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Car loans are certainly less costly than home mortgages, student loans, or other kinds of loans. So why do so many people end up defaulting and losing their cars? Find out these hidden dangers:

Biggest Hidden Car Loan Danger: The Inherent Money Pit

Unlike home mortgages, student loans or other big-ticket loans, car loans are inherently money pits. A house can build equity; higher education can increase earning potential; even jewelry can sometimes be re-sold for as much as was paid for it. If you borrow to buy one of those things, you may eventually get a return on investment. But every single car loses significant value and keeps losing it as time goes by.

Solution: spend as little on your car as possible.

Of course, in order to spend as little as possible over the life of the vehicle, you need to get a well-made, fuel-efficient car, rather than the one with the lowest price on the windshield.

But a pickup truck, SUV, sports car, or "luxury" model is a guaranteed money-loser. Donâ€™t worry about what other people will think. Think about it: when was the last time you saw an expensive automobile and thought, "I really like and respect whoever owns that!"

The best buy? Many economists actually recommend buying a used car that's a year or two old. That way you can actually benefit from the fact that cars only drop in value. Even a car thatâ€™s just six months old may offer you a substantial savings. Just have it inspected thoroughly so you don't lose what you've saved on maintenance payments.

Hidden Car Loans Danger: Dangerously High Monthly Payments

Unfortunately, most people never figure out the total cost before signing on the dotted line. They end up staying up late at night trying to figure out how to make ends meet. They live in smaller houses. They skip going out at night. They donâ€™t go on vacation.

All that sacrifice to have a brand-new SUV in the driveway!

Take a hard look at your finances, and figure out how much you can pay total each month for your car. Be sure to take into account insurance, tax, maintenance, and fuel. Usually, when people actually do calculate the total monthly cost of the car theyâ€™re considering buying, theyâ€™re amazed b how high it is.

How Much Car Debt Can You Afford?

1) Make a list of your average monthly non-car expenses, and subtract them from your earnings.

your monthly after-income-tax income

any other taxes

housing (including any fees and property taxes, and utilities)

food

health insurance or HMO

life insurance

debt payments

401 (k), IRA, or other long-term savings

short-term savings

telephone, cellular phone, cable, internet, etc.

entertainment and fun stuff (be honest!)

cost of yearly vacation(s) divided by 12

other expenses

what you can spend on a car

2) Subtract your monthly car-related expenses from the amount you have left over from your other expenses.

What you can spend on a car (from above)

Amount youâ€™re spending per month on gas (raise or lower this figure depending on whether you are getting a car with higher or lower gas mileage).

Monthly maintenance (remember: your new car wonâ€™t stay new long, so maintenance will be an issue).

Monthly insurance (remember that for a new car, your insurance premiums may go up).

Tax.

Maximum monthly loan payment.

Now plug the number above into a vehicle loan rate calculator to figure out big of a car loan, and how much interest you can afford.

Final Hidden Auto Loan Danger: Unnecessarily High Rates

If you simply take the first loan the dealer offers you, you are probably paying too much. Do some comparison shopping on the internet, and bring a list of the best loans with you when you negotiate loan terms with the dealer.

Donâ€™t let the dealer cheat you by shifting the cost from the car loan to the car price to the deal on your trade-in. Make sure you get a good deal overall.

Congratulations! You now are far better prepared to stay out of an auto loan money pit than the vast majority of car buyers.

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