Effects of Being Upside Down in Car Loans

by ACCESS Staff Writer

It is reported that over 35% of all car owners owe more on their car than it is worth. This causes big problems if anything should happen to your car.

The Situation

Car dealers. today, are busting at the seams with new cars and they need to sell them. You see them advertized every day - No payments for a year or big rebates or 5 to 7 year financing. These new programs are designed to keep your monthly payments low and get you into the new car you want.

As you know, all cars that are financed, the buyer must carry full comprehensive insurance. This helps to assure the lender that if anything occurs to the car, your insurance will payoff the loan.

The Problems

The minute you drive off the lot, most cars depreciate by 30% to 50%. Immediately the insurance value is less than what is owed on the car.

Thankfully, most of us don't get into a wreck immediately, but five or seven years is a long time. During that time other situations can occur which can have devistating affects.

One individual that we've been working with was recently caught in a hail storm. They were three years into a five year agreement. While the car was certainly dinged up the insurance company called it a total loss. They requested that the car be turned over for salvage.

The insurance paid $3,200. The salvage would pay an additional $1,000. The balance remaining on the loan was $6,400.

This would of essentially left the owner with no car and owing $2,200.

What to do

If you lissen to the lender, they said "turn over the car and roll the balance into a new car." But, that would result in you AGAIN oweing more than the car is worth. We felt that was a bad direction, but a typical response from lenders that want to keep you in debt.

We suggested putting the car up for sale for $3,000. It was drivable, and, except for the dings, in good shape. Inform the buyer that the title will be considered "salvage" due to the hail damage. Then take the extra $800 and apply it to a good used car. With all the leasing that is occurring by the car dealerships, it is easy to buy a model that maybe three years old but with low miles - a much better investment for the money rather than new.