

q&a

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Q 1: I have never borrowed money to buy personal items, except for a house, preferring to save the money first and then pay cash. Following this principal, I have now saved enough for a new car. However, I have noticed recently that many car dealerships are offering hire purchase rates of 1.0%, 0.5% and even 0%. Should I keep my money invested and take up one of these deals, or is there some catch? I have inquired about a cash discount, but they don't seem to come anywhere near the savings that I would apparently get by taking advantage of these rates?

Withheld, Canberra

A 1: It would make sense that the car dealership or car manufacturer is subsidizing the loan to be able to offer such low interest rates for financing. The simple point to consider is - would it be financially advantageous to provide finance at an interest rate of 1% pa, when those funds could be invested in a term deposit and receive interest of 4% pa? The answer must be that the purchase cost of the car has been increased to a level to make back some of the interest forgone on the finance.

With this arrangement in mind then it would make sense that you should be able to offer to pay for the car in cash and receive a discount on the purchase price of the car. However, as you have asked and the discount offered is comparatively small, then it may mean that the car dealership needs to keep the sale price at a higher and consistent level, to not have a problem of largely different sale prices across the same car in the market place.

In the end, if you are happy with the purchase price of the car, you are confident that you cannot get a larger discount on the purchase price, and you can invest your available funds for a better return (after paying tax) than the finance rate being offered, then it would be a sensible idea to access the low cost finance.

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