

# Why You Should Get Preapproved for a Car Loan

When shopping for a new car, many people overlook one important step: getting preapproved for an auto loan. It's a simple process that can make car-buying go more smoothly and save you money.

Preapproval is a quick assessment of your ability to pay off a loan based on your credit history and current financial state. This is how it works: You visit a bank or credit union, in person or online, and provide proof of your identity — such as your driver's license or Social Security number — your household income, and perhaps your housing costs. The lender will likely run a credit check. Then you'll find out how much it would be willing to lend you and at what rate — sometimes on the spot.

Here's why you should get preapproved.

## You can get a better interest rate

If you haven't done your homework, your dealership might try to talk you into a loan at a not-so-great rate. But getting preapproved at a bank or credit union — or several of them — means you can assess the dealership's offer, and you don't have to accept it. Bringing your interest rate down just one or two percentage points can save you hundreds, maybe thousands, of dollars over the life of your loan.

## You can set a true budget

Once you're preapproved for a loan, you can plan your purchase. Use an [auto loan calculator](#) to factor in a down payment, the value of your trade-in — which you can find online — and your desired monthly payment. Add about 10% for sales tax and other fees. And don't forget about insurance and the other costs that come with owning a car.

Adjust your dreams — and budget — accordingly. Then go shopping.

## You can better negotiate with the dealer

Letting your dealer know that you're preapproved shows that you're a ready-to-buy customer who can walk away at any time. That curtails a lot of the early verbal dancing. Just announce you have your preapproval and will only talk price. Try something like this: “I'm looking for this model, in a deep blue with black leather interior and rear parking sensors. I just stopped in quickly to find out the price I would pay after you take my car as a trade-in.” If the salesman doesn't listen, say, “I just want to hear that one number.” It's not rude to be assertive in this situation.

And as you're signing all the papers in the finance office, if a salesperson tries tempting you with an extended warranty or other last-minute add-ons, you can use your preapproval to stick to your price.

When you're preapproved for a loan, you have the competitive edge in car-buying. You can say no until they say yes.

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