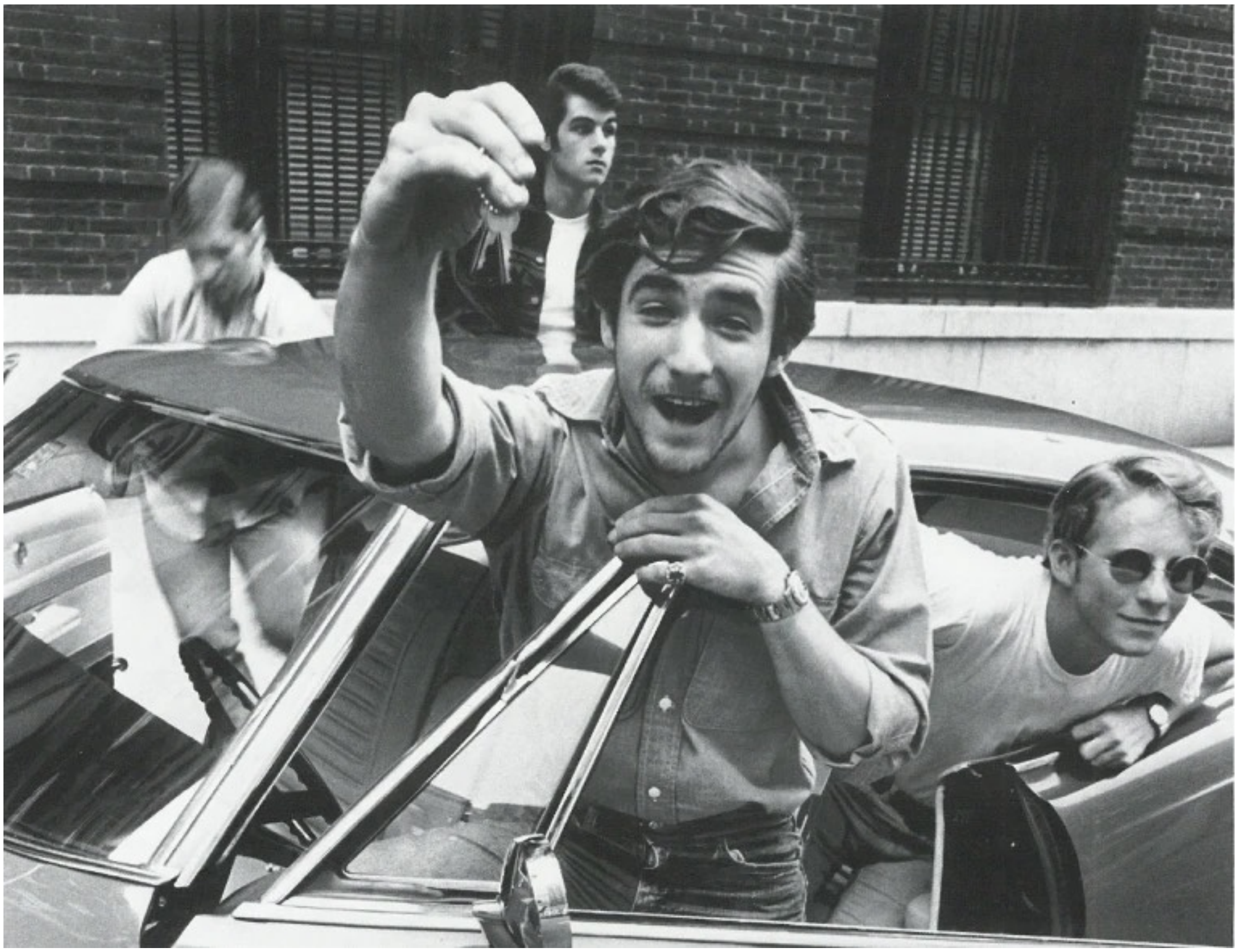
Simple Stuff
Car Loans
by Bob Vitrikas



Oh happy day! Print ad from 1967

If you can believe it, once upon a time car buyers paid cash for their cars. There was no such thing as a car loan. Of course these buyers were very wealthy and had the means to plunk down cold cash to satisfy their car craving. Fast forward to the Roaring Twenties and car sales were brisk but it was tough for the average consumer to pull together the cash to conclude the sale.

Enter General Motors. In 1919 GM established the General Motors Acceptance Corporation (GMAC) which shared the risk of car loans between dealers and the manufacturer, aiming to level out fluctuating sales over the year. GMAC customer loans required 35% down and the remainder paid off in 12 months. The result was a dramatic surge in car sales. By 1930 three quarters of all cars and trucks were bought ‘on time’ by U.S. buyers and about 60% of American families owned a car.

Meanwhile back in Dearborn, stubborn old Henry Ford refused to finance car purchases believing them morally reprehensible. Instead he encouraged would be customers to deposit money in their local Ford dealership until they had enough to purchase their new Ford. Despite a well funded advertising campaign, the buyers weren't buying Henry's lay away plan and Ford lost market share to GM despite the price of a new Model T dropping from $900 in 1910 to $395 in 1920, equivalent to dropping from $22,000 to $4,750 today! By 1928 Ford also had a financing plan.

Today car loans account for about $850 billion of consumer debt, roughly equal to our credit card debit. The average car loan payment today stands at $770, encouraging many buyers to stretch out their payments to 72 or 84 months. The average interest rate on new car loans is currently 6.96% and 11.43% for used vehicles. These figures are thanks to *Lending Tree*.

If you are considering a used car purchase, keep in mind most banks won't lend you money if the car is over 10 years old or has over 125,000 miles. However, some classic car lenders and credit unions will lend you money for cars 15-20 years old or older. Today over 85% of new cars and half of used cars are financed. Cash or carry, a simple choice. Chose wisely!