



iQuestions Faculty, Ron Blue

Question:

Are special low interest rate loans on a car a good idea?

Answer:

You know, there's been a lot of sales appeals on low interest rates or zero interest rate loans, or no interest for 12 months, or certain types of gimmicks like that. I call them gimmicks because the lender in this particular case—in a zero interest rate loan, for example, or no payments for one year—knows that the majority of people, when it comes time to convert that and to begin paying it will not pay it off, but will convert to something that is a higher interest rate.

When it comes to car debt, what I recommend to people is this: if in fact your dealer is offering a special deal, and if you have the cash to buy the car, and you can afford the car, then it's OK to go ahead and take the special deal and keep the cash in a separate account, so that when it comes time to pay it off, you can, in effect, have paid cash for your car, and you've taken advantage, then, of the lender.

That way, you're on the right side of the lender. You've borrowed money at zero percent, and you've invested in a savings account at three or four percent. There's nothing wrong with that.

But the biggest issue when it comes to buying a car, or buying furniture, is to pay cash always for what you're going to buy — therefore, you'll make a better decision than if you take the lender's gimmick, if you will, on a low interest rate or a no interest rate loan.