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# How to Shop for a Car Loan

9 tips for getting the best interest rate and keeping monthly payments low on a new- or used-car loan



By **Benjamin Preston**

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Illustration: Jason Schneider

Whether you're buying a new car or a used one, there are always methods of getting a better interest rate on a car loan.

Consumer Reports consulted experts to get you the best advice on how to find the best loan. Read on to see what they advise.

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### IN THIS ARTICLE



---

**Review Credit Report & Score**

---

**Improve Your Score**

---

**Stick to a Budget**

---

**Don't Focus on Just the Monthly Cost**

---

**Make the Biggest Down Payment You Can**

---

**Get Preapproved**

---

**Look for Special Deals**

---

**Consider Buying Used**

## Report Suspected Discrimination

---

# Review Your Credit Report and Credit Score

Typically, a higher credit score means you'll get a lower interest rate. The opposite is true for those with lower credit scores. That's because a good score, which is based on a history of paying bills and debts, indicates to lenders that you are more likely to pay bills on time and in full. But a study Consumer Reports conducted a few years ago found that even people with good credit scores can sometimes pay too much for auto loans.

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Loan Rate Despite a Low  
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**Bottom line:** You don't want surprises. Check your credit report and credit score a few months before you start shopping for a car so that you know where you stand when you start looking for a loan, says Jordan Takeyama, public relations manager at Experian, the credit reporting agency. Experian.com and many banks and credit card companies provide free credit scores. To get a

free credit report—which includes the financial information your score is based on—go to [AnnualCreditReport.com](https://www.annualcreditreport.com).

# Improve Your Score

This is especially important if you've had credit problems in the past. Sometimes improving a low score is as simple as correcting mistakes or discrepancies in your credit report. Most corrections and disputes are completed in 10 to 14 days, Takeyama says, and credit reporting agencies generally must complete their investigations within 30 days. Paying down existing debt and late bills can also give you a last-minute bump. As always, pay bills for credit cards, utilities, and other goods promptly to avoid late fees and further damage to your credit score.

## Set a Budget and Stick to It

As the staffers who buy CR's test cars know, car dealers can be masters of the upsell. Consider your needs today and how they may evolve over the ownership period. Resist the urge to indulge in extras or buy a bigger or fancier vehicle than you need because you're likely to be paying on that depreciating asset for years to come—through a loan, car insurance, and potentially local vehicle taxes.

## Don't Focus on Just the Monthly Cost

Dealers often try to sell you on a loan by emphasizing what you will have to pay each month. That does matter for household budgeting purposes, but to get low monthly payments you'll most likely have to extend the loan over a longer period of time, which will increase its overall cost. Another downside to a long-term loan is that it increases the chance that you will end up “underwater” or “upside down” on your loan, which is

when you owe more on the car than what it’s worth. Of course, a monthly cost that you can handle is important, too, so consider both factors when choosing a loan.

The example below is based on the average new-car loan amount and interest rate in the last quarter of 2023, rounded down.

How Loan Length Affects Cost		
\$40,000 auto loan at 7% APR		
LOAN LENGTH	MONTHLY PAYMENT	TOTAL INTEREST
7 Years	\$604	\$10,711
6 Years	\$682	\$9,101
5 Years	\$792	\$7,523
4 Years	\$958	\$5,977
3 Years	\$1,235	\$4,463

## Make the Biggest Down Payment You Can

That shortens the time you’ll be paying interest on the loan, says Alain Nana-Sinkam, co-founder of Remarkit Automotive, a firm that analyzes market trends. Putting down more money up front also means you’ll be paying interest on a smaller amount of money, costing you less overall. “With interest rates trending higher, CR recommends that buyers make a down payment of at least 15 percent when buying a vehicle, and 20 to 25

percent if you can afford it,” says Chuck Bell, programs director for advocacy at Consumer Reports.

## Get Preapproval From Your Bank

Before you set foot in a dealership—either physically or virtually—contact your bank or credit union and get preapproved for a loan. The dealer may be able to offer a better deal on financing, but having a loan secured ahead of time gives you a strong starting point for negotiations over financing.

## If Your Credit Isn't Great, Check Carmakers for Special Deals

Sometimes automakers or their dealers will offer special financing for subprime borrowers, although it is usually focused on entry-level models. Nana-Sinkam points out that while buying a used car will likely decrease the amount of your loan, some subprime lenders may favor new-car loans because the cars have robust warranties, making it less likely that mechanical problems will make it more difficult for the borrower to pay on time. Bell says that like anyone else, subprime borrowers should shop around. “Oftentimes, the best rate is going to come from a credit union, bank, or third-party lender, rather than from dealer-based financing,” he says. “Know what the prevailing interest rates are for borrowers in your credit score range, and seek multiple offers before heading to the dealership.”

## Consider Buying a Used Car

CR members report higher levels of satisfaction with newer used cars, but you can save money by buying an older model. Although interest rates tend to be higher on loans for used cars, lowering the amount you're borrowing can result in significant savings. But beware: Interest rates can be significantly higher at some used-car lots, especially so-called "buy here, pay here" dealerships, according to research from the Consumer Financial Protection Bureau.

## Stop Overcharging for Car Loans!

**Sign CR's petition to the Consumer Financial Protection Bureau to ensure that auto loans are fairly priced.**

## Report Suspected Discrimination

Black and Hispanic borrowers with the same creditworthiness as white ones pay almost 1 percentage point more interest on car loans, according to a 2021 study. The study also found that borrowers of color were slightly more likely to be denied a loan outright. If you suspect discriminatory lending, file a complaint with the Consumer Financial Protection Bureau or with the Federal Trade Commission.

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