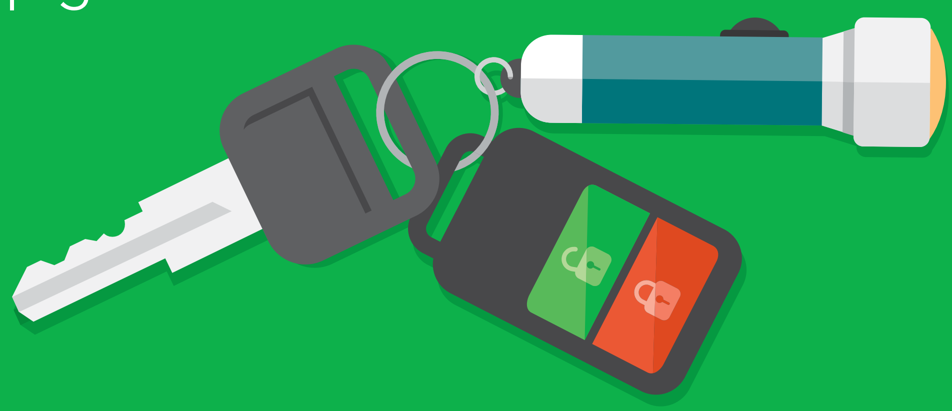
FREE PRINTABLE &
DOWNLOADABLE GUIDE

www.consumerfinance.gov

Published March 2024

Take control of your auto loan

A step-by-step guide



Consumer Financial
Protection Bureau

How can this guide help you?

You can shop around for more than just the best deal on a vehicle. Shop around for the best auto loan, too. Preparing ahead of time and knowing how to navigate the process can help you save money and reduce stress.

This guide walks you through:

How to use this guide

The location symbol orients you to where you are in the auto loan process

The magnifying glass highlights tips to help you research further and defines important terms

The speech bubble shows you conversation starters for talking to others

The auto loan worksheet at the end of this guide can help you compare your loan choices

About the CFPB

The Consumer Financial Protection Bureau is a 21st century agency that implements and enforces federal consumer financial law and ensures that markets for consumer financial products are fair, transparent, and competitive.

Budgeting for your auto loan

You've decided to purchase a new or used vehicle. Now it's time to figure out how much you can afford.

Have a budget before shopping for an auto loan. This helps you choose a loan that you can afford and pay on time. Make sure your budget has room for the loan plus the other costs of auto ownership.

Ways to reduce the costs of the loan include:

- Saving for a larger down payment
- Buying a less expensive vehicle
- Getting fewer features and options

1. Determine how much loan you can you afford

You are the best judge of your own financial picture—still, there are online tools that can help you.

- For information on making a budget, visit the online guide, consumer.gov/managing-your-money/making-budget
- To get started filling in a budget worksheet, visit consumer.gov/sites/default/files/pdf-1020-make-budget-worksheet_form.pdf
- To research vehicles that fit your budget, take a look at websites such as Consumer Reports (consumerreports.org/cars), Edmunds (edmunds.com), Kelley Blue Book (kbb.com), and JD Power (jdpower.com/cars)

- For more facts on buying and owning an automobile, see the Federal Trade Commission's guide, consumer.ftc.gov/topics/buying-owning-car

2. Look beyond the monthly payment

Remember to think about a loan in terms of the total cost of financing a vehicle, not just the monthly payment.

- Low monthly payments generally mean a longer time paying back the loan. At the same time, longer term loans can mean you pay more money in interest.
- A longer loan puts you at risk for negative equity over a longer period of time. Negative equity is when you owe more on the vehicle than the vehicle is worth. See more about negative equity: consumerfinance.gov/askcfpb/2045.

3. Factor in all the costs of ownership

In your budget, factor in the other costs of ownership, such as:

- State taxes, title fees, and dealer fees, plus other costs you pay at the time of purchase
- Insurance, gas, registration fees, maintenance, and repairs, plus other costs you pay for as long as you own the vehicle

4. Look ahead to the resale value of your new vehicle

A vehicle loses value over time. Think ahead to when you might sell or trade it in and look at the estimated resale value for similar vehicles. It also matters if you have paid off your loan by then, or still owe money. Both these factors can affect how much you can afford to pay today.

Understanding your auto financing choices

You've determined how much you can afford to spend. Now it's time to explore your loan choices.

Many people borrow money to pay for their new vehicle. Understanding the loan process and knowing your choices helps you save money.

1. Know the sources of auto financing

You can shop around for auto financing even before you shop for a vehicle. Banks, credit unions, and dealerships are the most common places to find an auto loan. Consider getting one or more loan quotes from a bank, credit union or other lender before going to the dealership. It puts you in a better bargaining position and could save you hundreds or thousands of dollars over the life of your loan.

Auto loans from a bank, credit union, or nonbank auto finance company

You can get a quote or preapproval on an auto loan from a bank, credit union, or other lender before you choose a vehicle. You can also check out nonbank lenders and online lenders.

A preapproval from a lender is a loan quote that includes an interest rate, loan length, and maximum loan amount based on your credit scores, the terms of the loan, and the type of vehicle you have in mind. The rate and terms you are offered may be negotiable.

TIP: Although it might be helpful if you already have an established relationship with a lender, you don't have to have one to apply for an auto loan.

Dealer-arranged financing

With dealer-arranged financing, the auto dealership collects information from you and forwards that information to one or more prospective auto lenders. If a lender agrees to finance your loan, they may authorize or quote a rate to the dealer to finance the loan, referred to as the buy rate.

Dealers are allowed to charge you more than the buy rate as compensation for helping connect you and the lender. This means that the interest rate the dealer offers may be higher than the original rate given from the lender, so you may be able to negotiate. Ask or negotiate for a lower interest rate.

For more about buy rate, see consumerfinance.gov/askcfpb/727.

The Talk:

When the dealer presents you the interest rate and the rest of the details of a loan through dealer-arranged financing, take the opportunity to negotiate. You can ask, "Can you offer me a lower rate based on my credit score?" You can show them a lower quote you've gotten from another source, like a bank or credit union.

"Buy Here Pay Here" dealership financing

Some types of dealerships finance auto loans "in-house" to borrowers with no credit or low credit scores. At "buy here, pay here" dealerships, you might see signs with messages like "No Credit, No Problem!" You make your monthly payment to the dealership.

The interest rate is likely to be higher than loans from a bank, credit union, or other type of lender. You can think about whether the cost of the loan outweighs the benefit of buying the vehicle. Even if you have poor or no credit, getting a quote from a bank or credit union could help you save money.

Falling behind can put your vehicle at risk

"Buy here, pay here" dealerships, and other lenders that lend to people with no credit or poor credit, are permitted to put devices in the vehicle that help them repossess or disable the vehicle if you miss a payment.

2. Understand how leasing works

A lease is an agreement to pay to use a vehicle for an agreed number of months or miles. If you lease a vehicle, you do not own it and you return the vehicle after the lease ends. Some lease contracts include a purchase option and it's your choice whether to exercise the option and buy the car.

If you are considering leasing, carefully compare the costs of leasing and buying.

- Check out more about leasing at consumerfinance.gov/askcfpb/815
- Review the FTC's guide on financing or leasing a car at consumer.ftc.gov/articles/financing-or-leasing-car

Shopping for your auto loan

You know your loan options. Now it's time to shop around.

Shopping for loans and trying to get the best rates and other terms, while complicated, is like other types of comparison shopping. Shopping ahead of time gets you ready for negotiating your auto loan and makes the process less stressful.

1. Prepare before you apply for an auto loan

It's worth it to take steps and prepare before you shop and bargain for an auto loan.

Check your credit report

The information in your credit report determines your credit scores, and your credit scores play a large part in determining the auto loan you're offered and how much interest you pay. Here are some helpful resources:

- Get a free copy of your credit report from each of the three nationwide credit reporting agencies, at annualcreditreport.com
- See more about credit reports and scores: consumerfinance.gov/consumer-tools/credit-reports-and-scores/
- Review how to check your credit report for errors and dispute them: consumerfinance.gov/askcfpb/314

Do you need a co-signer?

A co-signer is a person – such as a parent, family member, or friend – who is contractually obligated to pay back the loan just as you are. If your credit history is limited or needs improvement or you have a low credit score (or no credit score), getting a co-signer with good or excellent credit could significantly reduce the interest rate you are charged. That's because the lender relies on the co-signer's credit history and scores in deciding to make the loan.

If you are considering having a co-signer, you and the potential co-signer should think carefully about this decision. You and your co-signer are equally responsible for missed loan payments. The co-signer is responsible for the loan even though they have no right to possession of the vehicle. In addition, late payments affect both your credit record and scores and your co-signer's credit record and scores. Federal law generally prohibits a lender from requiring you to have a co-signer if you apply for a loan individually and you qualify under the lender's standards for creditworthiness for the loan. For more information on co-signing visit consumerfinance.gov/askcfpb/811.

Check current auto loan interest rates

You can research rates by contacting several banks, credit unions, or other lenders. You can also look online at many commercial sites which may give you an estimate of interest rates nationwide and by your zip code. Some commercial sites link to specific lenders and dealers for estimates, so you may want to be careful about entering your personal information.

Consider a down payment

A **down payment** is an amount you pay up front. Making a down payment reduces the total amount that you borrow. The larger the down payment, the lower the total cost of the loan.

Decide if you want to trade in your current vehicle

If you already own a vehicle, research its value to see how much you might get from trading it in or selling it. You can look up the approximate value using online commercial websites such as Consumer Reports, Edmunds, Kelley Blue Book, JD Power, and online classifieds. These resources may also be available at your local library.

Once you know approximately how much your current vehicle is worth, you can decide whether to trade it in or sell it yourself. If you trade it in at a dealership, you and the dealer decide on the value to credit toward the purchase price of your next vehicle. If you sell it yourself, you can use the money you get as a down payment.

What to consider when you still owe money for a car you are trading in

Carefully consider whether to take on new debt in addition to your existing debt. Here are some considerations and steps:

- Get the payoff amount, which is the amount to pay off the existing loan, from your current lender before going to the dealership.
- Decide if you are going to pay off your old loan now, wait until you pay off your old auto loan before you borrow for another vehicle, or include the amount that you still owe on your old loan in your new auto loan.
  - If you don't roll the amount you still owe on your old vehicle into the new loan, and keep your current vehicle while buying a new one, then you will have two loans and two monthly payments to make.
  - If you owe more on your current vehicle than it is worth – referred to as being upside down – then you have negative equity. If you roll the balance of your existing auto loan into your new auto loan, this could make the new auto loan much more expensive. Your total loan cost is higher because you are borrowing more than just the price of your new vehicle
- Research your trade-in's value, and make sure during any negotiations that you consider whether you are getting fair value for your trade-in.

Think about optional add-ons ahead of time

When you go to an auto dealer, they often tell you about add-on products and services for the vehicle or for the loan. Add-ons are optional products and services that you can choose to add to your loan. It's a good idea to think about these add-ons ahead of time. Common add-ons include:

- **Service contracts or extended warranties** (consumerfinance.gov/askcfpb/825)
- **Guaranteed Asset Protection (GAP) insurance** (consumerfinance.gov/askcfpb/797)

- **Credit insurance** (consumerfinance.gov/askcfpb/799)
- **Additional features for the vehicle**, such as alarm systems, window tinting, tire and wheel protection, and other products

If you decide to buy add-on products or services, the price is negotiable. Shop around. For example, your own auto insurance company may offer GAP insurance, credit insurance, or other alternatives. If you borrow money for these optional add-ons as part of your loan, the amount you pay increases. Other than features you choose for the vehicle, you have the right to cancel add-ons at any point during the life of your loan, and this could save you money.

2. Shop for an auto loan

Before you head to the dealership, gather your personal information and consider getting preapproved for a loan. Shopping ahead of time gets you ready for negotiating your auto loan and makes the process less stressful.

Gather your personal information

When you're heading over to a bank, credit union, or dealership make sure to gather all the information you need. Lenders generally ask for this information in a loan application:

- Name
- Social Security number or ITIN
- Date of birth
- Current and previous addresses and length of stay
- Current and previous employers and length of employment
- Occupation
- Sources of income
- Total gross monthly income
- Financial information on current credit accounts, including other debts

Get preapproved for a loan

Getting a preapproved loan offer or quote with a maximum loan amount and rate from a bank, credit union, or other lender is a good place to start. If your application is preapproved, the lender gives you documents to take to the dealership. Once you are ready to buy, the dealer makes final arrangements with your lender.

The Talk:

With a loan quote you've already received from a bank or credit union, you may be in a stronger bargaining position to get a better rate on a loan at the auto dealership. Try saying, "I see the amount of the loan and the interest rate you're offering, but I brought a preapproval with me, and it's a better deal. I'll go with them, unless you can match their rate, or even offer me a lower one."

Preapproval also helps you set a budget without the pressure you might feel once you are at the dealership. Then at the dealership you can focus more on the actual price of the vehicle and your trade-in (if you have one) because you already know about the loan terms that you could get. You still have the choice to negotiate a better loan at the dealership and not use your preapproval.

Understand how shopping for a loan impacts your credit score

Shopping for the best deal on an auto loan generally has little to no impact on your credit scores. The benefit of shopping far outweighs any impact on your credit. Depending on the credit scoring model used, generally any requests or inquiries for your credit scores within about 14 to 45 days counts as a single inquiry. This means shopping around for an auto loan during that time span minimizes any negative impact on your credit scores.

Know your rights

A lender cannot discourage or deny your application for credit, or offer different prices or other terms and conditions of the loan, based on your race, color, religion, national origin, sex (including sexual orientation and gender identity), marital status, age, receipt of public assistance income, or good faith exercise of any right under the Consumer Credit Protection Act.

If you believe you have been discriminated against on any of these prohibited bases, you can submit a complaint with the Consumer Financial Protection Bureau (CFPB) online at consumerfinance.gov/complaint or by calling toll-free 1-855-411-CFPB (2372.

Negotiating your auto loan

You've shopped for your auto loan. Now it's time to negotiate your loan terms.

When you look for a vehicle, you might know that you can negotiate the vehicle's price, but did you know that you can also shop around for and negotiate the terms of your auto loan? Shopping and negotiating can save you hundreds or even thousands of dollars over the life of your loan.

1. Know what is negotiable

It's important to know all the factors that could impact the cost of your auto loan that you can negotiate. You should consider all these factors when you buy and finance a vehicle. Besides the price of the vehicle, you can negotiate:

- Trade-in value (if you trade in your vehicle) and down payment amount
- Annual Percentage Rate (APR) and interest rate
- Length of loan
- Whether or not there is a prepayment penalty
- Price of optional features and services for the vehicle or the loan such as extended warranties, credit life insurance, GAP insurance, alarm systems, tire and wheel protection, window tinting, and other products
- Fees charged by the dealer such as dealer preparation fees, delivery charges, and document fees.

You cannot negotiate taxes, vehicle title, and registration fees. These fees are set by your local or state government.

2. Negotiate to lower the total cost, not just the monthly payment

When you are looking for a loan, you may find it easy to focus just on the monthly payment or the price of the vehicle. But looking at only one factor doesn't give you the whole picture. The best way to compare auto loans is by using the total cost of the loan. Use the auto loan worksheet at the end of this guide to help you calculate and compare the total cost.

Your total loan cost starts with the **amount financed**. The amount financed is the amount of money you are borrowing. It includes the price of the vehicle, taxes and other government fees, as well as any optional add-ons like extended warranties and optional credit insurance, minus your down payment and any trade-in amount. The amount financed does not include the cost to borrow the money. That cost is known as the **finance charge** and includes interest and certain fees over the life of the loan.

Your **total loan cost** is the amount financed plus the finance charge. By negotiating for better terms on your loan, you can reduce the total amount of money you pay. For example:

- Interest rate. Getting a lower interest rate means you pay less to borrow money. The total cost of your loan is lower.
- Down payment or trade-in. A higher down payment, or a higher price for your trade-in, reduces the total amount financed because you borrow less money.
- Options. Optional add-on products like extended warranties, GAP insurance, or credit insurance that are added into your loan amount increase your total cost because you borrow more money.

Compare loans

On the auto loan worksheet you can enter the amounts on several loans you are comparing to see your estimated monthly payments, total interest cost, and the total cost that you pay over the life of the loan.

How the length of your loan term affects what you pay

Below is a sample comparison to illustrate how you pay less in the long run if you have a shorter loan term. The table below assumes a **$20,000 loan** and an **interest rate of 4.75%**.

Loan term	Monthly payment	Total interest paid
36 months *(3 years)*	**$597**	**$1,498**
48 months *(4 years)*	**$458**	**$1,999**
60 months *(5 years)*	**$375**	**$2,508**
72 months *(6 years)*	**$320**	**$3,024**

While the lower monthly payment for a longer period of time may look good, consider the total interest cost over the term of the loan. If you pay off a $20,000 loan over three years, you pay $1,498 in interest. For a six-year loan, you pay $3,024 in interest–about twice as much. Some financial advisers recommend keeping your auto loan to five years or less, because the longer the loan, the more likely you will owe more than the vehicle is worth.

3. Keep track of multiple factors while negotiating

When you are negotiating for financing with a lender or at a dealership, make sure you are keeping track of all the factors that go into the total cost of the loan. If you are negotiating the interest rate, make sure that you also know the length of the loan and other terms. Comparing total loan cost helps you keep an eye on these multiple factors.

Ask the dealer to tell you the price, trade-in amount, interest rate, term of loan, estimated monthly payments, and write these numbers down on the auto loan worksheet. It's best to get these numbers early in the process, so you can better compare and negotiate.

Just as the first price you are offered for the vehicle may not be the lowest price available to you, the first rate for a loan the lender or dealer offers you may not be the lowest rate you qualify for. If the lender or dealer agrees to a better loan feature (such as a lower APR or interest rate), check to make sure that other factors like the length of the loan or the amount financed haven't changed. A lower monthly payment doesn't necessarily mean a lower interest rate; it might just mean that you are paying for a longer time.

Closing the deal

You've now negotiated your auto loan. Before you drive away, make sure everything matches what you agreed to.

You are almost finished! The hard part is done and now comes an important final step. You have to review the paperwork, check the final terms and numbers against the auto loan worksheet, and be fully satisfied that the written deal is what you want.

1. Verify that you get what you agreed to

Before you are legally obligated under the loan, lenders are required to give you specific disclosures in writing about important terms. This requirement is contained in the federal Truth in Lending Act. One purpose of the federal law is to help people make apples-to-apples comparisons between loans. The important terms include:

- **Annual Percentage Rate (APR):** The APR is the cost of credit expressed as a yearly rate in a percentage (Learn more at consumerfinance.gov/askcfpb/733)
- **Finance charge:** Cost of credit expressed as a dollar amount (total amount of interest and certain fees you pay over the life of the loan if you make every payment when due)
- **Amount financed:** The dollar amount of credit provided to you (normally, the amount you are borrowing)
- **Total of payments:** The sum of all the payments that you will have made at the end of the loan (repayment of the principal amount of the loan plus all finance charges)

The disclosure also includes other important terms such as the number of payments, the monthly payment, late fees, whether the loan has a variable rate, and whether you can prepay your loan without a penalty.

It's ok to walk away if you feel uncomfortable

If you are not comfortable with any aspect of the loan or the process, you can always leave without completing the deal. Take time to think it over and come back another time. No one can make you accept financing or a vehicle that you are not satisfied with.

2. Check the paperwork

Once you have finalized the negotiations, examine all the paperwork before signing. Make sure all the loan costs and terms are what you agreed to during the negotiations.

Ask questions

If there are things you don't understand, ask questions. Don't sign until you are satisfied. Since you are signing a contract and this is a major purchase, it's important that you understand what you are signing.

Finalize the financing before you sign the contract

Make sure that the loan paperwork is complete before you sign a contract to purchase the vehicle. If you don't have the loan documents signed, the dealer could ask you to come back in and sign for a higher interest rate, add a co-signer, or make some other change different from what was agreed. You don't have to agree to a second deal. If this happens and you don't agree to a second deal, the dealer has to unwind the sale and give you back your trade-in and down payment.

Some dealers allow you to take possession of the new vehicle before the loan is approved by the lender. This practice, called spot delivery, could put at risk the deal that you thought you had. By having a signed contract with all terms finalized, you can avoid potential problems.

Make sure you have a copy of all the documents

Before you drive off with your new vehicle, make sure that you have a copy of all documents that both you and the dealer have signed and that all blanks are filled in.

> If you're having trouble with an auto dealer and you can't work with them to solve the problem, you might want to seek legal assistance and file a complaint with your state attorney general or consumer protection office. To file a complaint with your state attorney general visit naag.org. To file a complaint with your state consumer protection office visit usa.gov/state-consumer.

3. Pay attention to the details after you drive away

After you take out a loan, you should receive an introductory letter from the lender that provided the financing. This letter includes important information related to your loan – including where to send your payments and payment due dates. Make sure to make your monthly payments on time to avoid the cost of late fees and the possible repossession of your vehicle, as well as negative entries on your credit report.

> ### Your loan servicer might be different from your original lender
>
> After your purchase is finalized, a dealer-arranged loan might be sold to another lender. That lender could own your loan and collect the monthly payments, or transfer those responsibilities and rights to other companies.

CFPB AUTO LOAN SHOPPING SHEET

Comparing auto loans

Directions: Bring this sheet with you to show you are serious about getting the best loan. The factors you can negotiate are indicated with an icon.

Determine your upfront costs

	Example	Choice 1	Choice 2
A. **Price of the vehicle**	*$20,000*		
B. **Additional features, services or add-ons** These are optional and will increase the total cost of the loan.	+ *$300*	+	+
C. **Taxes, title and non-negotiable fees** State and local taxes, and title fees.	+ *$1,400*	+	+
D. **Negotiable fees** You can negotiate fees such as delivery charges, origination fees, document fees, and preparation fees.	+ *$100*	+	+
E. **Cost of the vehicle before interest** *(add rows A, B, C & D)*	= *$21,800*	= $ 0	= $ 0

Calculate how much you will need to borrow

F. **Down payment** A larger down payment will lower the total cost of your loan.	– *$3,000*	–	–
G. **Trade-in value** (if you already have a vehicle) A higher trade-in value will lower the total cost of your loan.	– *$3,000*	–	–
H. **Total amount to finance** *(subtract rows F & G from row E)*	= *$15,800*	= $ 0	= $ 0

Consumer Financial Protection Bureau

Finish finding the total cost on page 2

Know how much money you'll pay over the life of the loan

Before deciding on loan length and payment options, calculate the total cost to see which choices work best for you. This will help you see how much you will pay in total for your auto loan.

Determine your upfront costs	Example	Choice 1	Choice 2
I. **Interest rate** ⇕ Negotiating a lower interest rate will lower your total cost.	*3.5%*		
J. **Length of loan in months** ⇕ A longer loan term will increase the total cost.	*48 months (4 years)*	months	months
K. **Monthly payment** Use a loan calculator or ask your lender or dealer.	*x $353.22*	x	x
L. **Total of payments over life of the loan** *(multiply rows J × K)*	= *$16,955*	= $ 0	= $ 0

Find the total cost of your purchase

Compare the total cost of your offers and the amount of interest charged.

M. **Add in down payment and trade-in** *(add rows F + G)*	*+ $6,000*	+ $ 0	+ $ 0
N. **Total cost of your purchase** *(add rows L + M)* This is how much you will pay to buy your vehicle, including all of the interest, over the life of the loan.	= *$22,955*	= $ 0	= $ 0
O. **Cost of vehicle before interest** *(row E from page 1)*	– *$21,800*	– $ 0	– $ 0
P. **Total interest paid over life of the loan** *(subtract row O from N)*	= *$1,155*	= $ 0	= $ 0

Online
consumerfinance.gov

By phone
(855) 411 CFPB (2372)
(855) 729 CFPB (2372) TTY/TDD

By mail
Consumer Financial Protection Bureau
P.O. Box 27170
Washington, DC 20038

Submit a complaint
consumerfinance.gov/complaint

Last updated 3/2024