

Appraiser Blog

How Rising Auto Loan Rates Are Affecting Car Buyers in 2024



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Wednesday, March 06, 2024



Why Are Auto Loan Rates Going Up?

Once upon a time, not too long ago, snagging a car loan with low interest was almost as easy as finding a coffee shop in a bustling city. But, like a plot twist in a classic tale, the landscape of auto financing began to shift. The days of ultra-low auto loan rates have started to fade into the rearview mirror, particularly as we cruise into 2024. So, what's fueling this rise in rates, making the journey to car ownership a bit more bumpy for buyers?

At its core, the uptick in auto loan interest rates is a direct passenger of the broader economic measures aimed at combating inflation. Remember the headlines about inflation in 2022 and 2023, painting pictures of soaring prices from avocados to zippers? As prices climbed, so did the Federal Reserve's resolve to tap the brakes by

raising interest rates. This wasn't just a slight adjustment but a significant move designed to cool down spending and, by extension, inflation.

These higher rates ripple through the economy, affecting everything from mortgage rates to, you guessed it, auto loans. For instance, according to J.D. Power's U.S. Automotive Forecast for February 2024, new car interest rates have seen a noticeable jump, climbing 17 basis points from the previous year to an average of 6.9%. It's a clear signal that the era of cheap money is taking a detour.

But it's not all doom and gloom. The auto industry is a resilient one, constantly adapting to the curves and bumps of economic roads. And while higher interest rates may seem like a steep hill to climb, they're part of a broader effort to steer the economy towards a more stable path. Understanding this context helps us see the rise in auto loan rates not just as a barrier, but as a sign of a larger economic journey, with its ups and downs, twists and turns.

2024 Auto Loan Rates: How Much Have They Increased?

As we navigate through the economic landscape of 2024, the question on many car buyers' minds is just how steep the climb in auto loan rates has been. To put it in perspective, imagine embarking on a hike, expecting a gentle incline, only to find the path ahead is more akin to scaling a mountain.

In February 2023, car shoppers could explore auto loan options with rates hovering around a more manageable terrain. Fast forward to February 2024, and the scenario has shifted. According to the J.D. Power's U.S. Automotive Forecast, we're now looking at an average new car interest rate of 6.9%. This marks a 17 basis points increase from the previous year, indicating a significant upward trend.

Higher Rates, Higher Payments: What This Means for You

Picture this: you're at the dealership, ready to seal the deal on a new car. You've budgeted meticulously, but there's a catch you hadn't fully anticipated—rising auto loan rates. It's akin to preparing for a smooth run only to face unexpected hurdles.

These aren't minor obstacles; they're the kind that significantly affect your financial jump, primarily through higher monthly payments.

Here's a quick breakdown: imagine financing a \$30,000 car over 60 months. At a 5% interest rate, your monthly payment would be around \$566. With rates now averaging 6.9% in 2024, that payment escalates to about \$594. Over the loan's lifetime, this increment adds up, impacting overall affordability.

This rise in rates shifts consumer behavior. Buyers might lean towards more budget-friendly options or extend their loan terms, inadvertently paying more in interest over time. It's a stark reminder of the balancing act between desire and practicality in car buying today.

Car Sellers React: Adjusting to Higher Loan Rates

As auto loan rates climb, car sellers are swiftly adjusting their sails to navigate the changing financial seas. Rather than watching from the sidelines, dealerships and manufacturers are proactively tweaking their strategies to keep cars rolling off the lots.

Pricing Adjustments: Contrary to what one might expect, not all prices are skyrocketing. Many dealers are either reducing prices or keeping them steady to help buyers cope with the higher financing costs. This approach aims to make new car purchases more appealing, even amidst rising loan rates.

Incentives and Discounts: To sweeten the deal, there's a noticeable uptick in offers and discounts. These incentives, which are becoming increasingly generous, serve to lower the purchase price, making cars more attractive to potential buyers despite the financial pinch.

Inventory Management: The era of cars selling before they even arrive at dealerships is giving way to larger inventories. This increase in available cars not only gives buyers more options but also enhances the impact of discounts and incentives, potentially leading to better deals.

In response to 2024's higher auto loan rates, the car selling industry is dynamically evolving. Through strategic price adjustments, enhanced incentives, and improved inventory management, dealers and manufacturers are striving to keep the dream of owning a new car alive for consumers, balancing the scales against the backdrop of a challenging economic landscape.

Beat High Loan Rates When Buying a Car in 2024

In 2024, beating high auto loan rates and getting a good deal on a car is all about being smart and prepared. First up, make your credit score better. This is like your financial report card, and the higher it is, the less you'll pay in interest. Then, try to save up a bigger down payment. This means you borrow less money, which cuts down on how much interest you pay over time.

Next, don't just take the first loan offer you get. Look around and compare what different banks or credit unions offer. You might find a much better deal. Think about going for a loan that you can pay off quicker. Yes, you'll pay more each month, but you'll be done faster and pay less interest in the long run.

Lastly, don't be shy to negotiate the price of the car. A lower price means you borrow less, which again means less interest to pay. With these straightforward steps, you can manage the challenge of high loan rates in 2024 and still get the car you want. Ready to dive in?