

Balloon payment explained.

Your go to guide.

A woman with brown hair tied back, wearing a light blue shirt and a beige blazer, is smiling and looking down at a black tablet she is holding with both hands. She is standing in a car dealership, with a blue car partially visible in the foreground and a man in a blue shirt standing in the background. There are orange and red balloons in the background. The image is framed by a large, light pink circular shape.

Here we explain
what it means to
have a balloon
payment on your
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car loan.

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1 What is a balloon payment?

If you're in the market for a car loan, you may have come across the term 'balloon payment'. While it might sound strange, it's important to understand what it means and how it works before you choose your car loan. So, let's take a look.

Put simply, a car loan balloon payment typically involves making lower monthly payments throughout the loan term, with a larger balloon payment due at the end. The balloon payment is often equal to the remaining balance on the loan, which you can either pay it in full, refinance it, or sell the car to pay off the loan.

To help you make your decision, in this guide we've provided answers to the most frequently asked questions. From what a balloon car loan is and what happens at the end of the loan term to the various pros and cons, here's everything you need to know.



2 How does a balloon payment work?

Let's say that you bought a vehicle that's worth \$40,000 with a car loan term of 5 years and an interest rate of 6.99%. You and your lender agree on a balloon payment of 25% or \$10,000, i.e. a \$30,000 loan.

Without a balloon payment, this would result in a loan repayment of \$748.82 per month. With a 25% balloon, however, the repayment is reduced to \$600.53 per month - a saving of nearly \$150 per month. This extra money could in the interim be used to go towards the family budget, such as groceries, your mortgage or other bills, or your investments.

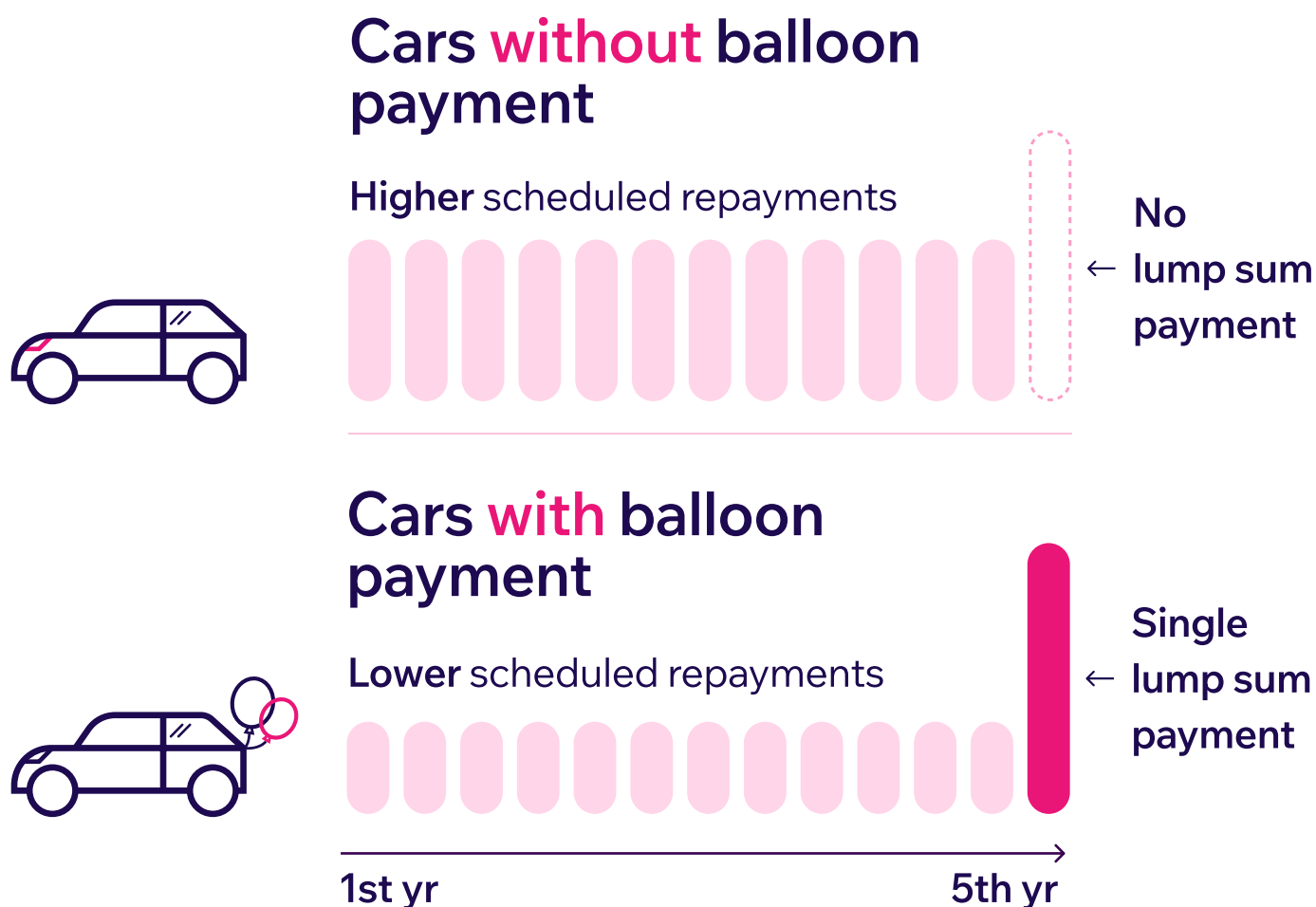
	With balloon payment	Without balloon payment
Loan amount	\$40,000	\$40,000
Loan term	5 years	5 years
Interest Rate	6.99%	6.99%
Balloon payment	\$10,000 (25%)	n/a
Monthly payment	\$634.68	\$791.86
Money saved in monthly payment	\$157.18	n/a

** Rates applicable as at 1 July 2024 for car loan customers and may be subject to change.

It is important to note, however, that you are unlikely to save money in the longer term as you still have to make the big balloon payment at the end with accumulated interest.

While you can save money every month with a balloon payment, you still need to pay the \$10,000 in full at the end of the term. So, it's important to keep this in mind, as you don't want to be unable to pay the lump sum at the end of your car loan.

You can use our car loan calculator to get an estimate of how much your repayments will be if you added a balloon payment to your car loan.



3 The benefits and drawbacks of a balloon payment.

The inclusion of a residual value or balloon payment into the structure of your loans may have many benefits, including;

- ✓ Reducing your monthly repayment amount which may assist your cash flow
- ✓ Increase your affordability and ability to upgrade to a better model of car.
- ✓ Matching of the repayment of principal your loan with the value of the asset of the loan term.



What are the drawbacks?

There are also disadvantages if you decide to add a balloon payment to your car loan, and it's mainly down to the lump sum you'll have to pay at the end. Here are some things to consider if you're looking at a car loan with a balloon payment option:

- ✓ The cost of the loan in the long-term will be higher.
- ✓ You will end up with a big bill to pay at the end of your car loan term, which could catch you unawares if you forget about it. This could be anywhere from a few thousand to many tens of thousands of dollars.
- ✓ Longer loan terms (e.g. five years versus three years) generally have lower maximum balloon payments.
- ✓ Balloon payments are usually available on new or near new cars. They may not be an option on an older vehicle.
- ✓ Although this is true of any car loan, you'll have to consider depreciation, and how paying a lump sum stacks up against how much your car has depreciated if you decide to sell it, or if you can't afford the final loan repayment.
- ✓ Owing more than the car is worth, is often referred to as 'negative equity'.

4 What happens at the end of my loan term?

When your car loan ends, say after 3 or 5 years, this is when the balloon payment likely kicks in. If you can't pay the full amount in cash, you need to be able to sell the vehicle to do so.

Depending on how much your car has depreciated, and how much you owe as part of the final payment, you could end up owing more than you sell it for. This is why longer loan terms often have lower maximum balloon percentages.

According to the Australian Bureau of Statistics, the age of the average car on the road is 10.1 years. So, chances are, once your loan term is up, you might like to hang on to your car for a few more years. However, paying off the balloon amount could present an opportunity to hop into a newer, safer and more technologically-advanced vehicle.



What are my options at the end of the loan term?

Depending on your circumstances, there are several things you can do when your balloon payment is due.



Pay off your loan

You can pay your lump sum payment and keep your car.



Sell your car

Selling your vehicle could help you cover the cost of your balloon payment - and give you the option to buy a new car.



Trade in

You may decide to trade in your car for another one. In this case, your balloon payment could be covered by the trade-in value on your existing car. Any shortfall may be able to be added to your new car loan.



Refinance

Some lenders will allow you to refinance the balloon payment so you can pay it in instalments, rather than a lump sum. Of course, this essentially negates much of the benefits of the balloon feature, and you will likely have to pay interest on this refinanced amount.

5 Getting Pre-qualified

Also known as preliminary approval, pre-approval is an offer from us to lend you an agreed amount, subject to full approval. Pre-approval remains valid for 60 days.

To gain full approval, you'll need to supply more supporting documents and updated information.

You could get pre-approval on your car loan in around 30 minutes, and we can have the loan settled in 2-4 business days, pending our lending criteria is met.

Whatever type of car loan you're after, we can help. Get pre-approval so you can car shop with confidence.



Get a low interest rate car loan today

By applying online to check if you qualify for our low-rate loan, you'll know your budget for your dream car!

[Apply Now](#)



6 The balloon payment bottom line

Balloon payments are used by anyone who'd prefer to free up cashflow. By the same token, balloon car loans can also suit people who like to upgrade their vehicle every few years. Motorists can usually repay their balloon payment by trading in their vehicle, and then purchasing a new one (either via finance again or cash).

Adding a balloon payment to your car loan is just one of the many considerations you'll have to make the next time you are ready to finance a new car. Other factors include the car loan deposit size, loan terms, and more.

Balloon payments will give you the benefit of lower ongoing repayments but it is crucial to make sure that you will be able to settle the balloon payment at the end of the loan term.

If you're ready to hop into your new set of wheels, speak with one of our lending specialists today to find out how to get pre-approved for your next car loan.

Ready to get things moving?

[Explore our car loans now](#)

7 What's the difference between residual payments and a balloon payment?

You should be aware of residual payments. A residual payment is very similar to a balloon payment in car loans and so they are often confused. However, there are some key differences you ought to be aware of.

As you know, a balloon payment is a specified lump sum that you agree to pay at the end of your car loan term. Doing so will reduce the regular monthly payments you have to make.

Residual payments, on the other hand, are a broader category. The term refers to the final sum you'll have to pay once depreciation has been taken into account.

Still, many people refer to the balloon payment left at the end of a loan term as the “residual value”. This isn't necessarily incorrect. Both balloon and residual payments are about making a larger final payment to minimise monthly costs. However, the term “balloon payment” refers more specifically to the process defined above.

8 Balloon payment terminology

Balloon payment	A <u>balloon payment</u> is a one-off lump sum that you might agree to pay your lender at the end of your car loan's term.
Pre-qualify	Also known as pre-approval and preliminary approval and gives you an idea of how much you could borrow.
Settlement	Settlement is when you pay the rest of the sale price (after the deposit) and become the legal owner of the car/vehicle.
Residual value	Residual payments and balloon payments both require you to pay a single, larger amount at the end of your loan term. The only difference is how the amount is calculated (i.e. the forecast market value for a residual payment or an agreed value for the balloon payment).
Refinance	Refinancing simply means taking out a new loan to replace your current loan.

9 Contact us



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