

# 0% CAR FINANCE

## How they hide the interest YOU aren't paying



‘Ever noticed a car dealer is less likely to discount the price of a car being sold under zero or low interest finance?’

There's nothing like the smell of a new car! In fact, official figures show Australians bought a record number of new cars in 2015, eclipsing 1.1 million sales for the fourth year running<sup>1</sup>.

There are a number of ways to finance a car. In recent years we've frequently seen zero or low percent car finance advertised. Many people find this an enticing way to purchase their next new motor vehicle.

But have you heard the old saying 'you don't get anything for FREE'? Well the reality is - you don't!

So who is really paying for you to have an interest free car loan? You guessed it... YOU ARE!

### How is the interest hidden?

In today's new car market zero or low rate finance deals are being offered by an ever increasing number of car dealers. Before you rush out and sign on the dotted line, it's important to understand what is happening behind the scenes with these low rate finance packages.

Firstly, there is no doubt the interest rate being advertised to finance the vehicle purchase is legitimate. How are they able to offer this rate? These finance offers are typically part of what the industry calls a 'subvention' finance program as the interest rate for the finance package is being subsidised by the dealer or manufacturer **out of the profit made on the sale of the car.**

### How does it work?

Let's look at a simple example to illustrate how subvention works.

Assume you purchase a new \$35,000 car which is being sold in conjunction with subvention finance at an interest rate of 1.9%. The loan term is 48 months with a nil residual at the end of the contract.

Depending on the lender who is providing the finance, the 'subvented' amount in this scenario may be anywhere between \$2,500 and \$2,900. In other words, once the transaction has been finalised, the car dealer or manufacturer must 'pay' the subvented amount to the lender to enable a realistic rate of return to be made on the finance contract.

It is now clear the dealer needs to **make a larger margin** on the car to be able to pay the subvented amount to the lender and still maintain their normal margin.

### What does this mean for you?

Chances are you may have been able to negotiate a larger discount on the asking price if the purchase was not subject to subvention finance.

**Remember also: The higher the purchase price of the car, the more you will pay for items such as GST, stamp duty and luxury car tax (if applicable).**

### What are my other options?

A more prudent approach is to negotiate on the basis of a cash sale with the car dealer leaving the low interest rate finance offer out of the equation. It is not unrealistic to obtain a discount of 8% to 10% off the asking price if the sale is not subject to a subvented finance arrangement.

We often find once a discounted purchase price has been negotiated, those clients who then arrange finance through us at 'normal' market rates typically end up paying lower monthly repayments (thus lower total repayments) over the term of the finance contract than they would through obtaining subvention finance.

### Why not just pay cash?

Well you could but you certainly won't get any return on your investment. Could you perhaps better invest your cash elsewhere?

At the end of the day the old maxim 'there is no such thing as a free lunch' certainly applies when it comes to zero or low rate car finance deals.

1. [carsguide.com.au](http://carsguide.com.au)



Phone: 1800 131 937 or Email:

[info@cumberlandfinance.com.au](mailto:info@cumberlandfinance.com.au)