4 things to consider before taking out a personal loan on a car

policebank member owned banking

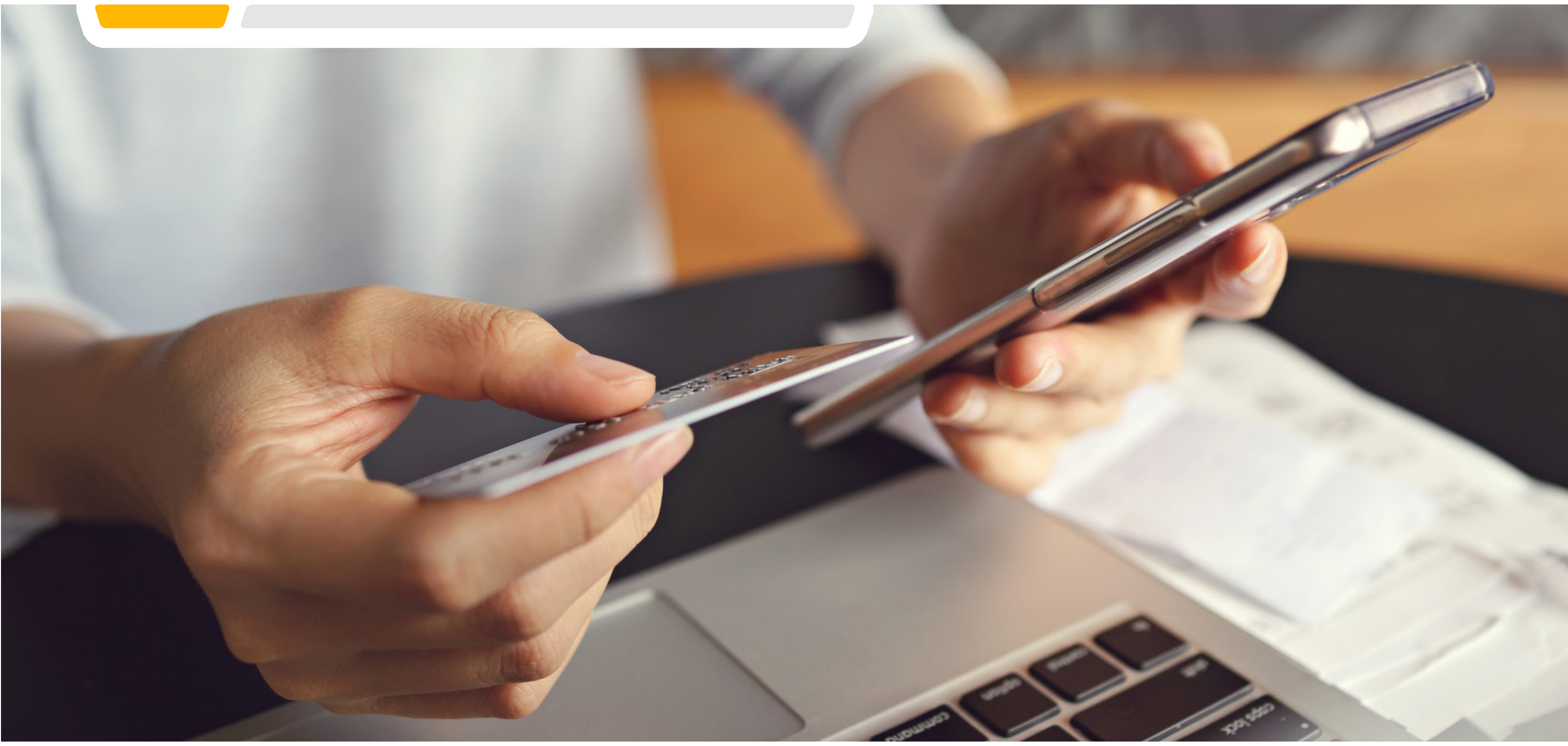
A car is one of the more significant purchases you'll make throughout your lifetime, so it's important you understand all your financial options to ensure you find a payment plan that works for your lifestyle.

There are resources to help you become a responsible car owner. A personal loan, for example, can be a great tool to help you get the car of your dreams - but it can also be a complicated document if you aren't well versed on how they work. And failure to follow its terms and conditions could mean financial stress on your end.

We want to help prepare you to get behind the wheel, and there are four crucial things to consider before you take out that personal loan.

1. **How responsible are you with paying bills?**
2. **What is your payment plan?**
3. **How does a personal loan work?**
4. **What type of car is best suited for your lifestyle?**

1 How responsible are you with paying bills?



You first need to ask yourself how good you are with money. Because really, this purchase is a lot more than just a new set of wheels to get around town in - it's a direct reflection of you and your responsibility.

In reality, the car payments you make serve as a good indicator to future lenders (who will decide if you are trustworthy for bigger purchases like your home loan) whether you are responsible or not. Failure to make repayments on time will result in damage to your credit score - marks of which can take up to seven years of perfect payments to improve.

Most importantly, you need to consider the long term financial costs and determine if you can support them responsibly or not. The true cost of ownership of the car goes beyond the initial price tag. You have to factor in costs like the deposit, registration fees and stamp duty (all which vary based on the car type, dealership and state you're purchasing in) as well as the regular costs like petrol and annual inspections.

Are you making these payments as is - or do you need to adjust your budget to make room for an additional expense?

2 What is your payment plan?

If you've determined that you have the means to repay the loan, you next have to consider exactly how you're going to do it.

This is the budgeting stage of your decision making process. When you're putting together your budget, begin by creating a list:

- Your annual salary (though you may wish to consider what you earn in monthly terms)
- Rent or mortgage payments
- Average utilities costs
- Additional monthly bills (your mobile phone, internet, etc)
- Money you put into your savings account

Once you know these payments, you should have an idea of the wiggle room that's left - from that you can decide what type of loan is going to work best for you. But in order to understand that, you first need to know how a personal loan works.

3 How does a personal loan work?

Your next consideration regards the ins and outs of the personal loan itself - do you know how a loan works? You want to be sure you understand this document so you don't agree to any conditions that don't work for you.

To help you understand the terminology, we're going to take you through our personal loan step by step.

What is a personal loan?

Let's start easy - a personal loan is money borrowed from the lender (us) that you pay back in instalments, typically between two and five years. You make these repayments at either a fixed or a variable rate.

- **Fixed rate:**

  A fixed rate is exactly as it sounds, it means that the amount of interest you agree to pay at the start of the loan will remain the same throughout the entire term regardless of what the market is doing. This means you'll always know what your payments look like, which can be useful when calculating your budget.

- **Variable rate:**

  A variable rate's interest will change throughout the loan term based on market interest rate changes. This means sometimes you will be paying higher interest, and sometimes lower.

All of these details will be sorted with your lender before you purchase the car. This is called the pre-approval process and it's a great way to help you determine exactly how much money you are going to get, which can be factored right back into your budget.

4 What type of car is best suited for your lifestyle?

Now we get to the fun stuff - picking out your car. You might have a dream car in mind, but you need to do a realistic evaluation of your lifestyle and if that car is best suited for it.

If you purchase a two-seated sports car but have a trade occupation lugging messy equipment around, you're not doing yourself any favours.

When choosing a car, however, you should always be thinking back to your budget and your loan options. You have a rough idea of what your payment plan is going to look like, so this will help steer you towards the type of car (and loan) you are going to purchase - what is going to be the most bang for your buck?

Deciding between new or used cars can also determine the type of loan you may require. A new car is usually characterised as just two to three years old and will often qualify for competitive interest rates since they are at the beginning of their life. For some, it might be advantageous to look at fixed rates.

Used cars, however, have seen a bit of wear and tear (whether that's visible or not) and therefore will likely receive higher interest rates. The second someone starts driving a car it depreciates in value, so interest rates have to account for the risk that the car won't run as well as it once did.

Driving Your Finance

Police Bank offers some of the most competitive personal loans in Australia. Come talk to us, we'll answer any questions you have about personal loans and how they can help you get your new car!

Police Bank Ltd

25 Pelican St, Surry Hills NSW Australia 2010

Ph: 131 728

E: info@policebank.com.au

policebank.com.au