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Car Loan

A Vehicle Loan is a loan that allows you to purchase two and four wheelers for personal use. Typically, the lender loans the money (making a direct payment to the dealer on the buyer's behalf) while the buyer must repay the loan in Equated Monthly Instalments (EMIs) over a specific tenure at a specific interest rate. The EMI comprises a portion of the principal amount and the interest component. Once you repay the loan in full, the lender transfers the vehicle registration in your name.

You can also apply for a Vehicle Loan to buy these vehicles to transport goods or company personnel. Common examples of commercial vehicles include buses, trucks, tractors, tippers, cabs, etc.

Your eligibility for a Vehicle Loan depends on your credit history and net (in hand) monthly income. Most lenders offer 75% to 100% of the vehicle's on-road price, based on its type and price. You can also get a loan to buy pre-owned cars or used cars and other previously used vehicles.

Types of Car Loan

New Car Loan: As the name suggests, a new car loan can be used to purchase a brand-new car straight out of the showroom. Banks offer new car loans at an interest rate of 9-14% p.a. for a loan tenure of 1 to 7 years. New car loans are available for most makes and models of cars in the market.

Used Car Loan: Banks and NBFCs offer used car loans up to 80-85% of the price of the car at an interest rate of 12-18% p.a. for a loan tenure ranging from 1 to 5 years. Used car loans can be used to purchase pre-owned or used cars that are less than 5 years old or don't exceed more than 10 years at the time of loan maturity. Rupyy has an end-to-end digital journey for you if you intend to buy a used car. There are different types of used car Loan as well. We will be covering them further in the document.

Types of Used Car Loan

The types of used car loans are listed below. Please find the information related to the same below:

1. Purchase: A used car Purchase loan is a loan wherein you get the loan amount to be paid to the dealer/seller from whom you are buying. The Loan Amount is majorly based on your credit history, the lender, and the valuation of the used car that you are about to buy. The important thing to understand here is that the lenders generally 80-100% of the car valuation to sanction the loan amount which also majorly depends on the lender’s policies and your credit history
2. Refinance: This is a type of used car loan wherein the end goal of the customer is to not buy a car but to get cash in hand. In a used car refinance, the vehicle is already owned by the customer. It can be the first or the second owner of the car. In this type of loan, the borrower can take loan against the car in which the car remains as collateral, and basis the valuation of the car and the borrower’s credit history, one can even receive upto 200% of the valuation of the vehicle.
3. Balance Transfer: Balance Transfer is a type of used car refinance loan in which if there is a running loan on the vehicle, the previous loan can be closed, and basis the car valuation, the remaining amount can be used by the borrower as in hand cash.
4. Top-up: A top-up is very similar to BT in the sense that this loan option can be availed to get cash on the car even if there is a running loan on the vehicle. The difference between a top-up and BT Loan is that while in BT the previous loan is closed, a top-up loan is a loan taken over and above your existing loan, like an additional loan. This can be taken from the same lender or another lender.

Since the types of Car Loans are already discussed in the document above, the next section will focus on Two-Wheeler Lending

1. A Two-Wheeler Loan like the name suggests is a loan taken to buy a two-Wheeler. A Two-Wheeler loan is classified on multiple parameters as shown below and the

Loan Amount in each case differs:

2. The First Classification is on the basis of the Type of Engine: Internal Combustion Engine or Electric Vehicle
3. The important thing to understand here is that since buying an electric vehicle is subsidised by the Govt of India, the Loan amount that can be availed by the customer depends on the same as well and can eventually lead to a lower Loan amount leading to a lower EMI altogether as it decreased the price of the vehicle.
4. A Two-wheeler ICE vehicle is the traditional bike that is seen in the market and the borrower can avail a loan for the same. This type of loan also depends on the vehicle and the credit profile/history of the customer. This loan type is further classified into normal bikes and superbikes. Superbikes can be defined as **high-displacement performance motorcycles**. These are usually the flagship motorcycles for many brands and use technology adapted from racing for road use

The document has thus far focused on building an understanding of Auto-loans and the various major types of Auto-Loans. While this may not be a holistic list. It covers the major lending types.

The next section will discuss the major terms related to auto-lending and what as a customer should one know and expect in while availing the loan and make an informed decision to take the loan:

Scenario 1: Raj wants to buy a new car. He went to the showroom to test drive the new car and decided to finalize the buy. However, for the rest of the amount apart from the sum he has collected for down payment, he wants to go for a loan. What are the basic terms that Raj needs to understand to make a fully informed decision as a borrower can be seen below:

The Most Basic Car Finance Terminologies

When you are ready to take out a loan to purchase a car, there are some terms that you will encounter, no matter where you choose to borrow. The most common are:

ANNUAL PERCENTAGE RATE (APR):

Expressed in percentage, just like the other rates, the APR is the basic cost of the loan for the entire year. Understandably, many people confuse the APR with the interest rate. In fact, some sources use them interchangeably. However, they are two different things. The APR is the annual cost of your loan, which also includes other fees and charges, including account fees and penalties.

COMPARISON RATE:

Some lenders call the Annual Percentage Rate the comparison rate. In general, these two terms are treated the same. They are used to help borrowers identify how much their car loans will cost them in the most accurate manner possible. When applying for finance, you should always check the comparison rate or APR of the products offered to you, which makes comparing them so much easier.

DOWN PAYMENT:

One of the most understood terms in car finance and the world of lending, a down payment is simply the initial amount you give when purchasing a vehicle. Since cars are a large purchase, you may want to pay a portion of its cost upfront. This is done in the form of a down payment, which reduces the amount of money you need to borrow. It's also called a deposit.

INTEREST RATE:

The most significant difference between APRs or comparison rates and interest rates is that the latter only pertains to the interest itself. The APR is much higher than the interest rate in many cases, except if you're given a special offer. That's because it already includes all the other fees that you have to pay for the money you borrowed. The interest rate is the advertised or nominal rate and can either be fixed or variable.

LOAN TERM:

This pertains to the duration of the loan, which tells you how long you will have to pay the amount due. You can find this piece of information in your loan contract or agreement where you will be told the payment frequency (usually weekly or monthly) for up to a specific number of months or years (such as 12 months, 36 months, and so on). The longer the loan term, the smaller your regular repayments will be. However, you will end up paying more than what you originally owed.

TOTAL PRICE:

This is the full amount you will need to pay as calculated by the lender.

When considering which lender or car loan product to go for, always look at the APR or comparison rate. Whilst the interest rate is often the advertised rate, check the APR, which gives you a more accurate picture of the total cost of the loan.

Where Do You Get Car Finance?

If you cannot buy a car upfront, you have a number of options to afford the payment, including:

DEALER FINANCING:

A convenient way to buy a vehicle, dealer financing is a one-stop solution where you can get financing and purchase a car in one place, a dealership. The requirements are pretty strict, including having an excellent credit rating. Nevertheless, many dealers will take the work off you, saving you time and effort. The deals can be attractive, but be careful with dealerships that only resell a bank loan in order for them to make a profit.

BANK LOAN:

If you want the best offer, go to the bank. Interest rates are lower, mainly if you are already an existing customer. However, you will most likely have to provide a 10% down payment or more, which may be required to cover car depreciation. Banks also often need you to provide collateral. In the case of a car loan, the car is usually the collateral, which means they can take it from you if you default on your payments.

PRIVATE LENDER:

Buy a car with a loan from a private lender to avoid dealership mark-ups. The requirements are generally more lenient, so you can buy used or new cars from any seller.

HOME EQUITY LOAN:

If you own a home, you can use it as your loan's collateral. Beware, though; if you don't pay the owed amounts on time, you will end up losing your home.

CREDIT UNION:

For an even lower financing cost, check credit unions that offer car finance. If you have bad credit, you just might qualify for a loan. In order to borrow, however, you must be a member of the credit union, usually for a specific length of time.

Whichever source of financing you use, you will always undergo an assessment to determine your capacity to repay the loan. Your current circumstances, including debts, bankruptcy, and regular expenses, will also be evaluated before you can be approved.

Types, Methods, And Agreements

Car finance can come in a variety of shapes and sizes, including:

CHATTEL MORTGAGE:

Buying a car under a Chattel Mortgage means that you immediately take ownership of the vehicle. The financier, lender, or dealer places a mortgage over the vehicle, making it the loan's security. The best thing about this type of car finance is that it often has a low interest. However, if you don't pay the amount you owe, you will lose the car.

COMMERCIAL HIRE PURCHASE (CHP):
The hire purchase agreement means that you hire the car from the financier. Just like when leasing a vehicle, you are responsible for periodic payments, which can range from three to five years. When you make the final payment, the car is yours.

FINANCE LEASE:
This financial instrument is available mostly for businesses. You can buy a car without making a large lump sum payment if you are a business owner. Instead, you pay monthly for the residual value before possessing the vehicle.

NOVATED LEASE:
This agreement exists between the purchaser (employee), employer, and financier. The employer will lease the car from a financier on behalf of the employee. The employer will also make the repayments, taking them from the employee's salary. This method is great if you're an employee looking to reduce your taxable salary.

REFINANCE:
To refinance means you already have an existing loan. This method is mostly done by switching to another lender or loan product that offers more attractive rates. The goal of refinancing is to reduce monthly or total payments.

We recommend waiting at least six months after getting approved of your previous loan before refinancing; otherwise, it can hurt your credit score.

Payments, Rates, Fees, And Penalties
The cost of the loan is a huge deciding factor for any borrowing customer. Here are some terminologies associated with the loan cost that you should know about:

BALLOON PAYMENT:
Loans have a fixed payment that you need to make to pay down your balance. With a balloon payment, this fixed payment can be reduced so that periodic payments will be more comfortable and affordable for you. However, it will cost you a one-off lump sum payment, which you have to make at the end of the loan term.

EARLY REPAYMENT PENALTY FEE:
Some lenders charge an early repayment fee if you repay your loan more than the allowed amount or if you pay in advance.

EARLY TERMINATION FEE:
You will have to pay an early termination fee if you pay off your loan prior to the agreed date. This is to compensate for the lost interest out of the borrowed amount.

ESTABLISHMENT FEE:
When you take out a car loan, it will automatically have an establishment fee. It's added to your loan at the beginning after depositing money into your bank account or if a transfer is made.

FIXED INTEREST RATE:
When a loan's interest rate is "fixed," it will not change despite the state of certain economic factors. Fixed rate loans can have fixed interest for the entirety of the loan or a set period before switching to a variable rate.

VARIABLE INTEREST RATE:
The interest rate can change based on a financial index or specific benchmarks that may fluctuate periodically.

One more fee that you need to know is the stamp duty. In WA, this is based on the manufacturer’s price for new vehicles or a reasonable value for used cars. Stamp duty starts at 2.75% for vehicles costing up to $25,000. For vehicles over $50,000, the stamp duty is 6.5% of the price. Use the stamp duty calculator from the WA Department of Finance here.

Other Important Car Finance Terms
There are still a lot more terminologies used in car finance. Here are common terms that you will likely encounter upon loan application:

LOAN CONTRACT:
This is a formal contract between you and the lender, which provides all the information about the loan, including its terms and conditions.

LOAN PORTABILITY:
With this facility, you can change the supporting security, such as vehicle or property, to another without needing to switch to another product.

PRE-APPROVAL:
Before a loan is confirmed, you will first be up for pre-approval, which allows you to know how much you can borrow beforehand.

REDRAW FACILITY:
You can withdraw money that you have already paid for the loan. Not all lenders and loan products offer a redraw facility.

RETAINED INTEREST:
Paying early will result in unpaid future interest, which is known as retained interest.

SECURED LOAN:

If you are required to provide collateral for a loan, it means it is a secured loan. Most car loans are secured since they automatically take the purchased car as security or collateral.

UNSECURED LOAN:

The opposite of a secured loan, an unsecured loan is simply financing that does not require security. The drawback here is that interest rates are higher. Even though you do not provide collateral, lenders still have the power to take any legal action against you if you default on your loan.