



Consumer Protection

Negative Equity



Negative equity... or when you owe more on your loan than your car is worth

New or used vehicles can lose value when they are driven off the lot. That makes it easy to end up with Negative Equity on your car loan. Negative equity can happen for many reasons:

- You didn't have enough of a down payment or you made no down payment
- You bought a car you couldn't afford so the loan term had to be very long
- The interest rate was very high due to personal credit issues
- You are trading the vehicle in too soon
- You added negative equity from the car loan on your trade-in to the new loan

A solution for not getting into a negative equity trap, is being smart about getting a car loan. Here are some strategies:

Understand your creditworthiness

The terms and interest rates available to you will be based on the vehicle and your credit score. Know your credit score! Check with [Equifax](#) or [TransUnion Canada](#).

Compare lenders

Ask your bank or credit union about terms and rates so you can compare the rates at the dealership.

Verify credit application accuracy

- Get a copy of the information submitted to the lender(s)
- Ask who the application will be sent to
- Ask to see what each lender offered Note: multiple credit checks can negatively affect a borrower's credit score

Shop for a vehicle, not a monthly payment!

Know the actual price of the vehicle, any fees, your financing costs, and any balloon payments at the end of the term



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Extended-term loans and long-term financing – are they right for you?

Extended-term loans (typically 72 – 96 months) can lead to negative equity and a cycle of debt. Ask for the loan progress chart. Before agreeing to an extended-term loan consider:

- How long do I plan on keeping the vehicle?
- Will the car last the term of the loan based on how much I drive?
- Will I trade it in when it is worth less than the loan balance?

To learn more about negative equity [click here](#).

Source: [OMVIC – Ontario's Vehicle Sales Regulator](#)

If you have any questions, please contact [VSA Consumer Services](#).

NOTE: This is to provide general information and is not intended to be legal advice.