

Cash or Auto Loans

A report released recently by TransUnion, one of the major credit reporting agencies in the U.S., showed that the delinquency rates for auto loans went up more than 17 percent in the 3rd quarter of 2008. That rate is up when compared to delinquencies on auto loans for the same time period of previous years. Edmunds.com estimated that delinquencies in auto loans would lead to over a million and a half car repossessions in 2008. The delinquency rates on auto loans are not surprising, given the recent increase in delinquency rates for credit cards and mortgage loan payments. Given the downturn in the economy, consumers in some situations are having to decide which payments they should make and which ones will have to wait. Auto loans will usually rank below mortgage payments, utility bills and groceries. It is not an easy choice, since most people in this country depend upon their cars to get to work and take care of everyday necessities. Public transit is not available to people in smaller cities and very few could walk or ride their bike to work. Cars are a necessity in most parts of this country and they are a big ticket item that many consumers use auto loans to purchase.

Previous generations planned, saved and used cash to purchase a car. Auto loans have since become quite common, as lending standards were fairly loose the past ten years. In many cases, someone could purchase a car with no down payment. As a result of the upheaval in the credit sector, banks have now become more risk averse and loans are more difficult to obtain. The struggling car makers are offering some unprecedented discounts and financing offers to entice potential car buyers right now. The big question for consumers will be whether to purchase with cash or consider taking on auto loans.

Paying for a car with cash is the simplest option. This allows you to be debt free. You also do not have to be concerned with owing more on a loan the car is worth. You will not have to pay interest and make payments on a loan. You own the title from day one. Preferably, you would not buy a car until you had the money to do it. If you have to take on auto loans, then know what you can afford in payments before you purchase. Examine your budget and do not buy a car that puts a strain on your finances. And do not forget that you will need to insure, gas up, register and license your new ride.

Downsize to something more reasonable, if the payments will be tight for you. Do not let yourself be talked into purchasing something more expensive than your budget will allow, even if you have been approved for financing or auto loans for that amount. You are the only one responsible for your bills. You know what you can handle financially, so do not spend a penny more.

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