

Buying a car?

Establish your mindset

Successful car buyers have a “can do” attitude about buying a car. “I *can* educate myself about the cars that are available, understand how financing works and take control of the process so that I *can* save myself money.”

Differentiate between needs and wants

Match your *needs* first, then your *wants*, not the other way around or you may end up regretting your purchase as it may not meet your *needs*. Make a list of tasks this car will undertake (driving back and forth to work, carpooling, tailgating), then derive a list of features that you absolutely *must* have (e.g. four doors, automatic transmission, air conditioning), and then make a list of features that you would *like* to have if they fit into your budget (e.g. engine with more horsepower, sunroof, sport wheels). Finalize your list before you ever step into a car dealership. Avoid finding yourself in the position that so many do: with a high car payment due to “extras” that become boring a few weeks after purchasing the car.

Decide whether to buy or lease

Should you buy a car, with cash or financing, or should you lease a car? If you use the car more than 50% of the time in a business, it may be more advantageous to lease. If you keep cars for 10 years or so, and there is no business usage, it is usually better to buy. There is an online calculator at: <http://www.edmunds.com/car-loan/leasing-vs-buying-the-differences.html>.

Caution on leasing:

- How many miles allowed per year will affect the lease payments. If the lease includes 10,000 miles per year, the residual value (value of the car at the end of the lease) will be higher than if the lease includes 15,000 miles per year. The higher the residual value the lower the monthly payments.
- Each monthly payment will include sales tax even though some of the payment is for financing cost. At the end of the lease you will have the option to purchase the car at the residual value. If you purchase the car you will pay sales tax on the residual value.
- If at the end of the lease, you do not purchase the car and the car has more miles on it than the lease agreement allows, you will have to pay a penalty of \$0.XX per mile.
- If at the end of the lease, you do not purchase the car and the car has more deferred maintenance or body damage than normal you may have to pay an additional payment to terminate the lease.

Do your research

Once you have found a handful of models that may suit your needs, it's time to choose the one that will be the best for your personal situation. Car manufacturers normally change the body style ever seven years. Some people like to purchase a new car in the first or second year of a new body style. After narrowing down your choices, it may pay to do some research and find out the dealer's cost for your chosen vehicle. Doing this research ahead of time will make you more confident later on when you negotiate a price with the dealer and helps to ensure you'll pay a

fair price. You might also consider a car purchasing program that offers low, prearranged pricing for members through companies like Costco or USAA. Some websites you may find helpful are: www.kbb.com, www.edmunds.com, www.cars.com, and www.consumerreports.org (need to be a member).

Investigate the Vehicle's History

If you are buying a used car, be sure to obtain a vehicle history report. It will contain important details about the vehicle. (How many people have owned it? Was it ever a rental car? Does it have a clear title? Has it ever been in an accident? Was it ever in a flood?) If the seller does not supply this report, visit one of the following websites: www.carfax.com, www.autocheck.com, or www.dmv.org.

Prepare your finances

Don't buy more car than you can comfortably handle financially. Check your credit and investigate all your car finance options *before* you start visiting dealerships. The salesperson will push you to make an on the spot emotion based decision. Stay rational and take your time, this will keep more money in your pocket at the end of the day.

Check your credit

Running your credit report will eliminate the possibility that there might be errors that could harm--or stop--the financing. You can get a free copy of your credit report once a year from www.annualcreditreport.com.

Figure out the monthly payment you can afford

Analyze your budget and determine your target monthly payment. As a rule of thumb, all car-related expenses (car payment, insurance, gas, parking, maintenance, etc.) should not be more than 10% of your gross income. If you can only afford \$350 a month, consider adjusting your target payment to \$300. How much do you need to borrow to hit your target payment? How much of a down payment will you need to get to your target payment amount? Maximizing your down payment will not only lower your monthly payment, but you will be less likely to find yourself with negative equity in the vehicle.

Decide on financing

It is important that you arrange your financing prior to negotiating price with a dealership--ideally, before you even visit a dealership. Dealers will often take smaller profit deals when selling the car, if they know that they are going to make a larger profit on the financing of the car. Buyers run the risk of giving all (or more) of the purchase savings back when it comes time to financing the car! Many times the advantage of financing a car at the dealership is convenience--you buy and finance the car at the same place. The main disadvantage is the variation of interest rates, since the difference between what the dealer "sells" you the financing for and what they "buy" it from the bank for, is their profit. If you are able to arrange your own financing, the profit stays in your pocket! Some dealers may offer 1% or 2% financing. If they do ask them what the cash cost (i.e. you provide your own financing) is, as the cash price of the car will be lower than the dealer will sell it to you with dealer financing.

Special financing for new college grads

Many recent college grads have a difficult time financing a car, due to lack of a solid credit history. Some dealerships, such as Honda and Toyota, offer College Grad Financing Programs. If someone has graduated within the past two years from an

accredited university, has no negative credit history, and has proof of employment, these dealerships may offer special financing. You may even be eligible for a rebate, so be sure to mention this if you have recently graduated.

Consider additional costs

After your car payment, your insurance costs will probably rank second in total vehicle expenditures. Overspending on insurance is as jeopardous as overspending on the car, or on the financing. Also be aware of total ownership costs including maintenance, repairs, fuel, registration, DMV fees, and taxes.

Determine how to dispose of your current vehicle

Whether you trade-in at a dealership or sell it to a private buyer, do your own appraisal at home. (Does the vehicle need to be washed, vacuumed, is there trash in it? Does your windshield have a small crack in it, etc.?) Look at the car as a potential buyer might, then consider fixing the issues that are cost effective. Some websites you may find helpful to determine the estimated value of your trade-in are: www.kbb.com, www.edmunds.com, www.cars.com, and www.consumerreports.org (need to be a member).

Don't discuss the trade-in at the dealership. Saying you haven't made that decision is the best way to maintain control. Many dealerships will ask for your keys to have your car evaluated while you are on your test-drive; don't allow that to happen. When you've completed your test-drive, you want the freedom to shake hands with the salesperson and leave. Don't find yourself in a position where you're waiting while someone "finds" your keys. For the same reasons, never hand over your driver's license -- give them a photocopy instead.

Drive your primary choices

Looking at photos of vehicles, comparing service records and histories, getting input from current owners all carry weight in your comparison process. But ultimately, you are going to buy the car and you are going to have to drive it on a daily basis. So it is crucial that you spend time behind the wheels of the cars you are considering. Prepare yourself for the hard sell at the dealership and make it perfectly clear that you are comparing vehicles *and dealerships*. If a salesperson does not want to give you enough breathing room to properly evaluate your potential choices, move on down the road to the next dealer who sells the same make. It is impossible to compare models unless you are given the freedom to do so at your own speed.

Finish shopping around

Make sure you visit *at least* two dealerships; typically the more dealerships you visit, the more money you'll save. Driving the car at one dealership is not an implied agreement that you will make a purchase. If you are not ready to buy, there's no reason to re-enter the showroom. Ask for the salesman's card. He's invested at least an hour with you, so if you do decide to return and negotiate, it should be with him. You might even ask for his next week's schedule. Be polite, but firm; thank him for his time, and leave.

Once you finally finished shopping around get a good night's sleep before making your final decision and purchase. We hope you have safe travels and enjoy your new vehicle for many years to come.