

## Is It More Advantageous to Pay Cash or Apply for Auto Loans?

If you are in the market for a new car, your first step should be to carefully look at your budget. Before you even head to the car dealerships to start test driving cars, you should have a handle on how much you can afford to spend, regardless if you plan to pay cash or apply for auto loans. There are advantages and disadvantages to both paying cash and financing, so you will need to determine what is best for your financial situation.

Paying cash for your new car, rather than relying on auto loans, can be a very smart move, particularly if you have saved funds for the purchase. Paying cash up front means you will have zero financing costs, zero monthly payments, zero credit risk, and no concerns about owing more than the car is worth as it depreciates. As a bonus, if you pay cash for a car, you will likely not get in over your head financially. You own that car. You will possess the title.

When you examine your budget before you purchase the car, take note of what you will have to give up to fork over that cash. Should you be buying a cheaper car to save for a new roof, for example? Or perhaps it would be more advantageous to pay off your school loan in lieu of a new ride. Most people do not set aside "car money" in a jar on top of the fridge for years to save up. They will likely take money out of an investment fund, which may incur some fees. It is also possible that the cash you spend on that car could offer more investment opportunity elsewhere, particularly when you weigh it with some of the low rate auto loans dealerships are offering right now. The bottom line, though, is that cash is cash. You own the car and do not incur debt to anyone by paying cash.

In examining the options offered by various auto loans, the most important thing to know is what you can afford. The easiest way to determine that is to calculate a budget based on your monthly spending. Begin with what you bring home after taxes each month. Next, add up all your necessary spending (loans, electric bills, phone bills, tuition, etc.) Deduct those mandatory expenses from your income. Deduct your optional expenses next (pizza money, pedicures, movie tickets, golf membership, etc.) It is wise to also subtract what you currently or would like to save or invest each month. Whatever you have left is what your budget can handle for a car payment. Keep in mind that you will need to make a down payment on the car, as well as pay for registration, inspection, license plates, fuel, upkeep and repairs. You can role play with a cheaper or more expensive car and see what you are comfortable with. Before you sign paperwork for any auto loans, make sure you consider everything in your budget carefully.

Know what you can afford, regardless if you plan to take on auto loans or pay with cash. Do not veer from that course. Write it down if you need to. Dealers always try to talk you up with fancy bells and whistles and what appear to be fantastic deals. The dealer will not pay your bills for you. Be strong and protect your finances by knowing what you can and want to spend.

## About the Author

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