AUTO LOANS: CREDIT UNIONS VS. BANKS

Need a car but can't pay cash? You have three choices: Borrow from the dealer or manufacturer's financing company, borrow from a bank, or borrow from a credit union. Each method has advantages and disadvantages – but if you can qualify, the way to go is usually with a credit union.

Credit Unions

Credit unions are known for having lower fees and interest rates than banks and other finance companies. The advantage is in the ownership structure: The owners of banks and the majority of consumer finance companies are stockholders – not you. That means every product or service they provide has but one real objective: to make money for their shareholders, while not alienating you so much that you take your deposits and future business somewhere else.

The owners of credit unions, on the other hand, are members, not shareholders. That means profits are distributed among its members in the form of dividends and in the form of lower fees. Every dime that would have gone to Wall Street, in the case of a credit union car loan, stays with credit union members. And you, as the borrower, get to keep a chunk of it in the form of lower interest rates and fees.

Banks

Banks have a substantial cost of overhead, in the form of their many branches, expansive operations and, of course, investor profits. Some very large banks have good economies of scale and can minimize the impact of their overhead on consumer fees. But no bank is going to want to cut into shareholder profits if they can help it.

Dealer Financing/Leasing

The last option is, of course, dealer financing. These deals can be excellent on new cars (0% or 1% financing is tough to beat), but the picture isn't as rosy for older cars, or for those who have less-than-stellar credit.

If you go the dealer financing route, take a look at the fine print: You need a car loan with no prepayment penalty. This means you are free to pay off the loan balance at any time, without any added fees or interest tacked on. The higher the interest rate, the more important this is.

A lease is essentially a contract to rent the car for a period of time and to turn the car back in at the end of that contract (the lease). Lease payments tend to be lower than loan payments, because when a loan is paid, you keep the car! The loan is buying the whole car, and not just the depreciation it has during the first few years.