



## Guide to Buying and Financing a Vehicle

Next to a home, a vehicle may be the most expensive purchase you make. Whether buying a new or used vehicle, it is necessary to understand the process so that you are able to make a good decision. Many new cars sell for more than \$30,000, with some mid-size cars priced in the mid-\$20,000 range. The high cost of a vehicle means that most consumers will need to finance the purchase. This guide is designed to help you learn the basics about car shopping, financing, and vehicle ownership.

### Determine Your Budget

When it comes to vehicles, you may want the most expensive car on the lot, but you simply may not be able to afford it. For some people, a vehicle is a status symbol, so they want to choose a luxurious ride. However, the first step in buying a vehicle is to review your current finances and determine the budget that you have available for your purchase. You need to choose a vehicle that you can afford.

Keep in mind that if you are purchasing a new vehicle, you will likely be able to finance a portion of the price. You may be required to put a down payment on the car, which is usually a percentage of the purchase price. Expect to have at least \$2,000 cash available for the down payment. If you have a vehicle to trade in that has a good amount of equity (you owe less than the vehicle is worth to the dealer) or is paid off in full, that trade in may be enough to fulfill your down payment requirement, or reduce it.

Monthly car payments depend on the amount and length of the loan as well as the interest rate. Review your income and current monthly expenditures to calculate the monthly car payment that is comfortable in your situation. Car loans are usually anywhere from 12 to 84 months. Consider both your current and future economic situation, because if you fail to make loan payments, the vehicle will be repossessed and you will lose everything you paid into it.

When determining your budget, it is important to also determine the cost of insurance before making the purchase. You may be comfortable with the loan payment you have negotiated, but the cost of insurance may put the total monthly cost above your desired budget amount.

## Choosing a Vehicle

You probably already have some thoughts on your ideal vehicle. There are various factors that you should consider when choosing a vehicle for purchase, such as:

- Body Style (sedan, SUV, hatchback, full-size, truck, etc.)
- Size
- Gas Mileage
- Make/Model
- Intended Use (mainly for work, or longer pleasure trips, weather conditions, etc.)
- Design
- Safety

Once you have decided on the basic style and size of the vehicle you need, you can begin to consider various car manufacturers. A good way to learn more about different vehicles is to view information online, such as Kelly Blue Book Top Buy Awards at <http://www.kbb.com/car-news/all-the-latest/best-buy-awards/2000011397/>. Keep in mind that new vehicles for the upcoming year are usually available during the last quarter of the previous year. You should read expert reviews and customer reviews to aid you in making a decision, such as Consumer Reports online at [www.consumerreports.org](http://www.consumerreports.org).

Once you have narrowed your choices down, you should visit a dealer showroom to view the car and test drive the vehicle to see if it meets your expectations. Do not feel obligated to make an immediate purchase since you are just beginning the purchase process. The dealership will have sales brochures and other documentation that you can take to review at home.

Safety is an important factor that is often overlooked by consumers when shopping for a car. The safety of your vehicle could prove to be important to you and your family in the event of an accident, so check the safety ratings before making a decision. You also need to be concerned about the reputation of the manufacturer as well as any significant recalls that have been made.

## Shopping for a Vehicle

Once you have decided on the vehicle you wish to purchase, it is time to visit the dealership. If you live in a metropolitan area, there are usually many dealers that offer the make and model you want. Visit the dealer when you are not rushed, and if possible, bring along a relative or friend to help assure that you are making the best decisions possible.

The suggested retail price of the vehicle is on the price sticker located on the vehicle. This is known as the “sticker price.” Most often the sticker price is negotiable. You can usually expect to receive a discount of between 5% and 15% off of this price. The discount will vary based on the popularity and availability of the car. Negotiate with the salesperson to arrive at a price that is agreeable to both of you. The dealer may not be able to reduce the price, but instead may offer some extra features or add-ons.

You may be in a better position for negotiations if you have a large down payment to offer, if you have an excellent credit score, or if you have a vehicle to trade in. Keep in mind that the negotiated price will not include tax, licensing, and registration, which will be added later. Sometimes special rebates or lower interest rates are offered for first-time buyers.

## **Used Vehicles**

Shopping for a used vehicle is similar to buying a new vehicle with some exceptions. Used vehicles are available through:

- Car Dealerships
- Used Car Companies
- Private Parties

Dealers often have used car lots adjoining their new vehicle showrooms. These vehicles are often certified. A certified vehicle has been inspected and “certified” that it does not have any major mechanical problems. Certified vehicles typically come with a warranty period and are usually more expensive than similar vehicles from private sellers. Another advantage of buying a used vehicle through a dealership is that they offer financing. This allows you to purchase a vehicle that you otherwise may be unable to afford. However, the older the vehicle, the fewer years you may be eligible to finance the vehicle. Lenders are typically willing to carry a loan out for five or six years on a fairly new vehicle, whereas an older vehicle may only qualify for a 1-4 year loan if the car is more than five years old, depending on the age and mileage of the vehicle, and the lender’s criteria. Each lender has its own set of guidelines for loans for used vehicles, so a dealer may have access to multiple lenders and may be able to find one that will work with you and meet your needs.

Used car companies are similar to dealerships, but are often much smaller and have a limited selection of vehicles of different makes and models. Some used car companies have outlets across the country and offer a very large selection of used cars as well as financing options. Not all used car dealers are alike, so it is best to make sure that the company is reputable.

Many people opt to purchase a used car from a private seller. While this may provide you with a better price, there are some drawbacks as well. Private sellers often do not offer a warranty, so the purchase will be “as is.” For this reason, it is imperative that you have the vehicle inspected by an authorized mechanic before you buy it. However, if the used car is only a year or two old and the owner purchased a warranty that still has several years remaining, it often can be transferred to a new owner for a fee. Be aware of possible scams that can occur in a private sale. Be careful when meeting the seller and do not meet alone. Make sure that the vehicle does not have any hidden problems that could show up soon after the purchase. You will also need to have the cash available to pay for the vehicle.

## Vehicle Financing

Most people need to finance at least a part of the cost of the vehicle. Loans can be obtained through banks, credit unions, and finance companies. The dealership has a finance manager who will assist you in getting a loan. They work with one or more banks or finance companies to find a loan that fits your needs. Loans are provided based on a number of factors:

- Amount of Money That Needs to Be Financed
- Monthly Payments
- Interest Rate
- Credit History
- Length of the Loan
- Your Income

Those who have poor credit scores may require a larger than average down payment or may need a co-signer, and may result in a higher interest rate. The length of the loan depends on the amount of the monthly payment you can afford. Common vehicle loans are three to seven years in length. For example, if a four year loan would result in a lower payment than a three year loan (48 months instead of 36 months) and would put the payment where you need it to be, it may be worth financing the vehicle for an additional year.

If you prefer, you can obtain financing through your own bank or credit union. You may be able to pre-qualify for a loan. This means that you are approved for a vehicle loan before making the purchase. You will need to apply for this type of loan, and if approved, you will be given a loan limit and the estimated payment amount. This will allow you the freedom to shop within that budget and will make it easier during the purchase process, because your lender will have already approved your loan and can simply finish the transaction once you pick your vehicle.

Dealerships and manufacturers may offer low or even 0% financing, but sometimes the buyer must forfeit a rebate in order to receive the lower annual percentage rate. The buyer should calculate the total cost of financing to make sure the cost of giving up the rebate isn't greater than the cost of the finance charges over the life of the loan.

## Insuring Your Vehicle

All vehicles are required to be insured. Your state provides specific legal requirements for insurance and registration. If you have a vehicle loan, the lender requires you to carry a specific amount of insurance, which will be specified as part of the loan agreement. Vehicle insurance varies depending on the vehicle age, make and model, safety features, and your location as well as your personal data. You must acquire the proper amount of insurance before you can take possession of your new car. If you do not have a vehicle insurance agent, you can locate one by searching online for "vehicle insurance agent in (your zip code)". The search results will provide the names and addresses of agents for various companies for you to choose from and comparison shop. See our "Guide to Buying Auto Insurance" for more information.

Be sure to check with your insurance agent about any “grace period” for reporting a new car purchase. The dealership sales person may suggest you have a certain number of days, but while they are likely just trying to be helpful, they do not represent your insurance company. Different insurance companies provide different lengths of time for reporting the purchase of a new vehicle, so it is important you verify this information with your own company to make sure you are not inadvertently driving without insurance.

## **Service Contracts**

A dealership will usually offer to sell to you a service contract that would provide you with mechanical coverage of your vehicle should repairs become necessary. A service contract can be a good option, but beware of high costs and insufficient coverage. Most service contracts require you to have regular maintenance performed at their dealership. These standard maintenance needs are sometimes not covered as part of the contract, so you must pay out of pocket. Service contracts may only cover a limited number of problems and restrictions may apply. When your vehicle has a mechanical problem, you must have it serviced by the dealership or the service contract may be voided. Additionally, some vehicles come with a factory warranty, which covers a great many mechanical defects. Review the service contract thoroughly before making a decision. Regardless of whether you buy a new or used vehicle, be sure to register it online with the manufacturer. This ensures that you will receive important correspondence including recall information.

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