

What Affects Your Interest Rate? - Natloans

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What Affects Your Interest Rate?

By Mary Nebotakis, Managing Director, Natloans, B. Eco, Dip. Financial Services

When taking out a car loan, there's one question most borrowers focus on—what interest rate will I get? That magic number lenders offer you can greatly impact your overall cost, but how is it determined? What factors can you control, and what's out of your hands?

At Natloans, we understand that securing the best possible rate is crucial for your financial well-being. That's why we're here to help you navigate the process and make informed decisions. Let's break down the key factors that influence your interest rate and what you can do to improve your chances of getting a favourable deal.

Factors That Influence Your Interest Rate

Lenders don't simply pick a number out of a hat. They assess various elements of your financial situation, the loan itself, and even the vehicle you're purchasing. Here's a closer look at what affects your rate:

Credit Score: Your credit score plays a huge role in determining your interest rate. The higher your score, the more trustworthy you appear to lenders, which generally translates into lower rates. If your score is low, consider taking steps to improve it before applying.

Car Type and Age: The type of vehicle you're buying matters too. New cars, especially green or energy-efficient ones, often qualify for better rates because they hold value longer and may come with incentives. Older vehicles may be seen as riskier investments, leading to higher rates.

Loan Term: The length of your loan can significantly impact your interest rate. Shorter loan terms usually mean lower rates, as lenders get their money back faster and take on less risk. While longer

terms might seem attractive for smaller monthly payments, they often come with higher interest rates in the long run.

Lender Choice: Different lenders offer different deals. Some specialise in certain types of loans or customers, so it's crucial to shop around and compare options. Working with a finance brokerage like Natloans can streamline this process, ensuring you get access to the best possible rates.

Fixed vs. Variable Rates: Do you want the security of knowing your repayments will stay the same over time, or are you comfortable with fluctuations in the market? Fixed rates provide stability, while variable rates can go up or down. Your personal preference and risk tolerance play a big role here.

Financial Situation: Lenders assess your overall financial health when determining your interest rate. Your income, debts, and savings all contribute to this evaluation. The better your financial situation, the more likely you'll be to secure a lower rate.

Employment Stability: Having a steady job shows lenders you can reliably make payments. If you've been with the same employer for a while, it adds to your credibility. On the flip side, frequent job changes or periods of unemployment can result in higher rates.

Home Ownership: Owning property makes you a safer bet in the eyes of lenders. If you own your home or have substantial equity in it, you're more likely to get a favourable interest rate compared to someone who rents or has little to no equity.

Loan Amount: Interestingly, the size of your loan can influence your rate. In some cases, larger loans come with smaller rates, though this can depend on the lender and specific circumstances.

Loan-to-Value Ratio (LVR): The LVR is the amount you borrow compared to the value of the car you're buying. The lower the LVR, the better your interest rate could be. Essentially, if you put down a bigger deposit, you'll likely get a better deal.

How Natloans Can Help You

Navigating all these factors can be overwhelming, but that's where we come in. At Natloans, we do the heavy lifting for you by assessing your unique situation and finding the right lender and loan to fit your needs. Here's how we can assist:

Comprehensive Loan Comparisons: We work with a wide range of lenders, allowing us to find you the best rates tailored to your circumstances. We'll present options that fit your financial profile and goals, so you don't have to waste time shopping around.

Credit Score Advice: If your credit score isn't where you want it to be, we can offer practical steps to help improve it before applying for a loan, increasing your chances of securing a lower rate.

Tailored Loan Terms: We'll help you find a loan term that balances affordable repayments with a competitive interest rate, ensuring you're not paying more than you need to in the long run.

Fixed vs. Variable Guidance: Unsure whether to go for a fixed or variable rate? We'll explain the pros and cons based on your financial goals and help you choose the option that best suits your needs.

Steps You Can Take

While we're here to guide you through the loan process, there are a few things you can do to help improve your chances of securing a great rate:

Work on Your Credit Score: If possible, pay down outstanding debts and make sure your credit file is in good standing before applying for a loan.

Consider a Larger Deposit: A bigger deposit can lower your LVR and help secure a better rate, so consider saving up a bit more before finalising your car purchase.

Be Ready to Show Financial Stability: Gather documentation like proof of income, assets, and employment history to show lenders that you're a reliable borrower.

Ready to Get Started?

If you're ready to secure the best possible interest rate and protect your financial future, Natloans is here to help. Give us a call at 1300 955 791 or hit the button below, and our team of experts will guide you through the process, ensuring you get the loan that's right for you.

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