# How Much Car Loan Can I Get?

Having a personal car is often regarded as one of the best ways to gain satisfaction while in transit. Your credit score constitutes a major determinant in acquiring car loans in Canada.
Having inadequate funds isn't limiting enough in Canada; having an appalling credit score does more damage to the credit profile of citizens.
Fortunately, only traditional lenders, banks and credit unions are overly interested in how your credit score can impact your ability to repay a loan. It also influences your suitability for a car loan.

Car dealerships and alternative online lending companies provide a sustainable alternative for low-income earners or bad credit Canadians to own a car without having to neglect other financial obligations in their lives.
With car loans, you could wake up every day to plan your activities and respond to your urgent needs without having to contend with the stress of catching up with a train or bus, because you would be moving around in your car.

## What Is A Car Loan?

Car loans are credit packages provided by banks, dealerships, and online lending companies to help you obtain a car by paying in installment; either on a monthly or bi-monthly basis.
The loan allows you the freedom to use your attention on other things while driving the car of your dreams. Unlike another credit scheme, a car loan isn't an entirely unsecured loan because the car itself stands as the collateral, which can be repossessed upon failure to pay back the loan. As such, the interest rates on car loans are relatively flexible and sustainable.

## What Is The Average Period For Car Loan Repayment?

Car loans are to be repaid in installments, and they can be stretched across 2 - 8 years or 24 to 96 months, depending on the duration of the loan term.
The bigger the loan amount or car title, the longer the payment window and the lesser the average car payment. In addition to this, the interest rate per month is lesser compared to small loans.

## What Is The Major Determinant Of Loan Amount?

Your credit score plays a major role in determining your loan size. A credit score of 600 to 650 is considered a fair criterion to obtaining a decent loan package.
The use of credit scores by lenders derives from the desire to ensure that the borrower can pay back on time. With a good credit score, lenders will present you with big and long-term loan (new car) options and a flexible time frame with less interest and monthly payment.

However, borrowers with credit scores below 600 are believed to be risky borrowers by even alternative online lending companies. As such, only short-term (used cars) loans are offered with higher average car payments and interest rates.

On a scale, a credit score of 769+ is considered excellent, 759 to 725 is very good, 724 to 600 is a good score, 659 to 560 is considered fair and 559 to 300 is considered as being poor.

## A Short-term or Long-term Loan, Which Is Best For Me?

Normally, your lender determines what you get after conducting a credit check on you but if you are cut up between necessity and fantasy, it is important to consider the interest rate of both packages. With short-term loans come high interest and average car payments but it is more economical because you get to reimburse and avoid the accumulation of interest on time.
But long term loans for new cars are often large and have longer payment windows; this follows that the interest accumulates throughout the loan.

So at an interest rate of 3%, you could end up paying interest of $8,350 on a car of $40,000, spread across 8 years. A stark contrast to a short-term loan, where at a 5% interest rate, you would end up paying $2599 interest over 5 years for the same car.

## How Can I Apply Or get Approved For A Car Loan?

The first step to applying for a car loan is to run a market survey and compare rates of different lenders in Canada. After making up your mind, you can either approach a bank, credit Union and car dealership Or more simply, apply to alternative loan companies online.

Normally you would be asked to provide the following:

- proof of income
- proof of residency in Canada
- proof of Car insurance
- A photo ID
- provide authorization for a credit check

Dealerships often demand an excellent credit score (760+), but they offer quite favorable rates and make up for a one-time stop for car purchases. Banks also offer favorable rates, but excellent credit scores (760+) are a prerequisite. However, online lending companies care less for an excellent credit history but accompany loan packages with exorbitant interest rates.

## If My Credit Score Is Too Low To Be Considered Can I Still Get A Car Loan With Bad Credit?

It's not easy to look past the debt history of a borrower, but should you be lucky to get a considerate lender - including dealership and lending companies - you will have to present a co-signer. The cosigner functions as a guarantor, whose credit history can be used to access your suitability and capability to repay the loan.

## Does The Annual Percentage Rate (APR) Apply To Car Loans?

APR represents the annual cost of a loan plus fees, which includes application and service fees. Companies are mandated to charge APR on services. So it does apply to a car loan. You can use the following formula to calculate your APR;

$$APR = (((fees + interest) \div principal) \div days\ In\ a\ loan\ term \times 365) \times 100$$

## Conclusion

Car loans represent the fastest way for you to ride a personal car. They are offered by traditional banks in Canada as well as car dealerships and alternative loan companies online. Based on your credit score, the loan size and payment terms vary. Repayment is often scheduled on a monthly or bimonthly basis across several years, within a certain percentage of the loan sum is paid as loan Installments. Moreover, the longer the payment period, the lower the average payment and vice versa.