or a bigger discount on the car.
- ☐ It's imperative to know what your monthly budget is before you go to the dealership. This way, you'll know if 5% over three years works for you (about \$616 on a \$20,000 car) or if 7% over six years (about \$313) fits your monthly budget better. Most people simply can't afford a huge monthly car loan payment, so stretching the loan out to four, five or six years is a better option for them.
- ☐ Pick the best option for you and if the dealer can't provide you with financing that you feel is suitable for your credit score and budget, you don't have to buy the car right then and there. Tell the finance manager that you'll try to find your own financing and that if the negotiated vehicle price and trade-in price remains the same, you'll return to buy with outside financing. If the price of the vehicle or trade-in changes within that time, you might want to visit another dealership.

Add-ons and Paperwork

- ☐ Once you've both agreed on the financing, you'll then be offered add-on items like an extended warranty, paint protection, fabric protection, etc. These will cost you more through the dealer, but if you really want them, they can also be negotiated. Make sure you have researched the cost before you go to the dealership. Most times, these items are unnecessary or can be purchased separately (with a lower interest rate) outside the dealership.
- ☐ Now it's time to fill out the paperwork. Your car loan paperwork will probably cover lemon laws, license plate transfer, rescission agreement (if you're denied for the loan or lie on your application, the dealer can ask for the car back), purchase agreement, we owe form (if you've asked the dealer to pay off your trade), cash back rebate form (if it was available on that model) and the loan agreement.
- ☐ Make sure you read and verify every line item on the paperwork before you sign. There have been instances where the interest rate was changed or the vehicle's price was increased, and the consumer doesn't realize until after signing on the dotted line.

That's it! If you've followed all these steps, then you got a great deal on your new or used vehicle's auto loan. Although there are many items involved in financing a vehicle, and it can be daunting and confusing, once you get through the process, you can drive home in your new car, knowing you got the best deal you could.