

FINANCING OPTIONS

STRATEGIES AND CHOICES
FOR THE COLLECTOR



WHAT ARE MY OPTIONS?

Any time of year can be exciting for a collector car enthusiast. In the winter there's time to fantasize about the car of your dreams, and in the warmer months there are car auctions and shows everywhere.

If you go to any events, you'll probably see a car or two that catches your eye. If this is your year to buy a collector or special interest car, the best place to start is to figure out how you plan to pay for it. With the right information and some planning, you can make the best possible choice for your personal financial situation.

Cash is the first thing that comes to mind for most collectors. But not everyone has \$50,000 in the bank to put into a collector car. The reality is the American consumer, regardless of his/her net worth, is extremely savvy about credit and will choose to leverage borrowing power when attractive financing exists. It really comes down to the opportunity of using our cash to buy a car versus another investment like real estate or securities.



Advantage: *Car can be purchased immediately*

Disadvantage: *Can tie up cash needed for emergencies or investment*

Extended-term collector car financing is a fairly new alternative for someone wishing to buy an antique, classic or special interest vehicle. The loan representatives understand the collector car market and why a 40-year-old car might cost \$100,000,

\$500,000 or even more. Interest rates tend to be low and loan terms can stretch as long as 12 years, which can help keep monthly payments affordable.

Advantage: *Very low monthly payments; doesn't tie up cash*

Disadvantage: *The cost of borrowing money*

Leasing offers you a low monthly payment and the flexibility to use your cash elsewhere. It's very important to determine what happens at the end of the lease. Some leases are close-ended, which means that you know the residual value of the car upfront and you have the option of returning the car; other leases are open-ended, which means the value of the car will be set at the end of the lease and you can't turn the car in. In addition, some leasing programs are similar to balloon loans, where you have low payments until the last one, which is larger and requires refinancing or a payoff if you wish to retain the car.

Whichever type of lease you select, you're only renting the car for a period of time. Depending on the structure of the lease, you may not benefit from any appreciation in the car's value. If you want to rent a classic or an exotic for a short time and don't consider yourself a collector, a lease might suit your needs.

Advantage: *Doesn't tie up cash; low payments*

Disadvantage: *You don't own the vehicle and you don't benefit if it appreciates*

Stock can also be used as collateral for a loan through your broker. A stock portfolio loan has a variable rate and is subject to the dreaded "margin call" for even a temporary change in the value of your portfolio – generally this happens if the amount of the loan exceeds 50 percent of the account value. When your shares go down, you'll be back to plunking down cash or selling shares to cover the call.

Advantage: *A ready source of cash*

Disadvantage: *If the market falters, you might have to come up with additional cash to cover your account*



Home equity loans have grown in popularity because of low interest rates and loans that are frequently tax deductible, although you should consult your tax advisor before choosing this option. You'll also need to convince your spouse that tying up your most valuable asset to support your hobby is a good idea. When you consider the variable interest rate and the risk, you might choose not to put a lien on your home.

Advantage: *Lower interest rates; often tax deductible*

Disadvantage: *Variable interest rates; default could cost you your home*

Local banks might approve a loan, if you're lucky enough to get a collector car aficionado who understands why you want to buy a 40-year-old car. Most banks don't understand the difference between a collector car and a used car. If anything, they'll offer you a short term – usually no more than 36 months – and a high interest rate that can be as much as double the cost of a new car loan.

Advantage: *Convenient location*

Disadvantage: *High interest rates; possible lack of interest in collector car loans*

Personal loans from your bank are also a possibility, although amounts are often limited to \$5,000, which works well if you're just a little short of the cash needed for a deal. Assuming your credit is good, you can get a small unsecured loan, but you'll pay for the lack of collateral with an interest rate that could easily be many points higher than the prime rate.

Advantage: *Convenient*

Disadvantage: *High interest; small principle*

Unsecured lines of credit or **credit cards** offer “cash-like” buying power and low introductory interest rates. The variable rate will jump up quickly, as will the monthly payment, and the high usage of a revolving account can negatively impact your credit rating. However, this can be an excellent way to pay for a car in the short term while you quickly establish alternative financing.

Advantage: *Quick way to raise cash for purchase*

Disadvantage: *Very expensive way to borrow money for the long term*

There are many different ways to pay for your collector car. Which option is best for you depends on your financial situation. You will probably want to ask yourself:

- Do I have enough cash readily available, and how long do I want to tie it up?
- Do I have an investment maturing soon and simply need a short-term loan until I can access the funds tied up in those investments?
- How much equity do I have in my home, and is it wise to leverage it for a car?
- Do I want to own or rent the car, and how long do I intend to keep it?
- Do I want to benefit if the car appreciates in value?

There are more choices than ever when it comes to collector car financing. Consider your choices carefully, and select the best one for you. But most importantly, cherish and enjoy your newly acquired collector car.

If you have questions regarding which method of financing is best suited to your circumstances, feel free to contact Hagerty Finance at 800-922-4050, option 5. One of our representatives will be happy to counsel you.

THE BEST FINANCING FOR YOU

Financial Situation

Mortgage will end soon, need interest-deductible loan

Want low payments and plan to keep car for long period

Want car for a year or two

Need a few weeks to secure low-interest financing

Don't have full cash amount

Assets are tied up in market and you're not averse to risks

Have an excellent personal relationship with your bank

Have a large amount of liquid assets

Only a few thousand dollars are needed for a few years

Have used credit card for short term and want cheaper financing

Buying Motive

You've always wanted one, and they're appreciating quickly

Once you get this car, you'll keep it forever

You've just sold an old car at a profit, and now you want another

That convertible sports car would be great for a summer

You really want that car, but won't tie up your cash

You want to be able to buy a car on a moment's notice

You're trading up and are just a little short of cash

It's a once in a lifetime opportunity, but you don't have the cash

You'll keep this car for a few years, then trade up

The only way you can afford this car is by stretching out the payments

	Cash	Ext. Term Finance*	Home Equity Loan	Lease	Stock Portfolio	Bank/ Credit Union	Credit Card**	Pers. Loan
			✓					
		✓						
			✓					
							✓	
		✓						
					✓			
						✓		
	✓							
								✓
		✓						
			✓					
	✓	✓						
	✓							
				✓				
		✓			✓			
							✓	
								✓
		✓						
		✓						
		✓						

*Extended-Term Financing **Unsecured Line of Credit or Credit Card

Hagerty is the premier source for safety and protection information about the collector car hobby. For more information on enhancing your collector car ownership experience, log on to **www.hagerty.com** or call **888-310-8020**.



Collector Car InsuranceTM

This material is for information purposes only and is not a substitute for professional advice. The information is obtained from sources believed to be accurate and reliable, but no guarantee is made that it will be sufficient or appropriate for every individual or situation.

© 2007 HagertyPlus, LLC. For copy and reprint permission, contact askhagerty@hagerty.com.