

# 0% Auto Loan Might Not Be the Best Deal

In seeking the best deal on your next car, you might've stumbled upon advertisements or offers to get a 0% interest auto loan. As great as this sounds, you may not save as much as you expect with this type of incentive.

Since auto loans can come through either a dealer or a lender, such as a bank or credit union, it's important to note that a 0% interest loan generally, if not always, is obtained through a dealer. Automakers offer them to attract buyers to certain car models, especially ones that aren't selling well. Here are a few things to consider about 0% financing and why it might not be in your best interest to use it.

## You might be forfeiting a better deal

Typically, you can't receive both reduced rate financing and a cash rebate when you buy a car, so you may have to choose one. Manufacturers' cash rebates can range from a couple hundred to a few thousand dollars. The well-known auto research website Edmunds found that the cost of incentives that automakers pay to attract customers was around \$2,300 per car industrywide, which includes cash rebates and cost of reduced financing.

While a 0% loan may sound appealing, a cash rebate might save you more money. If you buy a \$20,000 car that has a \$2,300 rebate, you are really paying \$17,700 plus interest. If the interest rate for a five-year loan is 2.7%, which was the [average rate at credit unions](#) toward the end of 2015, then you would pay a total of \$1,242 in interest. That would bring the cost of the car plus interest to \$18,942, saving you \$1,058 compared with what you'd pay with a 0% loan.

You may want to check the [auto loan](#) rates at local lenders too, since you might be able to get a low rate and pick up a rebate when you negotiate with the dealer.

## Rate may not last as long as your loan

Some car models may have 0% financing for a limited term, such as five years, which could be less than the length of your auto loan. In the third quarter of 2015, the average loan term for a new car was five years and seven months, and the term for used cars was five years and three months, according to Experian's [State of the Automotive Finance Market report](#). These are the longest average terms calculated since the firm began collecting data in 2006.

You may even receive a longer loan if you want lower monthly payments than you were offered initially. If your term is longer than the 0% financing deal, you generally pay interest on the remaining months or years.

## This offer can be limited

A 0% rate might only be offered for a handful of models, especially newer cars, and less for used cars or older models. But even if this deal is available for the car you want, qualifying for it typically requires a high [credit score](#). Check on the eligibility rules for getting this rate before stepping onto the dealer's lot if you can.

As you sift through car prices and incentives, remember that trade-offs are part of the process when buying a car. Although a 0% interest rate may save you money in some cases, you might also be letting a better savings opportunity pass you by.