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choosing the right car loan

Cars and houses are two assets we usually need to take out a loan to buy. Just as there's a wide variety in home loans, there is a smorgasbord of car loans to choose from - some relatively cheap, others less so. Shopping around for a good value car loan will mean saving on interest and ongoing fees, and even getting a bit extra for your money.

A quick look at websites like RateCity confirms the big difference in interest rates across a variety of car loans. This is an area where building societies and credit unions tend to be very strong, and IMB charges one of the cheapest rates around - 8.9% for a new car loan. Bankwest is about the cheapest bank, charging 10.99% on its car loan.

Along with the interest rate you'll pay on the loan, it pays to be mindful of additional fees and charges - of which there can be plenty.

In particular, look out for upfront application fees which can range from zero to \$200-plus. You may also be asked to pay a monthly administration fee, and if you're late with a repayment, you could face penalty fees of around \$50. To top off the list of possible charges, repaying the loan early could mean being sluggish by an early discharge fee worth a few hundred dollars.

Not all lenders charge each of these fees, and some lenders even give borrowers a bit extra for their money. A number of credit unions including Community First and Select give car loan customers free access to a car finding service called 'Auto Search'.

The important thing is to research the cost of finance before hitting the car yards. This will give you a good idea of how much you can comfortably afford to pay off each month.

Always try getting finance from a bank, building society or credit union as their rates can be lower than those of a finance company, sometimes dramatically so.

No matter who the lender is, the rate of interest you are offered will depend on the sort of credit risk you are considered to be. The higher the risk the lender believes you to be, the higher the rate offered - if, indeed, a loan is offered at all.

The factors that go into a lender's estimation of the loan's risk include an appraisal of you, the applicant, and of the item you wish to purchase. This is why loans for second-hand cars, for instance, often attract higher rates than loans for new cars.

If you have concerns about your chances of securing a car loan it's worth taking a look at your credit record before applying for a loan. It's one of the first things a lender will look at, along with your income, to see if you're a bad credit risk.

You can request a free copy of your personal credit history through websites like www.mycreditfile.com.au. Fixing up any black marks that appear on your file - like unpaid bills, can improve your prospects of getting a loan with your preferred lender.

Paul Clitheroe's 'Making Money' for the week beginning 1 March 2010



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