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Auto Refinancing Fees Be Aware



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When contemplating a refinance loan for your vehicle, it's crucial to anticipate the expenses tied to it. Refinancing offers a way to modify the terms and financial obligations of your auto loan, but it's important to comprehend the accompanying fees in order to make a well-informed financial decision.

Why consider refinancing when it involves fees? Auto refinancing entails obtaining a new loan to repay your existing car loan, with the aim of securing more favorable terms and enhancing your overall financial situation. You have the option to refinance your vehicle through your current lender or seek a new lender. Even though there are fees associated with refinancing, it's often a sound strategy to address unfavorable car loan terms.

Auto Refinancing Fees: What You'll Be Charged

Borrowers typically pursue vehicle refinancing to save money, but taking out a new loan entails a variety of fees that may seem counterproductive to your goals. It's vital to have a comprehensive understanding of all the costs associated with refinancing to avoid potentially paying more in the long run.

Prepayment Penalties

Certain loan agreements incorporate a prepayment penalty, which is a fee imposed by lenders if you repay your loan ahead of schedule. It's imperative to be vigilant about this fee when acquiring a new loan, as prepayment penalties can work against your financial interests.

You might assume that your monthly payment is merely a minimum requirement, and paying more than the minimum should logically lead to interest savings and an earlier loan payoff. However, this isn't always the case. The longer you maintain your loan, the more interest you'll pay.

Lenders aim to maximize their interest earnings from your loan, so they often assess a prepayment penalty to compensate for the interest they would have earned if you hadn't repaid the loan faster than anticipated. When you refinance your loan, you effectively pay off the existing loan and replace it with a new one, which often triggers a prepayment penalty if it's included in your contract.

It's crucial to ascertain the exact amount of the prepayment penalty, if applicable, and evaluate whether the potential savings from refinancing outweigh the penalty.

Transaction and Lender Fees

Your lender may impose various proprietary transaction fees for closing your existing loan and establishing a new one. These fees may go by different names, including transaction fees, lender fees, application fees, processing fees, and administrative fees. Your current loan agreement might contain information about termination fees. You can also inquire with your potential lender about their fee structure before committing to a new loan. In most cases, these charges can be negotiated, especially with your new lender.

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If you choose to refinance with the same loan provider, they may be willing to waive these fees since you're staying with them. If they are reluctant to do so, you can mention that you have a competitive offer from another lender willing to waive these fees.

Vehicle Registration Fees



In some states, refinancing your vehicle may require you to update your vehicle registration. The cost of vehicle registration fees can vary significantly from state to state. For example, Arizona charges a nominal fee of \$8, while North Dakota assesses a higher fee of \$274. Many states base their registration fees on factors such as the vehicle's weight, as seen in Hawaii, Washington, South Dakota, and Virginia. Others, like North Dakota, New Jersey, and New Mexico, consider both the vehicle's weight and age.

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Michigan and Iowa factor in the vehicle's value, weight, and age when determining registration fees, while Oregon bases its fees on the car's model year and fuel efficiency. It's advisable to contact your state's Department of Motor Vehicles to gain a clearer understanding of when and how they assess registration fees.

Title Fees

When refinancing with a new lender, you may need to cover transfer fees as your car title transitions from one lender to another. Depending on your state's regulations, the new title may be issued to you or the updated lien holder. Some states also levy a lien recording fee in addition to the title transfer fee.

Title fees can vary considerably by location. For instance, Wisconsin's title fee can exceed \$160, while Hawaii and North Dakota charge just \$5. Oregon determines title fees based on the model year and miles per gallon (mpg), and Texas calculates title fees based on county. To get a precise estimate of what to expect, it's advisable to contact your local Department of Motor Vehicles.

Cash Payments for Upside-Down Loans

Lenders evaluating your refinancing application often assess the value of your vehicle in comparison to the amount you owe on it. If your outstanding loan balance surpasses the car's current value, your loan is considered "upside down."

Lenders gauge this situation using the loan-to-value (LTV) ratio, calculated by dividing your loan balance by your car's value. Most lenders are unwilling to consider loans for vehicles with an LTV exceeding 125%. A study found that 90% of loans were granted to applicants with an LTV of 123% or less.

To determine whether your loan is upside down, you can use resources like Kelley Blue Book to estimate your car's present value and compare it to your loan balance. If your LTV exceeds 100%, it's advisable to lower it to secure a more favorable refinancing deal. Some lenders may not even entertain the idea of refinancing if you have negative equity, making this an expense you need to address if you're set on securing a new loan.

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Calculate the necessary amount to reduce your LTV below 100%. If you can't afford this amount at present, refinancing may not be the most suitable option for your current financial situation.

How Refinancing Fees Affect Your Credit



Refinancing your vehicle can impact your credit score in multiple ways. Whenever you apply for a new loan, your credit score experiences a minor dip. Although this doesn't entail immediate costs, a lower credit score can affect the interest rates and terms available for future credit lines. If you have plans to buy a home, take out a personal loan, or apply for a new credit card in the near future, you must carefully consider the timing of these actions. For example, it may be prudent to postpone refinancing your vehicle until you secure the most favorable mortgage rate.

Closing your previous loan will also have a temporary negative impact on your credit score. Car loans are typically long-term, high-value accounts that can significantly influence your overall credit report. However, if your previous loan was in good standing, the impact is somewhat mitigated.

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If you don't intend to apply for a mortgage loan for several months or years, refinancing could potentially boost your credit score in the long run. Consistently making timely payments on your new loan can have a positive impact on your credit score.

When preparing to refinance, it's advisable to compare multiple loan offers. It's essential not to prolong this process, as most credit scoring models treat multiple loan inquiries within a short timeframe as a single inquiry, reducing their impact on your credit score. Some models even aggregate inquiries over an extended period. The quicker you conduct your comparisons, the better.

How Refinancing Affects Your Car Insurance

Your new lender may have specific requirements regarding the type of car insurance you must maintain with your loan. Refinancing can potentially lead to an increase or decrease in your car insurance costs based on your new lender's policies.

Most lenders mandate comprehensive insurance coverage for any vehicle they finance. However, in certain cases, you may be allowed to switch to the state's minimum required coverage once you've paid off a certain portion of your car loan. To determine if and when this is possible, consult your new lender. Reducing your coverage may lower your monthly insurance premiums, but it's essential to understand that it also reduces your overall protection in the event of an accident.

Another type of insurance often required by lenders is guaranteed auto protection (GAP) coverage. If your loan is upside down, GAP insurance covers the difference between your outstanding loan balance and your car's actual value, which can be crucial if your vehicle is totaled. In case your new loan necessitates adding GAP insurance, factor this cost into your overall expenses and fees associated with refinancing. If you already have GAP insurance but are now permitted to drop it, this can result in additional savings.

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Is Refinancing the Right Choice?

With numerous factors to consider, determining whether refinancing your vehicle is the best option can be challenging. Using the information provided, you can calculate the cost of refinancing your vehicle and assess the potential savings. If refinancing ultimately leads to cost savings, it can be a worthwhile endeavor.

However, if the savings are minimal or nonexistent, careful deliberation is necessary to determine whether refinancing aligns with your financial goals. If you're encountering difficulties in making your car payments, refinancing can still be a prudent move, as it can reduce your monthly obligations and help you avoid late payments, missed payments, or loan defaults.

Before proceeding with refinancing, it's crucial to thoroughly evaluate all your options and associated costs. This diligent approach will provide you with peace of mind when making your final decision.

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