

options, which become less attractive as the loan term lengthens. The dealer's three-year loan has a 4.9% rate, while its four-year loan has a 5.9% rate, and its five-year loan has a 6.9% rate. Financing \$18,000 on your \$20,000 car at the dealer's 5.9% rate for four years results in a monthly payment of \$422—a more realistic outlay for many budgets. But you likely can do even better at your credit union by using the next option.

### Rebates

If you choose the dealer's rebate plan, you forego the low-interest-rate loan, but get a \$1,500 or \$2,000 cash rebate. Adding the rebate to your down payment can make credit union financing very attractive—because the larger down payment reduces the amount you need to finance.

So which alternative is best—taking the dealer's low-rate loan or the credit union's loan with the dealer's cash-back offer? To find out, refer to the tables and "How to use the tables" sidebar. They show the minimum cash back (expressed in dollars per thousand you finance) to match or improve on the dealer's offer.

Look at the four-year loan table to see how it works: Assume you can get a credit union loan for 6%. The table shows that with a dealer rate of 3.9% (rounded to 4% in the example) a dealer discount of \$39 per thousand financed equalizes the financing options.

In other words, if you are going to finance \$20,000, a dealer rebate (or discount you negotiate) of more than \$780 (39 x 20) makes the credit union loan the best option.

The dealer's \$1,500 rebate is much more than the \$780 break-even rebate, so the credit union loan would be your clear choice.

# Sample

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If you really want the item, ask the retailer what its terms are. Many people accept offers without being aware of the consequences.

For example, keep in mind that just because you get 0% financing for, say, 12 months, doesn't mean you don't have to pay. If you don't pay off the item before those 12 months are up you're going to face some hefty interest charges.

Let's say you buy a \$600 couch with a 12-month, 0% financing offer. As part of the terms of your contract, if you haven't fully paid for the couch by the due date, a 20% annual percentage rate (APR) will accrue from the date of purchase. So if you haven't completely paid for that couch after 12 months, you owe an additional \$120—no matter how much money you have left to pay. And the cost of that couch rises to \$720.

Even if you know the terms and plan to pay the entire balance before the specified date, stop and think. A lot of things can happen in a year. There is no way for you to know what financial obstacles you are going to run into.

If you really need an item, and you can't afford the entire thing right now, stop by the credit union and ask a loan officer what kind of financing it can offer. You'll often find a better deal there.

When a Rebate is Better Than a Four-Year Dealer Loan

Credit union rate	Dealer rate								
	0%	1%	2%	3%	4%	5%	6%	7%	8%
5.0%	\$95	\$77	\$60	\$39	\$20	*	*	*	*
5.5	104	86	67	48	29	\$10	*	*	*
6.0	113	95	76	58	39	19	*	*	*
6.5	122	104	85	67	48	29	\$10	*	*
7.0	130	112	94	76	57	38	19	*	*
7.5	138	121	103	85	66	48	29	\$10	*
8.0	147	129	111	93	75	57	38	19	*
8.5	155	137	120	102	84	66	47	29	\$10
9.0	163	146	128	111	93	75	56	38	19
9.5	171	154	136	119	101	83	65	47	28
10.0%	\$179	\$162	\$145	\$127	\$110	\$92	\$74	\$56	\$37

\* Credit union loan is a better deal regardless of any dealer discount

### 0%—Not just for cars

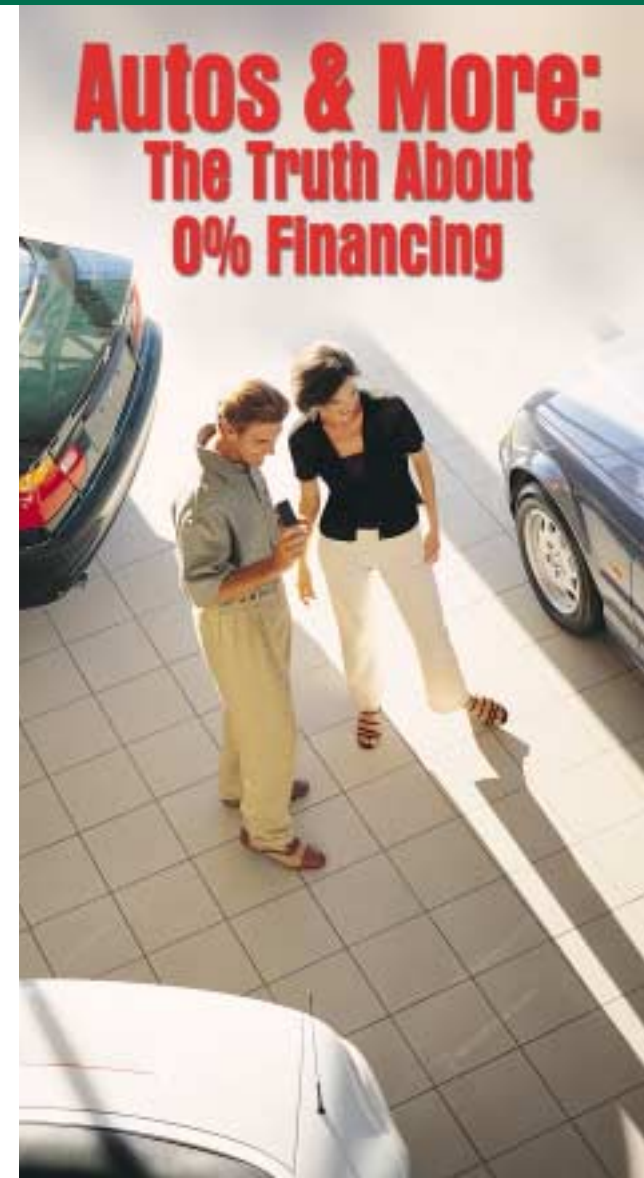
Almost every U.S. automaker offers 0% financing, but did you know that 0% financing also is available for furniture, electronics, and appliances?

Before you rush out and buy a new bedroom set, hold on. Those great offers aren't always as great as they seem.

One big problem with these offers is that they often lead consumers to impulse buy or spend more than they can afford. You hear this 0% financing offer and think it sounds great. But stop and ask yourself, "Was I planning on purchasing this item before I heard about this? Can I afford this item?"



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# Autos & More: The Truth About 0% Financing

Shopping for a new car? If you're in the market and have decided to purchase rather than lease, you'll find several financing options. There's the credit union, of course, and these days, more and more dealers are offering 0% financing, low-rate loans, or cash-back rebates.

While it's nice to have choices, they can be downright confusing. And expensive. In the final analysis, you may be better off with conventional auto financing from your credit union. Here's why:

### The hidden costs

Regardless of which financing option you're eyeing, a rebate vs. a low-rate auto loan, know the hidden costs in dealer financing options.

- Dealers' 0% financing, low-rate loans, and rebates almost always are available only on slower-selling models. These cars often have lower resale values.
- Dealers' 0% financing or low-rate loans can have

bigger prepayment penalties and can require bigger down payments.

- Dealer financing plans usually are limited to dealer stock. That means you may have to sacrifice color, style, and/or options you want. Unwanted options can add 25% to 30% to the sticker price of your car.

consumers with "pristine" credit qualify. The definition of pristine credit varies among manufacturers and most are not willing to disclose that definition. What happens to all those not qualifying for the 0%? They get "moved up" to a higher rate.

of a vehicle and could end up paying more for a vehicle in order to get 0% financing. You also are less likely to get a good price on a trade-in—the dealer has to make up the money somewhere.

There may be a prerequisite for a larger down payment, such as 10% down.

Credit unions believe that consumers aren't being told all the costs involved with 0% financing deals and other auto financing offers. That's why credit unions are suggesting that the Federal Reserve Board require a disclosure stating that consumers who accept a low interest rate may be paying more for the car. A revision to the Truth in Lending Act could help consumers compare the true costs of loans by requiring that the finance charge and annual percentage rate reflect rebates offered to buyers, as well as compensation given to creditors who offer low-rate financing.

### Be sure to read the fine print in 0% offers

These offers usually are restricted to short-term loans such as 12 months or 36 months. With such short-term loans, the monthly payments may be more than you can handle. Payments could be \$800 or \$900 a month—out of reach for most buyers.

Not all car models qualify for the 0% offer, and the offer may be restricted to cars in stock—no special ordering the features, or perhaps color, you want.

You are unlikely to be able to negotiate the price

### 0% offers

If you are one of the few eligible for a 0% financing offer and decide to accept, you could save money. However, fewer than 10 out of 100 people who want to take advantage of this offer get 0% rates, according to a *Consumer Task Force for Automotive Issues* survey. Why? Because they didn't qualify for a 0% rate, according to the auto manufacturer.

"Qualification" is up to the auto manufacturer, who relies on a consumer's credit rating. Only

When a Rebate is Better Than a Two-Year Dealer Loan

Credit union rate	Dealer rate									
	0%	1%	2%	3%	4%	5%	6%	7%	8%	
5.0%	\$50	\$40	\$30	\$20	\$10	*	*	*	*	
5.5	55	45	35	25	15	\$5	*	*	*	
6.0	60	50	40	30	20	10	*	*	*	
6.5	65	55	45	35	25	15	\$5	*	*	
7.0	69	60	50	40	30	20	15	*	*	
7.5	74	64	55	45	35	25	15	\$5	*	
8.0	79	69	59	50	40	30	20	10	*	
8.5	83	74	64	54	45	35	25	15	\$5	
9.0	88	78	69	59	50	40	30	20	10	
9.5	93	83	74	64	54	45	35	25	15	
10.0%	\$97	\$88	\$78	\$69	\$59	\$49	\$40	\$30	\$20	

\* Credit union loan is a better deal regardless of any dealer discount

When a Rebate is Better Than a Three-Year Dealer Loan

Credit union rate	Dealer rate									
	0%	1%	2%	3%	4%	5%	6%	7%	8%	
5.0%	\$73	\$59	\$44	\$30	\$15	*	*	*	*	
5.5	80	66	51	37	22	\$8	*	*	*	
6.0	87	73	59	44	30	15	*	*	*	
6.5	94	80	66	51	37	22	\$7	*	*	
7.0	100	86	72	58	44	29	15	*	*	
7.5	107	93	79	65	51	37	22	\$7	*	
8.0	114	100	86	72	58	44	29	15	*	
8.5	120	106	93	79	65	51	36	22	\$7	
9.0	127	113	99	86	72	58	43	29	15	
9.5	133	119	106	92	78	64	50	36	22	
10.0%	\$139	\$126	\$112	\$99	\$85	\$71	\$57	\$43	\$29	

\* Credit union loan is a better deal regardless of any dealer discount

### How to use the tables:

Select a table based on the term of the loan and find the dealer interest rate along the top row. Now, find the credit union interest rate in the far-left column, and circle the amount where the column and row intersect. Then determine how many thousands of dollars you'll need to borrow (i.e., 12.9 for \$12,900, 15 for \$15,000). Multiply the number of thousands by the number you circled on the table—the answer is what you'd save by using the dealer's financing. If what you'd save is less than the dealer's rebate—using the rebate to increase your down payment—you're better off taking the rebate and financing at the credit union.

### Low-rate offers

Again, the low rates that most dealers advertise are for short-term loans—so short that most people can't afford the monthly payment. For example, one dealer offers 1.9% financing, but that's only available on two-year loans. A new \$20,000 car with a \$2,000 down payment (10% down) will require financing \$18,000. This translates into an astounding \$765 monthly payment.

The same dealer offers other