

Car loan checklist

A car loan is a legal contract. Choices now can affect your lifestyle for years to come. Don't be afraid to negotiate. Your bank or another lender may offer a better interest rate than your car dealer. Decide what's best for you.



Know what you're signing

○ Total interest

- Understand how much interest you'll pay over the lifetime of the loan. Your lender must tell you in your contract. You can use Sorted's car loan calculator to work it out yourself.

Use car loan calculator – Sorted

For example:

\$6,000 loan + \$250 set up fee x 18% interest x 5 years = \$9,523. That's \$3,273 in interest. Or over \$650 interest a year.

○ Loan set up fees

- Most lenders charge a loan set up or establishment fee. It's often added to the loan amount.
- Some lenders reduce the fee if you ask. Pay the fee upfront if you have the money – this means you won't pay interest on it.

○ Loan insurance

- Do you need it? Ask if payment protection insurance is a condition of the loan. Check for double-ups with any insurance you already have, eg breakdown cover, existing car insurance.

○ Affordability and suitability

- Lenders need to conduct a thorough affordability and suitability assessment – they need to ask detailed questions about; what the loan is for, your income, expenses, other loans and current circumstances, including any likely changes to the income you'll rely on to repay the loan.

○ Security

- This is what the lender can take – or repossess – if you don't pay. The car itself is often listed as security. If your loan is unsecured the lender can't take anything.



Manage payments

○ When you pay

- Ask for payment dates that match your payday. It will be easier to budget.

○ Penalties for paying late

- It's expensive to miss a payment date. Your lender might charge:
 - a late payment fee
 - a higher interest rate until payments are up to date.

○ Struggling to pay

- Talk to your lender as soon as possible if you can't pay. If you're in unforeseen hardship, eg you're ill, lose your job, or your relationship ends, you may be able to postpone or reduce payments.



If you change your mind

○ Cooling off period

- You can cancel in the first five working days of a loan contract.

○ Cancel in writing

- Send a letter, unless your contract says you can communicate with the lender by email.

○ Disclosures

- Your lender must tell you certain things before you borrow. If they don't, your loan contract is invalid. Read more on loan disclosures.