

I WAS BROKE.
NOW I'M NOT.

SELLING A CAR WITH NEGATIVE EQUITY

By Joseph Sangl

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Most cars drop in value by 60% in the first four years. This fact alone causes an enormous part of the American population to struggle with huge car payments and the inability to pay off the car before the need to purchase another one arises. Because of this, negative equity is rolled into a new loan, putting the purchaser even further behind.

It is my hope that in this eBook, you will be equipped to sell a car that has negative equity.

PART 1: Recognize How Much a Car Really Costs

Some of the actions in this eBook might be difficult to execute, but when you recognize how much a car really costs, it can really help solidify financial decisions.

I believe that having a car payment is a huge financial mistake. Here is why:

First, cars drop in value. New cars drop in value fast. Most new cars drop in value by around 60% in the first four years. This is called depreciation, and it causes one's net worth to drop.

Second, car payments reduce your ability to gain financial freedom. Loan interest can range from zero percent to twenty percent or higher depending on your credit. Even 0% loans are negative financial events because the money is going towards a car that is dropping in value. What else could you do with a monthly car payment? Give more? Invest more? Spend more?

When I recognized how much my debt was costing me, it solidified my commitment to achieving financial freedom. I was so sick of debt and what it was doing to my family.



PART 2:

Determine Your Car's Negative Equity

Equity is determined by the following equation:

$$\text{Vehicle Actual Value} - \text{Vehicle Loan Balance} = \text{Equity}$$

If the equity number is negative, that means the vehicle has negative equity.

As you prepare to sell your car, it is very important to know the **actual** value of the car and the **actual** amount owed. I emphasize the word **actual** because most people tend to overestimate their car's value and underestimate how much they still owe.

How do you determine how much your car is actually worth? Obtain a quote from Kelley Blue Book and Edmunds. You will need to know the year and make of your vehicle including your engine type and mileage. These two sites will give you a general idea of what used cars like yours are selling for in your area. Recognize that these are average selling prices. This means that cars are selling above and below that number, but this is the price that you can expect to sell the vehicle.

Now that you know the actual value of the vehicle, it is time to determine exactly what is owed. Contact your lender and obtain the actual pay-off balance of the car loan.

Now, use the equity calculation to determine your vehicle's equity. If it is negative, then you have a car that is known as "upside down." It has negative equity. You owe more than it is worth.



PART 3:

Sell the Car With Negative Equity - Option A - Pay Off the Balance

Let's assume that a car has an actual value of \$12,000, but the loan balance is \$18,000. This means that the car has a negative equity of \$6,000.

This is quite the lovely situation, but it is possible to remedy this.

Use Savings

If you want to sell the car, then the negative equity must be covered in order to provide a clear title to the purchaser. The fastest way to clear out the negative equity is to find a purchaser who is willing to pay \$12,000 for the car and use \$6,000 from savings to clear up the negative equity. This is by far the fastest and easiest way to clear up the negative equity situation—IF you have \$6,000 in savings!

Earn the Difference

If you do not have the money to cover up the negative equity, then another way to accomplish the exact same thing is to earn additional income. Work overtime or acquire a second job to earn enough to cover the negative equity.

This is definitely not a fun answer, but I do not like negative equity situations either. The tough part about the option is the fact that it takes additional time and it is possible that the negative equity will increase because the car will continue to decrease in value.

Sell Something Else

If you have an item that you no longer need, want, or use that has value, it can be sold to cover some of the negative equity.

I prefer Option A because it eliminates the entire debt and frees up the entire car payment to use for additional debt payoff, savings, giving and investing.

PART 4:

Sell The Car With Negative Equity - Option B - Transfer The Negative Equity Balance

From the previous example we have a car with an actual value of \$12,000 but the loan balance is \$18,000. This means the car has a negative equity of \$6,000.

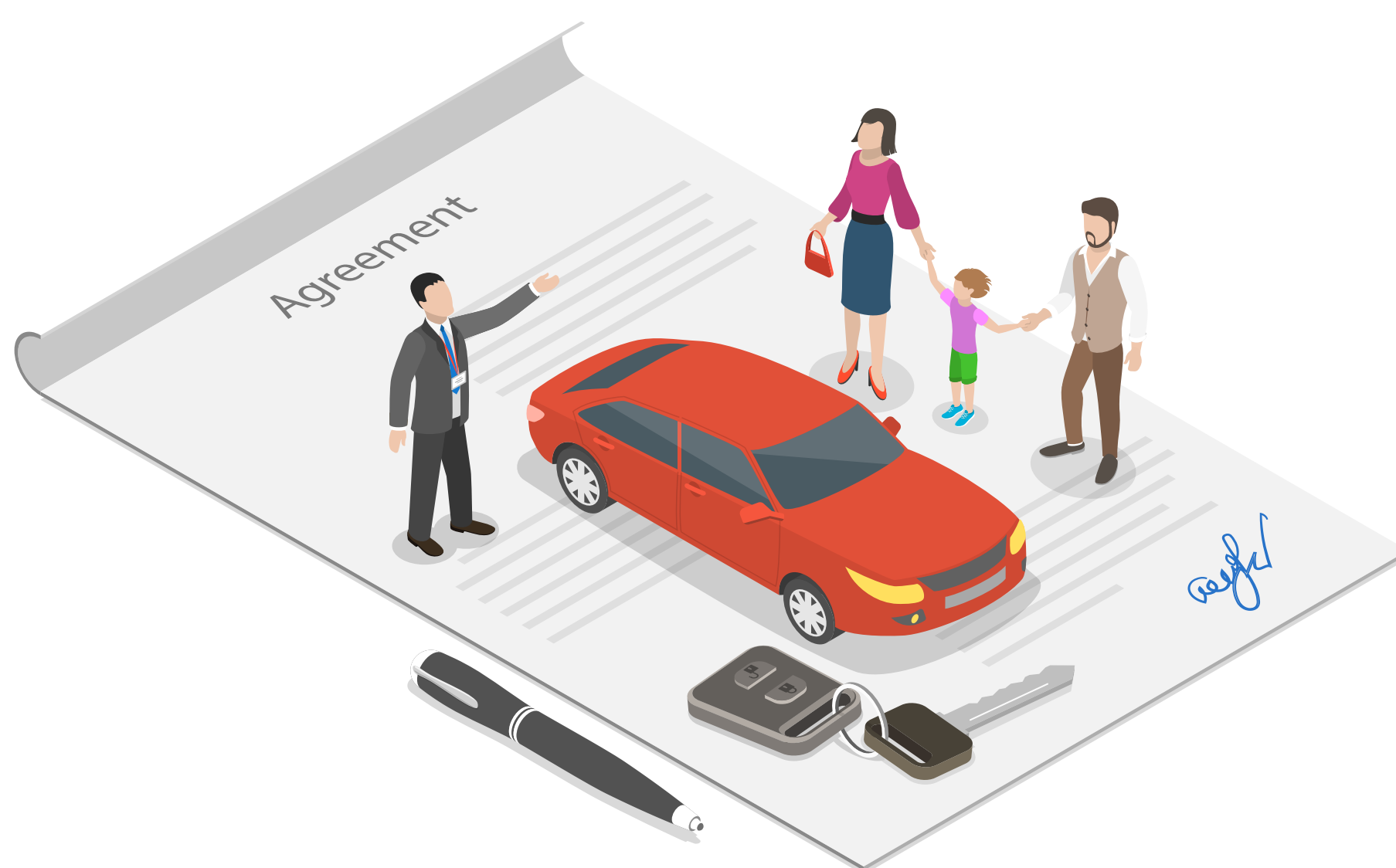
Obtain a Signature Loan From the Bank or Credit Union

You usually must have decent credit to obtain a signature loan. Obtain a \$6,000 loan from the bank. Next, find a purchaser who is willing to pay \$12,000 for the vehicle. Use the signature loan money to pay off the negative equity portion so the title is clear. With this one transaction, the debt has been reduced by 66%—from \$18,000 to \$6,000!

Transfer the Negative Equity to a 0% Credit Card

I really do not like credit cards, but I really do not like huge car payments and car loans either. If you have the option to roll the negative equity to a credit card at 0%, it will allow the car to be sold and all of the subsequent payments on the remaining \$6,000 will go directly to principal. I have also seen several credit cards that offer 2.99% for the life of a balance transfer.

Option B does not entirely eliminate the debt or the payment, but it will substantially reduce it. It will certainly help your journey to financial freedom obtain serious traction.



PART 5:

Benefits of Selling a Car With Negative Equity

Lower Debt

This is obvious, but it is a wonderful benefit of eliminating the car with negative equity. In the example used in this series, debt has been reduced by \$18,000 in Option A or \$12,000 in Option B. Either one is fantastic!

Money Freed Up Every Month

This is also obvious, but the monthly payment will be eliminated or vastly reduced. This allows you to have more margin in your monthly finances to give, save, or invest (three of my favorite parts of money).

Not so obvious is the reduction in other fringe expenses. Car insurance will go down. Car property taxes will go down. Gasoline consumption will go down. Car repair costs will go down. These can total up to hundreds of dollars in savings each month.

Margin

When all of the money leaves as soon as it is earned and you are living paycheck-to-paycheck with zero margin for life to happen, it creates serious stress. By eliminating debt and its related payments, you gain tons of financial freedom and drop loads of stress.



PART 6: Now What?

So at this point, you have sold the car with negative equity, and I am sure now you are wondering how you can get around. The last thing you want to do at this point is finance another car and put yourself right back where you started. You have a couple of options and not all of them are going to be the most fun.

Use Savings

This is the ideal way to purchase a car. If you have money built up in a savings account, aside from your emergency savings, you can utilize this cash to purchase a car free and clear. No car payments and no more debt.

Alternative Means of Transportation

If you do not have a couple thousand dollars available now, work and save as much as you can in order to be able to get this quickly. This might mean temporarily working extra hours or getting a part-time job. In the meantime, you might have to look into public transportation to get to and from work. If your spouse has a car, while it is not ideal or convenient, share the vehicle until you are ready to make another purchase.

Final Note: I know that this stuff is HARD, but I am convinced that financial freedom is worth all of the effort that it takes. When Jenn and I embarked on our debt freedom march, it seemed like it would take forever. Fourteen months later, we were debt free. That was in February 2004. We have never looked back. No car, TV, boat, lawn mower, or llama has looked good enough for payments. Frankly, a new house does not even look good enough for house payments. We have worked way too hard to achieve financial freedom to fall back into the debt trap. It has been so worth it!



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ABOUT I WAS BROKE. NOW I'M NOT.

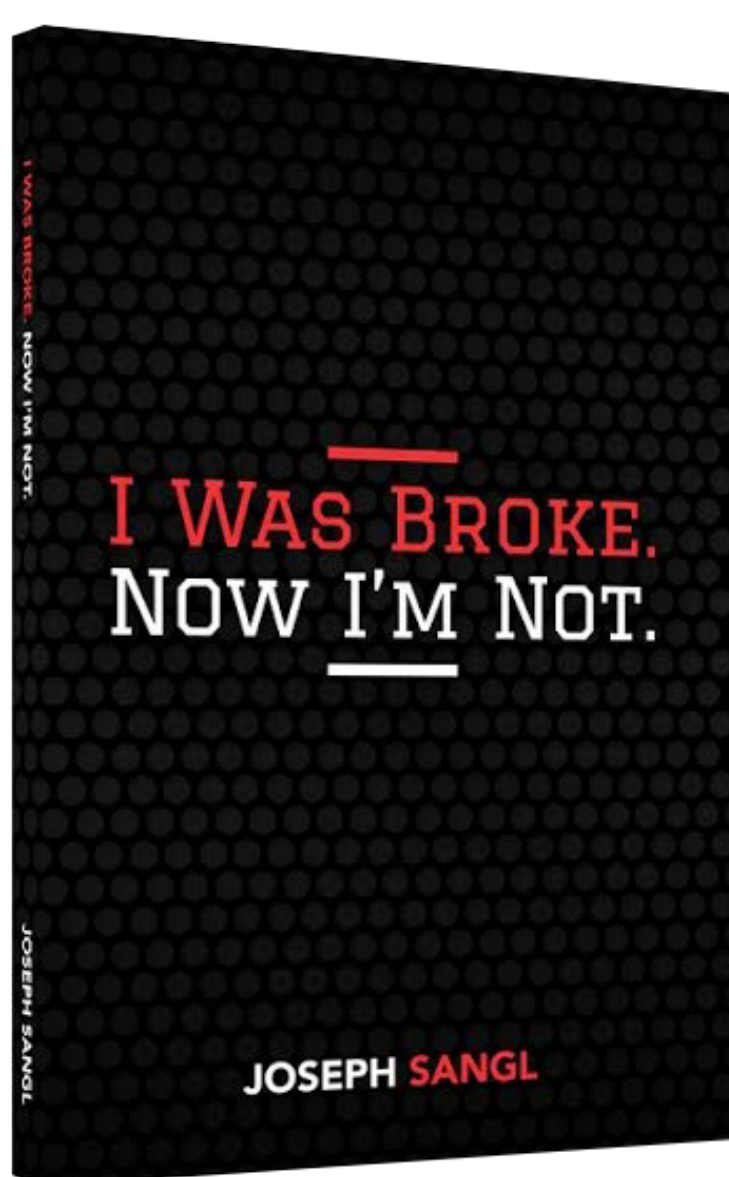
I Was Broke. Now I'm Not. was founded by Joseph Sangl who had a dream to teach people practical ways to win with their money. The IWBNIIN Team is passionate about equipping people to accomplish far more than they ever thought possible with their personal finances.

The IWBNIIN Team accomplishes its Passion Statement through the following means:

- Providing FREE personal finance tools via its website
- Writing books, studies, articles, and blog posts that teach practical and relevant personal finance tools
- Teaching live online experiences that build knowledge on financial topics
- LIVE speaking and teaching at churches, business and non-profit organizations throughout the world

Contact the IWBNIIN Team via email at info@iwbnin.com or call [864] 332-4151

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Money doesn't have to be a frustrating or confusing topic. When you apply the practical tools shared by Joseph Sangl in I Was Broke. Now I'm Not., you will gain control over your finances. As your financial education increases, you will begin to see your plans, hopes, and dreams become a reality as you start living a fully funded life! In this book, you will learn the fundamental rules of money. Even more importantly, you will walk away with HOPE that you can live a fully funded life!

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This book and additional resources at www.iwbnin.com

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ABOUT JOSEPH SANGL

Joseph Sangl is a leading teacher of personal finances. It is his passion and mission “to help people accomplish far more than they ever thought possible with their personal finances.” He firmly believes that when people are financially free, they are much more likely to go do EXACTLY what they have been put on Earth to do – regardless of the cost or income potential.

He is the founder of I Was Broke. Now I'm Not., an organization that provides financial teaching through live events, print and web resources.

Joe has taught hundreds of thousands of people through Financial Learning Experience, Financial Freedom Experiences, one-on-one financial coaching sessions and personal finance messages. He is the author of the books, I Was Broke. Now I'm Not., What Everyone Should Know About Money Before They Enter The Real World, Funded and Free, and OXEN: The Key to an Abundant Harvest. His story has been featured in Money Magazine, the world's largest personal finance magazine.

He obtained a BS Degree in Mechanical Engineering from Purdue University in 1996 and an MBA from Clemson University in 2001.

Joe resides in Anderson, South Carolina, with his bride, Jenn, and their three children.



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