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Shorter vs longer tenure: Does it impact your car loan burden?

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I plan to buy a car worth ₹7 lakh and considering taking a loan. I'm evaluating a 3- versus a 6-year loan tenure. I can pay a higher EMI but I'm not sure whether a short tenure is right. What factors should I consider?

—Name withheld on request

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AUTO LOANS

When taking a vehicle loan, the repayment tenure plays a key role in determining overall cost of borrowing. It refers to the duration over which loan is repaid in fixed equal monthly instalments (EMIs). Vehicle loan tenures range between 12 and 84 months, depending on the lender and the borrower's eligibility.

Short tenure (1 to 3 years): Shorter repayment period will result in higher EMI but allows it to be cleared faster. Since the loan is repaid faster, the total interest paid is also lower.

If you take a ₹5 lakh loan for 3 years at 10% annual interest, EMI would be around ₹16,134. Total interest paid over 3 years will amount to ₹80,824.

Long tenure (4 to 7 years): Longer period reduces EMI amount, making it affordable on a monthly basis. However, since interest is charged over a longer period, total interest paid increases. If the same ₹5 lakh loan is taken for 6 years at 10% interest per annum, the EMI would be approximately ₹9,270. Total interest over six years will be around ₹1.67 lakh—almost double the interest compared to 3-year tenure.

Impact on interest costs

The interest cost depends on both the repayment tenure and the interest rate applied.

A longer tenure results in higher total interest payments, while a shorter tenure leads to higher EMIs but lower overall interest amount.

For instance, consider a ₹7 lakh loan at 9% interest: For 3 years: the EMI will be ₹22,276; and the total Interest outgo will be ₹1.01 lakh.

For six years: the EMI will be ₹12,583 and the total Interest out go will be ₹2.05 lakh

As shown, the longer tenure reduces the monthly EMI but nearly doubles the total interest paid.

Choosing right tenure

Borrowers must decide on a tenure based on their monthly cash flow and ability to pay higher EMIs. If your financial stability allows, opt for shorter tenure to help save on interest costs. However, if you need a lower EMI for affordability, a longer tenure may be suitable, but be prepared for the higher total interest outgo.

Many non-banking financial companies (NBFCs) offer flexible tenure options to meet customer needs. It is advisable to use loan calculators to compare the costs of different tenures before finalizing a loan. For queries regarding vehicle loans, customers should reach out to financial service providers for further guidance.

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Do you have a personal finance query? Send in your queries at **mintmoney@livemint.com** and get them answered by industry experts.