



What if I owe more on my car than it's worth? Upside Down on Car Loans

Being upside down means you owe more than the vehicle is worth. In this Situation If your vehicle is totaled, you can't make the payments or need a different vehicle, you will need to come up with the difference in value. There is an example let's say your vehicle is worth \$12,000 but you owe \$17,000, in any of these instances you'll need to come up with an additional \$5,000 if you need to replace it. Check the resale value in Kelley Blue Book or Edmunds.com (resale value) and subtract your current loan balance.

Possible Action steps:

1. Make extra payments to principal (the loan balance) if permitted in your loan contract. This will help you get right-side-up, should you need to sell it and not have to pay the lender to get free of the loan.
2. Re-finances for a shorter term. The balance you owe won't be lower but shortening the length of the loan will reduce the amount of interest you pay.
3. If you are significantly upside down, consider purchasing gap insurance. This is often done only at the beginning the loan and covers the difference between an insurance settlement if the vehicle is totaled and the amount owed on the loan. A no-money-down auto loan for a new vehicle is a good scenario for gap insurance.

Remember that most vehicles go down in value with age.

Philip Reed, "Is Your Car Loan Upside-Down? How to Steer Back to Safety", Nerd Wallet, Sept. 24, 2019, <https://www.nerdwallet.com/blog/loans/auto-loans/car-loans-upside-down/>