

NEGATIVE EQUITY:

When you owe more for a car than the car is worth

Farah bought a car for **\$30,000** 4 years ago.



She financed it for **\$366/month** over 8 years (96 months) at 3.99%.



Farah drove her car **140,000 km** over the last 4 years. Now she wants to trade it in on a new car costing **\$35,000**.



Because of her 8-year loan, Farah still owes **\$16,192** on her trade-in.



But because of depreciation and higher-than-average mileage, her trade-in is only worth **\$7,000** wholesale. Farah has **\$9,192 of negative equity** ($\$16,192 - \$7,000$).



Farah will need to borrow **\$44,192** ($\$9,192 + \$35,000$) to buy the new **\$35,000** car. Her monthly payment with interest is now **\$538**.



Imagine what might happen if Farah does the same thing 4 years down the road!



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GETTING A CAR LOAN?

Be smart about it

Understand Your Creditworthiness

The terms and interest rates available to a vehicle buyer are based primarily on the vehicle being purchased and the buyer's creditworthiness (credit score). Know your credit score! Check with Equifax or TransUnion Canada.

Compare Lenders

Ask your bank about its terms and rates so you can compare with rates available at the dealership.

Verify Credit Application Accuracy

- Obtain a copy of the information submitted to the lender(s).
- Ask who the application will be sent to; if sent to more than one lender, ask to see what each offered.
Note: multiple credit applications can negatively affect a borrower's credit score.

Extended-Term Loans and Long-Term Financing – Are They Right for You?

- Don't shop based on the payment alone – consider the actual price of the vehicle and financing costs.
- Before agreeing to an extended-term loan (typically 72–96 months) consider the following:
 - How long do I plan on keeping the vehicle?
 - Will I trade it in before paying it off?
 - How much do I drive? Will the car reliably last the term of the loan?

Extended-term loans can lead to negative equity and an unwanted debt cycle. To learn more about negative equity and how it happens, see other side.

Remember, shop for a vehicle, not a monthly (or weekly/biweekly) payment!



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