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BUYING A CAR

The biggest financing mistakes you need to avoid

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Shoppers examine a lineup of Subaru Crosstreks at a dealership in Highlands Ranch in 2024. Going to the dealership with preapproved financing and a thought-out budget is the best way to minimize the most common financing mistakes. David Zalubowski — associated press file

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Edmunds

Americans are breaking financial records, but not in a good way, according to Edmunds. In the third quarter of 2026, car buyers took out larger loans, for longer terms, and with higher monthly payments than ever. Persistently high auto loan interest rates aren't helping, adding significantly to what buyers pay over time.

How can you avoid overextending your budget? Here are the best recommendations from Edmunds' auto experts.

Don't be a payment shopper

Naturally, when you're deciding how a new or used vehicle fits your budget, you think about the monthly payment. But if you walk into a dealership with only that number in mind, the dealer's finance team will find a way to meet it, either by charging you more than you should pay for an easily affordable model or by stretching the loan to 72, 84 or 96 months and increasing the interest you pay on a more expensive vehicle.

Let's say you want to buy a $50,000 Ford F-150. Assume you have $5,000 for a down payment and no trade-in vehicle. After factoring in sales tax, title transfer and other fees, the dealership says that it can get you a loan to finance the vehicle for 60 months at 7% interest, leading to payments of approximately $1,000 per month. Unfortunately, you don't think you can comfortably afford more than $650 a month. So what happens next?

The dealership is invested in you buying the F-150, and you have an emotional desire for the truck. So they offer to extend the loan to 84 months, thereby reducing the monthly payment to approximately $750. You decide to make the stretch and sign the paperwork.

You got your F-150, but there are two big problems. First off, the longer loan will require you to pay thousands more in total loan interest. Lengthy car loans can also require higher interest rates. Even assuming the interest rate in our example stays the same, the longer loan will require almost $4,000 in additional interest.

Longer loans also put you at greater risk of being "upside down," meaning you owe more than the vehicle is worth. If life takes an unexpected turn and you need to sell, you'll do so at a loss.

Get preapproved for financing before going to the dealership

If you work with your bank, credit union, or other financial institution to get preapproved for a car loan, you'll have leverage at the dealership. You'll know your credit rating, the interest rate you qualify for, and what the monthly payment will be for different loan terms. Most importantly, you'll know whether the loan fits your budget comfortably.

You'll also be able to assess your situation without dealership sales pressure. At the dealership, ask whether their finance department can beat your prearranged loan terms while offering a lower payment for the same loan length. They want the loan business; make them earn it.

Building on the example above, if you get preapproved for financing, you'll know your dream of a $650 monthly payment on a $50,000 F-150 isn't realistic. By taking your time and planning ahead, you'll realize you can only afford a truck that costs about $37,000.

A final tip: While credit unions and banks are great, automaker finance arms often offer subsidized promotional interest rates to help sell certain vehicles. Check with the dealer or the automaker's current incentives before settling on outside financing.

Don't trade your old car if you owe more than it's worth

A common mistake people make when buying a new vehicle is trading in their current vehicle when it's worth less than what's owed on the loan. For example, you might owe $20,000 on your existing vehicle loan, but the dealership will only give you $16,000 for your trade-in, leaving a $4,000 gap to cover.

To entice you to buy today, a dealership will offer to roll that $4,000 difference between what you owe on your existing car loan and what the vehicle is worth as a trade-in into the new loan. That solution can seem appealing in the moment, but it usually means higher payments, longer loan terms or both.

In turn, that starts a debt spiral that could take years to resolve. Resist the temptation. The smarter move is to keep your current vehicle longer and pay down the loan balance before trading it in.

Edmunds says

Buying a new vehicle is exciting, which makes it easy to dismiss financial red flags during the process. But if you go to the dealership with preapproved financing and stick to your budget, you can still drive home in a reasonably priced new or used vehicle that fits both your lifestyle and your finances.

This story was provided to The Associated Press by the automotive website Edmunds. Christian Wardlaw is a contributor at Edmunds.