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Getting a car loan? A longer one could be riskier.

Average new car loan is now 66 months

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When it comes to new-car loans, many people are gravitating towards loans that extend over increasingly long periods of time. What they may not realize is that those loans could be dangerous to their finances.

According to a recent report by Experian Automotive, the average new car loan in the first quarter of 2014 was 66 months, a month longer than the average over the same period in 2013. And nearly 25 percent of loans were for 73 to 84 months. We've even seen some financing companies offer car loans of as long as eight years.

Why the attraction to longer loans? Because they result in lower monthly payments. That encourages you to buy more car than you may be able to afford. And car dealers get excited when they can get customers to focus on the low monthly payments instead of on the fact that their new car is costing twice as much as their parents paid for their first house. But this mortgagelike approach to auto financing has serious downsides, which is why we don't recommend buying a car that requires a loan of more than 48 months.

Financing a new car doesn't have to be difficult. Read How to get the best car loan.

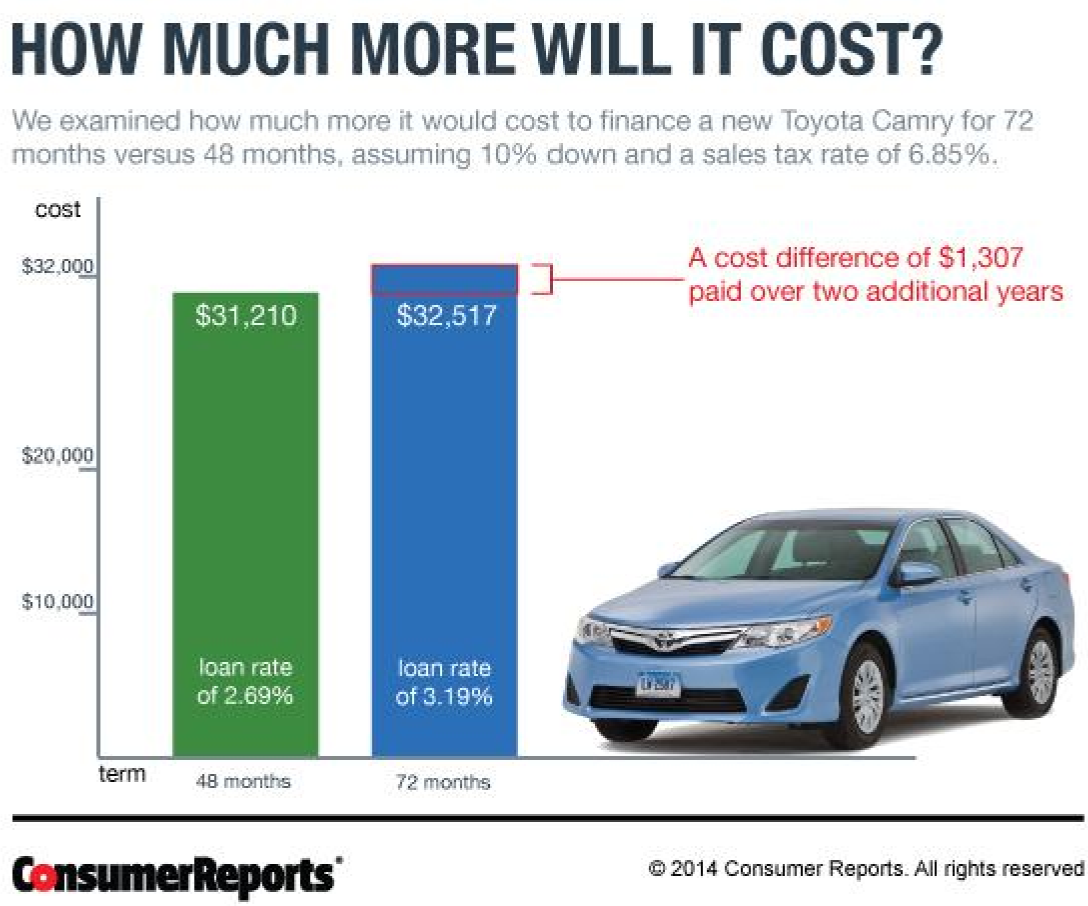
You'll face higher costs. One big downside is that the longer the loan, the higher the interest charges. That's because more interest accumulates over the longer period, and longer loans typically have higher rates. In the New York metropolitan region, the lender Capital One recently advertised a 2.69 percent rate for new car loans of 48 or 60 months and 3.19 percent for loans of 66 and 72 months.

Using those rates, we did some figuring based on the purchase of new a Toyota Camry for which we would put 10 percent down and be charged 6.85 percent sales tax. The total cost of the 72-month loan came to $32,517, about $1,300 more than the 48-month loan due to the higher interest charges.

Often, manufacturers and dealers offer special financing deals that can result in very low rates, tempting shoppers to sign up for long loans. While the advertising may catch your attention, buyers often must choose between the lower financing deal and a rebate. And the best of those rates typically are reserved for buyers with pristine credit.

You'll have increased risk. Another downside is that as soon as you drive a new car off the lot, its value begins plummeting right away and continues falling at a high rate during the first years of ownership. Unless you've made a substantial down payment, you'll have little or no equity in the vehicle during most of that time, which means you could owe more than the car's worth. With a 72-month loan, the value of a car such as the Toyota Camry might not exceed the amount you owe until about the 30th month of ownership. In contrast, with a 48-month loan, you'd begin building equity by the end of the first year.

One reason this is important because if the car is stolen or totaled, your



insurance company won't pay you more than the vehicle is worth. If that occurs early in the loan cycle, your insurance payment may not even cover the remaining amount owed on the loan. (You can pay extra for so-called gap insurance from the lender, which will cover this shortfall.)

Check out our new car buying advice and our new car reviews and Ratings.

If the loss occurs in the 48th month using our Camry example, your insurer might give you as much as $14,700. That's enough to more than cover the nearly $10,500 you'd still owe on the 72-month loan; but that would leave you only about $4,200 for a replacement vehicle. If you put that toward another new Camry, you'd end up with a new loan of about $28,400. In comparison, if you had a 48-month loan, you could put the entire $14,700 insurance check toward the replacement vehicle, and your new loan would be about $17,900, or about $10,500 less.

You'd face a similar issue if you decided to trade in the vehicle at the end of four years. With a 48-month loan, the full value of the $14,700 trade-in could be applied to the cost of the new car, compared to the $4,200 you'd have left over after paying for what you still owed on a 72-month loan.

You'll be poised for a constant car loan. A 72-month loan also means that there's greater chance that you'll always have a car loan to worry about. After all, by the time you're done repaying the first loan, your car will be six years old and well beyond the bumper-to-bumper warranty. That means you may be wanting a new vehicle, leading you to start the process all over again.

What to do

Forget the long-term commitment, and opt for a reliable car that you can afford with a loan of no more than 48 months. Three years is even better. Put down at least 10 percent in the form of a trade-in or down payment, but try for 20 percent or more. Focus on the total cost of the vehicle, and negotiate the best deal you can. (For a target price, you can use the Consumer Reports New Buying Service or car websites such as TrueCar, Edmunds.com, or Kelley Blue Book.) Forget leasing, too. That also typically ends up costing more; you just won't be able to tell how much more because of the complexities of comparing leasing with buying.

Take care of the vehicle as the manufacturer recommends, and keep it at least until you pay off the loan, or, better yet, until your friends and family start referring to it as "the old jalopy."

—*Anthony Giorgianni*