

Should I Take on Auto Loans or Pay Cash

The most important thing you should do to prepare to purchase a new or used car is examine your finances. Whether you plan on applying for auto loans or paying with cold hard cash, you need to know how much car your budget can handle. Once you know what you can afford, you can look at the pros and cons of paying for the car in cash or taking on an auto loan.

Buying a car outright is much less complicated than taking on auto loans. You will not have any paperwork, no one has to examine your credit scores and reports, and you answer to no one. As a bonus, if you pay cash for a car, you will likely not get in over your head financially. The car will be yours. The title will be yours.

Before you decide how much cash you want to spend on the car, however, you should ask yourself what you are sacrificing in order to purchase that car with 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. For most car buyers who can afford to pay cash, they do not have enough cash liquid. Instead, they have to cash out an investment or pull the money out of an account that may have a penalty. Another consideration is simply that car dealerships are giving out some amazingly low rates on auto loans right now, which might mean your cash would pay better dividends invested elsewhere. But cash is simple. You will not take on debt to pay for that car and it will be yours the moment you drive it off the lot.

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. Start with your overall take home monthly salary. Then sum up all your mandatory expenses, such as mortgage payments or rent, student loan payments, utility bills and grocery bills. Subtract that total from your take home salary. 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. That remaining number is what you can afford on an auto loan payment, assuming there are no other big ticket items you plan to purchase within the time you anticipate having the auto loan. Do not forget that you are responsible for additional expenses such as insurance, licensing, gas, maintenance, parking fees, registration and a down payment to kick the loan off. 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.

Whether you plan to apply for auto loans or pay cash, know the maximum amount you can spend before you begin to look at cars. Stay firm on that limit. Put it on a yellow sticky and put it in your wallet. 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 true to yourself and do not spend beyond what makes you and your budget comfortable.

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