5 best conditions to refinance your car

By Russ Heaps • Bankrate.com

With interest rates remaining so low, the thought may have crossed your mind about refinancing your car loan.

Doing so could save hundreds of dollars each year and sometimes thousands over the life of the loan.

If your current car loan interest rate is above 6 percent, you might want to investigate refinancing.

Unlike refinancing your mortgage or even consolidating credit card balances, refinancing your vehicle loan is usually quick, easy and painless. No appraisal will be required. And usually there are minimal, if any, fees.

But refinancing is not for everyone. It makes sense if, since the original loan, you find yourself in one or more of these five situations:

- Interest rates have dropped. If interest rates have dropped more than a couple of points since purchasing your vehicle, you could save some money. Refi rates are considered used-car loans and as such the rates usually are higher than new-car loans. Remember, even a percentage point or 2 can make a big difference over the life of the loan.

- Your credit score has improved. If you had a few negatives on your credit report -- or had no history of credit -- when you bought your car, but your credit is healthier now, you may qualify for a lower interest rate. Interest rates of 18 percent or more for consumers with a thin credit history are common. Several months of on-time payments could entice a lender to refinance that loan at a lower rate. Steve Schooff, a spokesman for Capital One Auto Finance, says consumers should check their credit scores before refinancing through the free www.AnnualCreditReport.com and should take the option to see your credit score.
- You didn't get your best rate when you purchased. Just because you had a high credit score and unblemished credit history doesn't mean you got the best rate you could have received when you purchased the car. Dealer-sourced vehicle loans commonly carry a higher rate than the consumer deserves because the consumer simply didn't know better. The extra money is a profit source to the dealer, like rust-proofing or extended warranties. When this is discovered after the fact, it may pay to refinance.
- Your personal financial landscape has deteriorated. If you have had a financial setback and need to reduce your payments, refinancing could be a solution by increasing the term of the loan terms, thereby lowering the monthly payment.
- Your car lease is expiring and you want to purchase the vehicle. When you fulfill the terms of a lease, you typically have the option to buy the vehicle.

Credit unions do a big business in vehicle loan refinancing and they have money to lend.

How much can you expect to save? According to Schooff, if one year ago you took a $25,000 auto loan for five years at 7.75 percent interest, refinancing the balance today at:

- 4.75 percent for the remaining four years of the loan would save $1,373 -- $28.60 per month
- 5.75 percent for the remaining four years of the loan would save $906 -- $18.88 a month
- 6.75 percent for the remaining four years of the loan would save $448 -- $9.33 a month

Refinancing isn't an option for everyone. If the vehicle is worth less than the loan balance (upside down), a lender probably won't take the chance and at the same time lower your interest rate. You can determine the current value of the vehicle through NADA or AutoTrader.com.

Other requirements may also disqualify you, such as the age of the vehicle and the outstanding balance to be refinanced. Capital One Auto Finance, for example, will not refinance a vehicle more than 7 years old; the amount of the loan can be no less than $7,500 and no more than $30,000.

It's important, Schooff says, "that consumers determine if their current auto loan has any penalties for paying off the loan early. This will impact how much they can save from refinancing."

Call your lender and request the current payoff amount of your loan. This is the amount of money you need to refinance. It is also the figure you'll compare against the vehicle's value to determine if the vehicle is worth more than the amount you need to borrow.

There is no required amount of time from the date of the original loan until you can refinance. Actually, because of the way most auto loans are structured, the majority of the interest is paid during the first half of the term of the loan. The younger the current loan is the more money refinancing will usually save.

Once you know your payoff, you can determine how much refinancing can save each month, by using Bankrate's auto loan calculator to find your new payment, and then subtract it from your existing payment.

Because most refinancing loans are fairly straightforward, decisions are usually made quickly. Schooff says Capital One Auto Finance typically gives the consumer a decision by e-mail within 24 hours of submitting the online application.

If you find yourself upside down in your car loan and for personal reasons need to lower your payment, you may be able to convince your current lender to modify your loan, lowering the monthly payments by extending the term of the loan and/or reducing the interest rate.

It's important to act before your payments fall behind. The earlier you open communications with your lender, the better the chance of coming to an arrangement.