DRIVE AWAY HAPPY

While shopping for a vehicle is exciting, it can also be complicated and time-consuming. There are many questions that have to be answered. What features do you need and want? Should you buy new or used? Or should you lease? How much can you afford to spend? Should you get a loan from the dealership or your financial institution?

A car is an expensive purchase, one that cannot be returned simply because you feel you made a mistake. By thinking carefully about what would work for you before you buy (or lease), you can drive away happy.

Is It Time To Get a New Car?
There are many teenagers and young adults looking to get their first car. However, most of us already have one. How do you know if it is time to put the old car out to pasture and get a new one? It may make sense to get a new car if:

- The repair costs are significant. In general, it is more cost-effective to repair an old car than buy a new one, but if your repair costs exceed 50% of the value of the vehicle, it may be time to start looking for a replacement.
- The car is unreliable or lacks safety features. If your old car breaks down every other day, leaving you stranded on the road, or lacks air bags, it makes sense to want a safer, more reliable car.
- The car no longer meets your needs. People's lifestyles change. If you bought a two-seat convertible when it was just you and now have three children, a minivan might be a better fit.

Some people like having a new car every few years, even if the old one is perfectly fine. There is nothing wrong with this – just be sure to consider how it will affect your financial situation. Are you taking away money from retirement savings or other goals? If your car is currently paid off and you plan to get a loan, will you be able to comfortably pay all of your bills?

What Car Should You Get?
When it comes to vehicles, there are hundreds of makes and models to choose from. Should you just show up to a dealership and trust that the salesperson will guide you to the right car? Probably not. While salespeople can be knowledgeable, they may be more concerned about their commission than what is in your best interest. Plus, dealerships typically do not carry cars from every manufacturer. You do not have to know exactly what car you are going to buy before you start shopping – it is a good idea to do a test drive before making a final decision – but try to narrow your list down to a few options. Consider:

- **Your needs:** Think about your transportation requirements. Does your vehicle need to be large enough for a family of five or small enough to fit in tight city parking spaces? Tough enough to haul firewood or chic enough to drive clients around?
- **Your wants:** Most of us want at least a few extras that we don't really need. You don't have to buy the cheapest, most basic car, but just remember that you may not be able to afford everything you want.
- **The safety and reliability of the car:** You probably want a car that will protect you in an accident and not break down every day. Research which cars rank highest in safety and reliability. Consumer Reports and car websites regularly report on this topic. You can also check cars' safety ratings at www.safercar.gov.
- **Your budget:** The price is one of the car's most important features. It is easy to get carried away and end up with a car that is out of your price range, but ultimately, you won't be happy if you cannot make your loan or lease payments.

How Much You Can Afford?
The best way to avoid getting a car loan you can't afford to pay is to examine your budget and see how much money you have available for car expenses. You can use the budgeting worksheet on page 7. (Leave out the loan payments for any car you plan to sell once you get your new car.) Remember, car expenses include not just the loan payments but also insurance, gas, maintenance, registration, and perhaps parking and tolls. If you are purchasing a brand new car, your insurance and registration will likely increase. However, your maintenance will probably decrease. Whether your gas costs will change is dependent on the fuel efficiency of both cars. Factor these expected changes into your budget – you may have to estimate. If you find there is little money available for auto expenses, try to rework your budget by reducing or eliminating other expenses.

Your budget alone cannot tell you how much you can afford to borrow – you also need to know the financing terms of the loan. Let's say you create a budget and see that there is $350 a month available for loan payments. If you get a 60-month loan at 5% interest, you could afford to borrow $18,547. However, if the interest rate is 8.5%, it drops to $17,059. That is why it is a good idea to look for a loan before you visit the car dealership (discussed more later). Keep in mind that the lender may not approve you for as much as what your budget shows you can afford. On the other hand, they could approve you for a higher amount, but it is not a good idea to spend more than what you feel you can comfortably afford.

While it is possible to buy a car with no money down, most lenders prefer that you make a down payment. It benefits you as well. The more you save, the less you have to borrow and the lower your monthly payments. To make saving easier, have some of your paycheck directly deposited into your savings account, or arrange with your financial institution to have a set sum automatically deducted from your checking account each month and deposited into your savings account.

Should You buy New, Used or Lease?

Once you determine how much you can spend and which cars you are interested in, you have to decide if you are going to buy a new or used car or lease. All have positives and negatives. (See chart below.)

If money was no object, most people would prefer to buy a new car. Not only do you get that nice new car smell, but you get a car that probably won't need major maintenance for several years, is reliable, and has the most up-to-date safety features. Of course, in the real world, money is an object, and the used version is almost always cheaper. Whereas few people can buy a new car without getting financing, many people can afford to purchase a used car with cash. If you prefer a new car and can afford it, go for it, but there is no shame in getting a used car – financially, it often makes the most sense. If you decide to buy a used car, there are many places to get one, including a new car dealership, private seller, used car lot, rental car company, or auction. You will generally pay the most at a dealership, especially if you get a certified pre-owned vehicle. (Certified pre-owned vehicles undergo a thorough inspection and are backed by a warranty.) However, many people prefer buying a used car at a dealership because

Option	Advantage	Disadvantage
New	• New vehicles are usually the most reliable. • You will be covered by a manufacturer's warranty, which typically covers certain repairs and parts replacements for several years. • It is easier to customize and get exactly what you want.	• New vehicles can be very expensive – not just the purchase price, but also the insurance and registration fees. • The value of the vehicle depreciates immediately.
Used	• Used cars are cheaper than their new counterparts, and you may be able to use savings to purchase the vehicle outright. • The value of used cars tends to depreciate less quickly than for new cars.	• You may not know the vehicle's history. It could have been in an accident or insufficiently maintained, making it less reliable. • Used vehicles typically have no warranty or a limited or soon-to-expire warranty. • The maintenance costs are usually higher than for a new car, and it will likely have to be replaced sooner too.
Lease	• You can drive a new car every few years without having to worry about selling your old one. • You may be able to get a lower monthly payment with a lease than with a car loan. • Leased cars are typically covered by a manufacturer's warranty. • The required up-front costs of leasing a vehicle are usually low.	• The vehicle does not belong you – it is not an asset. • It is difficult to get out of a lease contract if you become unable to handle your payments. • The costs of insuring a leased vehicle can be high. • There is a limitation as to how many miles you can drive the car (usually 10,000-15,000 miles annually), and you must keep it in good condition. Non-compliance can result in extra fees.

they typically have a large selection and if there is a problem, you don't have to worry about tracking them down like you would if you bought a car from a private seller. Auctions often provide the best deal, but they can have major drawbacks. Auction cars are usually in bad shape and sold "as is", and you may not get a chance to thoroughly inspect them or obtain the repair history. Plus, if the bidding is competitive, it is easy to get carried away and wind up spending more than you intended.

To minimize the risk of winding up with a clunker, it is a good idea to do some research before purchasing a used car. Ask the seller for the vehicle's repair history and VIN (vehicle identification number). With the VIN, you can run a vehicle history report. (There are a few companies that will do this for you for a fee.) The report reveals such information as whether the car has been in a major accident, if the odometer has been tampered with, and how many past owners the car has had. If possible, take the car to an independent mechanic to have it inspected.

Generally, leasing enables you to afford a nicer vehicle for less money each month than owning. As an added bonus, you don't have to worry about selling it down the road. However, it is important to remember that leasing means renting. When the term of the lease is up, you are usually given the option of returning the vehicle and paying any outstanding fees for mileage or damage (if you go over the mileage limit or fail to maintain the car) or purchasing the vehicle outright. Typically, you will pay more over time by leasing and then purchasing than you would have had you simply bought the car in the first place. If you are unable to make the payments during the course of your lease and choose to return the vehicle, high penalties will likely apply. You cannot simply sell the car like you could if you owned it. Still, many people find leasing more appealing than buying, especially if they want a new car every few years.

Your Credit Score

If you are planning to get a loan to purchase your car, having a good credit score is essential. Not only does it have a major impact on the interest rate you can get, but if your score is too low, you may not be able to get any financing at all. Even if you are leasing instead of buying, your credit score will likely be checked.

Your credit score is a numeric summary of the information in your credit report and is formulated to predict the risk you will not repay what you borrow. The most commonly used scoring model was developed by the Fair Isaac Corporation. Called a FICO score, it ranges from 300 to 850, with a higher score being indicative of less risk. To get a car loan with a reasonable interest rate, most lenders require a score of at least 620. To get the best interest rate, you usually need a score in the mid-700s.

The following are the factors used to calculate your FICO score:

- **Payment history (35%):** If you make payments late, your score will take a hit. The more recent, frequent, and severe the lateness, the lower your score. Bankruptcies, judgments, and collection accounts have a serious negative impact. Conversely, making your payments on time will boost your credit score.
- **Amounts owed (30%):** Carrying large balances on personal loans and revolving debt, like credit cards, particularly if those balances are close to the credit limits, will lower your score.
- **Length of credit history (15%):** The longer you have had your accounts, the better.
- **New credit (10%):** This factor looks at the number and proportion of recently opened accounts and the number of application for new credit, often called "hard inquiries." While having too many hard inquiries on your report can lower your score, all mortgage or auto loan inquiries that occur within a short period of time are considered just one inquiry for scoring purposes. Accessing your own report is not damaging to your score nor are inquiries for pre-approval offers. Having too many new accounts can also hurt your score, but this should not keep you from opening an account or two if you are establishing or reestablishing credit.
- **Types of credit used (10%):** Having a variety of accounts, such as credit cards and loans, boosts your score.

What if your credit score is low and your application is denied? One option is to ask someone with good credit to co-sign on the loan. Be especially careful with this type of arrangement – any late payments you make will not only reflect poorly on your credit report but your co-signer's as well. Another option is to work on improving your credit standing so that you can get a loan on your own. It may take time, but there are many things you can do:

- **Always pay on time:** A commitment to never make a payment late again is one of the most powerful steps you can take to improve your credit rating, according to FICO.

- **Pay down existing debt:** Even if you have never missed a payment, a large debt load will lower your score. Explore ways you can lower your interest rates and free up cash to pay more than the minimums.
- **Avoid taking on additional debt:** Besides paying down existing debt, make an effort to not take on more debt in the future. For revolving credit, ideally you should not charge more than you can pay off in full the next month, but at the very least, keep the balances under 40% of the credit limits.
- **Pay collection accounts:** If you have collection accounts on your credit reports, you can increase your chances of receiving a low interest rate on an auto loan by resolving them. Request settlement amounts for balances you can't afford to pay in full, and make sure to confirm the agreements in writing.
- **Keep your old accounts:** A long credit history with the same accounts indicates stability.

Financing
A car loan is a legal obligation. Make sure you understand the following aspects of the loan agreement before you sign any documents:

- Amount you are financing (borrowing)
- Annual percentage rate (APR – the interest you are charged annually expressed as a percentage)
- Finance charges (the total amount borrowing will cost you)
- Payment amount and number of payments
- Whether there are any penalties, such as a late-payment penalty or pre-payment penalty

The lender is required to disclose all of the above information in Truth in Lending Disclosure Statement which must be given to you before the loan is closed (finalized). Read this statement carefully, and don't be afraid to ask your lender questions.

There are three main options for financing: the dealership where you purchase the car, a credit union/bank, or a finance company. (Dealerships generally do not directly provide the cash but rather arrange financing on your behalf with another company, commonly the manufacturer's financing arm.) Dealerships often offer a promotional low or zero percent interest rate on certain models but may not offer the lowest interest rate on other models.

That is why it is a good idea to see what financing your bank or credit union offers. An added bonus is that you can use a loan from your financial institution to purchase a car at any dealership. Conversely, if you get approved for a loan through ABC Dealership, you won't necessarily be able to use that loan to purchase a car at XYZ Dealership.

Finance companies often specialize in offering subprime loans – loans to people with poor credit. Subprime loans come with higher interest rates than prime loans. If you can only get a subprime loan through a finance company, it may be preferable to work on improving your credit score first and hold off on getting a new car until you can get a loan with a better interest rate. This example shows the difference between a loan at 5% interest (a good rate) and one at 15% (a rate often offered by finance companies):

	Prime Loan	Subprime loan from finance company
Amount financed	$16,000	$16,000
Interest rate	5%	15%
Loan period	60 months	60 months
Monthly payment	$302	$381
Total interest paid	$2,116	$6,838
Total cost	$18,116	$22,838

As you can see, you may have to pay quite a bit extra in interest with a subprime loan – $4,722 in this case.

What if you are buying a model that comes with zero percent financing from the dealership? Zero percent financing may sounds like an amazing bargain – after all, how can you beat no interest? – but it isn't always. You can't get the rebate if you take zero percent financing, and the dealership may not be willing to negotiate the price of the car. Often the length of the loan is shorter too, resulting in high monthly payments. Consider the following example:

	Loan from financial institution	Loan from dealership
Purchase price	$20,000	$20,000
Down payment	- $2,000	- $2,000
Manufacturer's rebate	- $2,500	- $0
Amount financed	= $15,500	= $18,00
APR	5%	0%
Loan period	60 months	36 months
Monthly payment	$293	$500
Total interest paid	$2,050	$0
Total cost	$17,550	$18,000

In this case, you will actually save $450 by taking the five percent loan, with much more reasonable payments. Even if zero percent financing provides the best deal, keep in mind that you usually need to have stellar credit to qualify.

Getting the Best Price

Negotiating

Few people would go into a clothing store and try to negotiate the price of a pair of jeans, but negotiating the price of a car is practically a national pastime. The following are some tips on how you can negotiate effectively:

- Don't reveal too much: Don't let the salesperson know the maximum you can or are willing to spend. If you are seeking financing from the dealership, supply them with your financial information after you have negotiated the price of the car.
- Avoid being overly enthusiastic: Don't say, "I love this car and I have to have it," even if that is how you feel. Try to appear detached and calm.
- Do your homework: Know what is a fair price for the vehicle you are interested in. If you are buying a new car, find out what it cost the dealership (the invoice price minus any holdback – the rebate the manufacturer gives to the dealer for selling the car). The dealership may not tell you, but there are many websites that provide this information for a fee. Negotiate up from the dealership's cost, not down from the MSRP (manufacturer's suggested retail price). For a used car, you can look up its Kelley Blue Book value.
- Search around: If you are buying new, there are probably a few dealerships in your area that sell the model you want. Visit them all and see who offers the best price. If you are buying used and interested in a popular model, you will probably have your choice of sellers as well.
- Go at the right time: You can often get a better deal on a new car at the end of the month or year, with salespeople concerned about meeting their quotas. July-October is another good time to buy a new car since dealerships are looking to clear space for next year's models.

Ultimately, if you are uncomfortable negotiating, you may want to have a friend or family member do it for you instead.

Do you need the extras?

Many salespeople will try to sell you extras: rust-proofing, an extended warranty, fabric protection, etc. While extras can sometimes be beneficial, they are usually unnecessary. Think about what you want before you go to the dealership – don't let the salesperson talk you into getting something at the last minute.

Negotiating a lease

If you plan to lease instead of buy, can you still negotiate? Yes. The monthly payment under a lease is based on the difference between its current price and residual value (value of the car at the end of the lease), plus taxes, a rent charge, and other fees. The fees and residual value are typically not negotiable, but the current price is – the lower the price you negotiate, the lower the monthly payment. Many experts recommend that you negotiate a price before you tell the dealership that you are interested in leasing, not buying.

Selling your old car

Are you planning to sell your old car when you get your new one? You can usually get the highest price if you sell the car on your own, but it generally takes more time and effort than if you trade it in to the dealership. You may have to place ads in the paper and/or online and meet with several potential buyers before the car actually sells. If you are going to trade in the car to the dealership, you should negotiate the price of the new car first before discussing the trade-in. However you decide to sell, make sure to put your car's best foot forward – fix minor dings and scratches and clean it thoroughly inside and out.

Your Legal Rights

Truth in Lending Act
The Truth in Lending Act requires lenders to provide a clear written disclosure of the terms of borrowing. As discussed previously, if you are getting a car loan, the lender must give you a Truth in Lending Disclosure Statement, which shows the amount you are financing, annual percentage rate, finance charges, payment amount, number of payments, and whether there are any late-payment or pre-payment penalties.

Consumer Leasing Act
If you are leasing a vehicle, you have a right to know the terms of the lease, including the:

- Total amount due at lease signing
- Monthly payment amount and total number of payments
- Annual mileage allowance and per mileage charge for extra miles
- Rent charge
- Depreciation charge
- Disposition fee (fee charged at end of lease term, typically waived if vehicle is purchased)
- Whether the car can be purchased at the end of lease
- Residual value/price of the car at the end of lease

Lemon Law
Almost every state has a law designed to protect consumers who purchase a "lemon" – a car with significant defects. If your car turns out to be a lemon, you may be entitled to a new one or a refund of the purchase price. The law generally only applies to new cars, not used ones. The defects must significantly impact the car's safety and/or usability, and you must attempt to have the defects fixed a specific number of times (determined by state statute) before the car can be declared a lemon. Visit your state attorney general's website for information about your state's lemon law.

If you purchase a car with defects, you do not necessarily need to resort to the lemon law to obtain a resolution. The dealership and/or manufacturer may be more than willing to work with you. You can also contact the Better Business Bureau's "BBB Auto Line" (bbb.org, 800.955.5100), which arbitrates warranty disputes between consumers and participating manufacturers.

Now that you are an expert on buying cars, you can go out there and look with confidence!

Schedule your private one-on-one for personalized financial tips today!

Marina Botros
Email: Marina.Botros@truliantfcu.org
Text: 336.703.8209
Phone: 336.659.1955, option 7, ext. 2702

Monthly Expenses	
Rent/mortgage	$
2nd Mortgage	$
HOA (association dues)	$
Property taxes	$
Homeowner's insurance	$
Renter's insurance	$
Gas/electric (average)	$
Water/sewer/garbage	$
Telephone	$
Groceries	$
Household items	$
Health insurance	$
Prescriptions/doctor visits	$
Car payment #1	$
Car payment #2	$
Gasoline	$
Maintenance/repairs	$
Auto insurance	$
Auto registration	$
Tolls/parking/mass transit	$
Daycare/babysitting	$
Alimony/child support	$
Tuition/lessons	$
Student loans	$
Taxes (monthly repayment)	$
Life insurance	$
Union dues	$
Storage fees	$
Beauty/barber	$
Movies/video rentals	$
Internet access	$
Cable/satellite	$
Dining out	$
Sports/hobbies/clubs	$
Gym	$
Vacations/travel	$
Books/music/dvds	$
Clothing purchases	$
Laundry/dry cleaning	$
Home maintenance	$
Pool/hot tub service	$
Gardening	$

Monthly Expenses	
Monitored alarm	$
Gifts/cards	$
Pet care	$
Cell phone/pager	$
Banking fees/postage	$
Cigarettes/alcohol	$
Religious/charity	$
Other:	$
Other:	$
Other:	$
Other:	$
Other:	$
Other:	$
Other:	$
Other:	$
Other:	$
Other:	$
Other:	$
Total Monthly Expenses	$

Monthly Income	
Job	$
Spouse's job	$
Part-time job	$
Rental/room & board received	$
Commissions/bonuses	$
Tax refunds	$
Investment income	$
Government benefits	$
Unemployment insurance	$
Child support/alimony	$
Support from family/friends	$
Other:	$
Total Monthly Income	$

Net	
Total Monthly Income	$
Total Monthly Expenses –	$
Over/Under =	$

CAR COMPARISON CHECKLIST

Item	Car #1	Car #2	Car #3	Car #4
Dealership/seller				
Manufacturer				
Model				
Year				
Price				
Rebate				
Class (sedan, SUV, etc.)				
MPG (city/highway)				
Seating capacity				
# of doors				
Mileage				
Condition				
Warranty				
Engine				
Transmission				
Drivetrain (4WD, etc.)				
Available colors				
Air bags				
Power windows/locks				
Air conditioning				
Power steering				
Cruise control				
Audio system(s)				
Alarm system				
Anti-lock breaks				
Seat fabric				
Sun roof				
Moon roof				
Navigation system				
Rankings/reviews				
Other				
Other				
Other				