

WHAT YOU SHOULD KNOW ABOUT FINANCING A VEHICLE WITH A CREDIT LINE

1. FLUCTUATING INTEREST RATES

The interest on a credit line is a “variable” (floating) rate. This means that when the prime rate changes, so does the interest charged on your credit line. You have no protection from increasing interest rates. The advantage of financing with a “fixed” interest rate from the dealership’s Dealer Plan is that the interest rate is “locked in”. This protects you from climbing interest rates. In the event that you finance with the Dealer Plan when interest rates are high, you would have the option of using your credit line to pay out your Dealer Plan loan if the rates began to dramatically decrease. This is made possible by the fact that your Dealer Plan loan is an open agreement that can be paid into or paid off at anytime without monetary penalties.

SPECIAL NOTE: Many people are attracted to credit lines because of their low interest rates. Rates on an unsecured (no collateral) credit line can be as low as one or two points over the prime rate. However, credit line interest rates can be substantially increased by the branch. If, for example, you were slow repaying your monthly credit line obligation for 2 or 3 months (because of some unforeseen difficult circumstances), your credit line interest rate could be more than DOUBLED! Credit line rates can increase even if the prime rate doesn’t!

FUTHERMORE: In many cases, Dealer Plan “fixed” interest rates will be less than 2 percentage points higher than credit lines. With the “fixed rate” you always know what your interest rate will be, how much your payment will be, and exactly when it will be paid off!

2. 3% PAYMENTS

If you have an outstanding balance of \$30 000 on your credit line because you have used it to pay for your vehicle, this means that your monthly payment would be 3% of \$30 000, which equals \$900 a month! This is much more than what a monthly payment would be over a normal 60 month term on a Dealer Plan loan (approximately \$600 a month).

You may also be given the option of making “interest-only” payments. In this case, you are only paying the interest charge for a single month and not paying down the principal amount of the outstanding balance. Although this may *seem* convenient and affordable, for many people this becomes a TRAP where they become comfortable paying the lower amount each month, yet never pay down the balance.

3. USAGE CHARGES

Many credit lines for businesses have fees such as a \$15 per month usage fee *and* a charge to certify cheques (even “secured” credit lines). Even if you are able to obtain a very low “variable” interest rate with your credit line, these extra charges end up costing you more per month than a higher “fixed” interest rate through the dealership’s Dealer Plan.

4. POOR DISABILITY CREDIT PROTECTION COVERAGE

Disability insurance on a credit line does not usually cover the entire payment; rather it covers the payment on the “average balance” over the *previous* twelve month period. You may be in a situation where you are unable to cover the minimum required payment on your current balance even if you have the disability coverage. Unlike Dealer Plan disability insurance, credit line coverage often requires the completion of a medical questionnaire at time of credit line application to qualify for the coverage. You can even be denied coverage based on your answers to the questionnaire. Further, disability coverage on credit lines are referred to as “elimination” policies. This means that there is normally a “wait period”; a period of time where no benefits are paid. Ninety day wait periods are common with credit lines. Credit line coverage may have other restrictions before benefits are paid.

Disability insurance on a Dealer Plan loan makes your loan/lease payments in the event that you are ill or injured and cannot work at your job and chosen profession. There are no medical questionnaires, blood or urine tests or physical examinations required for acceptance into the program and all customers are accepted into the program regardless of occupation and current health. All customers in the insurable group (eg. ages 18-69) also pay the same premiums. There are no limits to the number of claims during the life of the loan/lease agreement, confinement to the home or hospital is not required for payment of benefits, the coverage pays in addition to any other insurance benefits or salary continuations being received and there is no income tax payable on the benefits. You can even choose various retroactive plans that pay benefits from the first day of recorded illness or injury.

5. REVOLVING CREDIT

A credit line is like a credit card in that it can be used on an on-going basis. This is referred to as “revolving credit”. The “trap” that many credit line customers fall into is that they never pay off their vehicle or they *pay it off very slowly over a long period of time*. Many also pay off some of the balance and then run it up again with other purchases. The interest charges become extremely expensive when they are tacked onto large dollar balances over long periods of time. Dealer Plan loans are referred to as “installment credit”. You make equal

monthly payments based on the initial amount financed over a chosen “fixed” term (eg. 60 months).

6. ANNUAL REVIEWS

There is no guaranteed repayment term attached to a credit line (like a 48 or 60 month term on a conventional loan). Since the term is not guaranteed by the financial institution, this means that the line can be “called at any time. If the financial institution has concerns about your ability to repay the balance owing on your line (because of an economic recession, a downturn in your career field, job loss, etc.) they can demand full repayment of the balance owing on thirty days notice. The financial institution may also become nervous about your ability to repay when your credit line is constantly at its maximum and you are making interest only payments. In some cases the financial institution may force you to close your credit line and re-finance the balance on a high interest consolidation loan. In this situation, not only do you suffer the high interest rate, but your credit rating is damaged as well. The credit line is reviewed each year by the financial institution to decide whether or not to allow it to continue.

7. POOR UTILIZATION OF A CREDIT LINE

Credit lines are offered to people like you that have established an excellent credit rating, a good relationship with your bank, career stability, residence stability and success. Credit lines are a “privilege”; the unmonitored use of the bank’s money for your own purposes. Personal credit lines were truly designed for things such as:

- Home additions, improvements or remodeling
- Home landscaping or a pool
- Home theatre
- A vacation
- A child’s university tuition
- A child’s wedding
- Debt consolidation
- Cash for an investment opportunity

Why waste the privilege of your credit line on a vehicle, when low, fixed rate interest financing is so easily available through your dealer? Have your new vehicle financed by a Dealer Plan loan and still have your credit line untouched and completely available for whatever you want!

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