

Buy a car you can afford to finance within 48 months



the color of money

Michelle Singletary

There are some things you want to run long.

I like two-week vacations so I can have time to wind down. A week is just not enough.

If you're an investor, the best thing going is that you have a long time to let your money work for you.

But the one thing you don't want to be too long is your auto loan.

An increasing percentage of car buyers are opting to stretch their monthly car payments far longer than the traditional four-year loan.

Edmunds.com noted that in October, the average new car loan was 67 months, making it the second highest average term on record.

Similarly, Experian Automotive found that the average auto loan was 66 months during the first half of this year.

Nearly a quarter of vehicle loans made in the second quarter were 73 months to 84 months, according to Experian. Another 41 percent of loans had 61 months to 72 months financing terms.

"Longer-term loans continue to dominate the market," wrote Melinda Zabritski, senior director of Experian Automotive in an analysis of the automotive finance market.

What in the world is going on?

Two things are colliding when it comes to car purchases, says Edmunds senior analyst Jessica Caldwell. The longer loans allow people to purchase more expensive vehicles. And the sticker shock is less because buyers are focusing on the monthly payment rather than the overall cost of the car.

Let's look at the numbers. In early October, the average price of a new midsize car was \$25,731, according to Edmunds. The average interest rate was 4.4 percent. Over 48 months, you would pay \$2,399.38 in interest if you financed the total price, not including sales tax, title and registration fees. Stretch the loan out to 60 months and it will cost you \$3,008.38 in interest. At 72 months, you'll pay \$3,625.77.

The example Edmunds.com uses is simplified, but keep in mind that with a longer loan term, the interest rate could be higher.

"In most cases, a shorter-term [loan] would qualify shoppers for a better interest rate, which means savings would be even greater," said Aaron Lewis, senior communications manager for Edmunds.com.

Here's what I've noticed when people sign on for long auto loans:

■ They get into an accident. If you don't make a good-size down payment, the longer the loan, the more likely you'll be upside down, meaning you owe more than the car is worth. I've counseled a number of people who have had their cars totaled as a result of an accident. But they're still left with a balance on their loan because the insurance settlement only covered the current market value of the car.

■ They can't sell their car. I was helping a couple in a situation in which the husband lost his job. They couldn't afford two car payments. However, both of their vehicles were underwater. They had no savings. So they were faced with finding some way to come up with several thousand dollars to add to what they could get for the car they wanted to sell to satisfy their loan. Or they had to keep making monthly payments they

couldn't afford, or let the lender repossess the car. They chose the latter, which ruined their credit and got them a deficiency judgment. Even though the car was sold, they still owed the balance due on the loan after the vehicle was purchased at auction plus the costs associated with the repossession.

■ They get bored. I've talked to people who got tired of a car and wanted a new vehicle, just because. There wasn't anything wrong with the car. They just wanted something new. They traded in their old car, but there was a difference in what they owed and what the dealer was willing to pay. So, making an even dumber move, they rolled the balance of the old loan into a new auto loan, which meant they were immediately upside down with their new car, too.

Here's my rule of thumb when it comes to auto loans. If you can't afford

the monthly payment under the traditional 48-month financing, you can't afford the vehicle.

If you know your budget can accommodate at most a \$400 monthly payment, find a vehicle that fits in a four-year financing range. Edmunds.com has a calculator in which you can plug in the monthly amount you can afford and it will give you a vehicle price range. Search for "How Much Car Can I Afford?"

In the calculator, I plugged in \$400 at 48 months with an interest rate of 4.4 percent. With no down payment or trade-in, you could afford to buy a car for \$15,000 to \$18,000.

Don't drive away your wealth by hitching yourself to a long auto loan.

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