

Are Auto Loans a Good Idea?

According to TransUnion, delinquencies on auto loans in the U.S. in 2008 increased almost 18 percent in the last quarter of the year. 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 unmade payments on auto loans are part of a similar trend in unpaid credit card and mortgage bills. In the current economic environment, some consumers must choose which bills are their priorities. For many, auto loans are paid after bills for heating, electric and mortgages. So many consumers rely on automobiles on a daily basis, that waiting to pay auto loans is not an easy decision. 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. Consumers could literally drive away with a car, having put down zero money. As a result of the upheaval in the credit sector, banks have now become more risk averse and loans are more difficult to obtain. For consumers shopping for a new car, there are certainly great deals to be had, given the current state of the auto industry. Car buyers will need to determine if obtaining auto loans makes sense for their budgets, or if they should buy discounted models with cash.

The path of least resistance when purchasing a new car is to purchase it with cash. You do not incur debt if you purchase with cash. If you need to sell your car at some point, you do not have to worry that you may owe more on it than you would make selling it. You will not have to pay interest and make payments on a loan. The car is yours. Preferably, you would not buy a car until you had the money to do it. But if you need a car now and are shopping for auto loans, make sure you have a handle on what the loan will cost you in the long run. 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. If the car you really want is a financial stretch for you, choose something less expensive. 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. And you are the only one who knows what you can afford.

About the Author

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