

September Blog

How to Get a Car Loan With Low Credit

Buying a car is a major financial decision, and having lower credit can make the process feel even more overwhelming. You may worry about being denied, paying a higher interest rate, or having limited vehicle options.

The good news? Low credit does not automatically mean you can't get an auto loan. There are steps you can take to improve your chances of approval and put yourself in a better financial position before you head to the dealership.

Start by Checking Your Credit

Before applying for an auto loan, take some time to understand where your credit currently stands. Review your credit score and credit report for errors or outdated information. If you find something that doesn't look right, take steps to dispute it. You should also look at your existing debts and payment history.

If you don't need a vehicle immediately, consider giving yourself some time to improve your credit before applying. Paying bills on time, reducing credit card balances and catching up on past-due accounts may help strengthen your credit profile over time.

Know What You Can Afford

Before you start looking at vehicles, determine how much you can comfortably afford each month. Remember that your car payment isn't the only expense that comes with owning a vehicle. You'll also need to budget for auto insurance, gas, maintenance and repairs, registration and taxes, and unexpected expenses.

Creating a realistic budget before visiting a dealership can help keep you from falling in love with a vehicle that stretches your finances too far.

Save for a Larger Down Payment

A larger down payment can be especially helpful when you're working with lower credit. Putting more money down means you'll need to borrow less, which can lower your monthly payment and reduce the total amount of interest you pay over the life of the loan. A larger down payment may also make your application more attractive to a lender because you're financing a smaller portion of the vehicle's purchase price.

If you don't have money saved yet, consider delaying your purchase if possible and setting aside money specifically for your down payment.

Shop Around for Financing

Don't assume the dealership is your only option for financing. Banks, credit unions and other lenders may offer different rates and loan terms, so comparing your options can help you find financing that better fits your budget.

Getting preapproved before you shop for a vehicle can also give you a better idea of what you may qualify for and how much you can afford. It can put you in a stronger position when you're ready to negotiate the purchase price.

And remember: don't focus only on the monthly payment. Look at the interest rate, loan term, fees and total amount you'll pay over the life of the loan.

Consider a Co-Signer

If you're having trouble qualifying on your own, a co-signer may be an option. A co-signer with stronger credit can potentially improve your chances of approval or help you qualify for better loan terms. However, co-signing is a serious financial commitment.



How to Get a Car Loan With Low Credit

p.2

If you miss payments, your co-signer's credit could also be affected, and they may be responsible for the debt if you don't make the payments. Make sure everyone involved understands the responsibility before moving forward.

Consider a More Affordable Vehicle

When your credit is less than perfect, choosing a vehicle that fits comfortably within your budget can make a big difference.

You may have your eye on a brand-new SUV with every available feature, but choosing a less expensive new or used vehicle could make it easier to qualify and keep your monthly payment manageable.

Focus on finding a reliable vehicle that meets your needs rather than taking on more debt than your budget can handle.

Be Careful With High-Cost Financing

When you're dealing with lower credit, you may receive loan offers with significantly higher interest rates or additional fees.

That's why it's important to read the entire loan agreement before signing. Make sure you understand the interest rate, loan term, monthly payment, fees and total cost of borrowing.

Some "buy here, pay here" dealerships advertise financing for borrowers with poor credit. While these options may be available when traditional financing isn't, they can come with higher costs, so compare the terms carefully before committing.

Don't Give Up on Your Credit

Getting approved for a car loan with bad credit isn't the end of your financial journey – it can actually be an opportunity to start rebuilding your credit.

Once you have an auto loan, making your payments consistently and on time can help demonstrate responsible credit behavior. As your credit improves, you may eventually have opportunities to qualify for more favorable financing.

In some situations, borrowers may also be able to refinance their auto loan later if their credit and financial situation improve.

Ready to Hit the Road?

Having lower credit can make buying a car more challenging, but it doesn't mean you're out of options. Start by understanding your credit, creating a realistic budget, saving for a down payment and comparing lenders.

Most importantly, don't rush into the first loan you're offered. Taking the time to understand your options can help you make a decision that's better for your finances today – and your financial future.

At Emerald Credit Union, we're here to help you navigate your financial journey. If you're thinking about buying a vehicle, talk with our team about your auto loan options and let us help you find financing that fits your needs.

