



Dear Valued Client,

It is becoming very common to see many franchise motor dealers offering low rate finance deals on purchases of brand new cars. Rates as low as 1.00% have been available in recent times.

*But have you heard the old saying “you don’t get anything for FREE!” Well the reality is – you don’t!!!*

*So who is really paying for you to have a 1.00% rate car loan? You guessed it..... YOU ARE!*

Before you rush out and sign on the dotted line, it is important to understand what is happening behind the scenes with these low rate finance packages.

Firstly, there is no doubt that the interest rate being advertised to finance the vehicle purchase is legitimate. But you’re probably wondering, how are they able to offer this rate? These finance offers are typically part of what the industry call a “**subvention**” finance program as the interest rate for the finance package is being subsidised by the dealer out of the profit made on the sale of the car. In other words the dealer will pay back the interest to the financier from the profit of the sale of the car, which means that the dealer needs to keep enough profit margin from the sale price to be able to cover the loss of interest.

Here is an example:-

Say you purchase a car for \$35,000 which is being sold in conjunction with a subvention finance at an interest rate 1.90%. The term of the loan is 48 months with a nil balloon payment at the end of the loan term. Depending on the lender who is providing the finance, the “subvented” amount in this scenario can be anywhere between \$2,500 to \$2,900.

This margin is obtained by selling the car at the full retail price (or more) and normally also charging a hefty establishment fee. To get the cheap rate the dealer will not allow any significant bargaining or discount on the sale price – which is normally available, especially at present.

Remember – you may be able to negotiate a larger discount on the asking price if the purchase is not subject to subvention finance. As such a more prudent approach is to negotiate on the basis of a cash sale with the dealer leaving the low rate interest offer out of the equation. It is not unrealistic to obtain a discount of 8% to 10% off the asking price if the sale is not subject to a subvented finance arrangement.

We often find once a discounted purchase price has been negotiated, those clients who then arrange finance through us at “normal” market rates typically end up **paying lower monthly repayments** and in turn lower total repayments over the term of the loan contract than they would through obtaining subvention finance.

For an honest comparison, get both a **finance price** and a **cash price**, then contact Jonathan Oxlade at Total Choice Home Loans on 08 94334841 for a comparison. Our service is free of charge, and we could save you \$\$\$

Kind regards,

**Jonathan Oxlade**

Principal Bbus Finance Diploma Financial Services (MB & FP) **MFAA Credit Advisor**



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