

## Buying a Car

So you decided to buy a car. Good for you – that’s one key decision down and about a dozen to go. You need to figure out what kind of car you want, how you’ll finance it, how to score a good deal, new or used, buy or lease – and of course, the big question: How much? It’s a lot to deal with, we know.

Don’t worry, you’ll be fine. Have you seen some of the people driving cars? Trust us, you don’t have to be a genius to get through this. Just take it one step at a time and do a little basic research, and you’ll be on the road in no time.

### Buying a Car : What Can You Afford?

It’s the first question for a reason – there’s no sense getting all worked up about a car you can’t afford. So save yourself some disappointment and use the following steps to figure out a payment amount you can handle before you start looking.

- **Break out your budget:** You do have a budget, don’t you? (If not, you shouldn’t be shopping for a car – not yet. So open it up. How much room is there for car costs? \$200 a month? \$300? Remember, you don’t want to torpedo your savings.
- **Pay attention to the details:** Okay, so you’ve got a number. But don’t get too excited just yet. A car costs more than just a car payment. You’ve also got insurance, maintenance and gas to think about – and none of those are cheap. In general, operating expenses can be as much as one third to one half of the monthly cost of a new car. So whatever you settled on in the first step, multiply that by .66. Now you know what kind of payment you can afford.
- **Last but not least:** Oh yeah, one other thing. You’re going to need to come with a little cash up front. Or a lot of cash. How much? The more the better.

It’s a pretty simple concept: a dealer isn’t going to let you drive away with a machine worth thousands of dollars on the strength of your firm handshake and warm smile, no matter how firm or warm. They want to see some thing tangible – something green – that demonstrates your commitment to make all the payments.

We’ll get into the down payment in greater detail later, because the size of that payment will affect financing terms you can get. For the moment, just be aware that you’ll probably need to make a down payment of around 10% of the total price of the vehicle.

There. Now you know what you can afford. Still with us? Great, let’s move on.

### Buying a Car : Evaluate Your Credit

So you’ve figured out what you can afford. Now you just have to convince the lenders. Unfortunately, there’s not much you can do or say – especially since your credit score is going to do all the talking.

We've covered credit reports and credit scores at length over here, so we won't go into too much detail right now. Just know that lenders will decide how big a loan you qualify for based on one thing: that credit score.

It's nothing personal. In fact, in some ways, this is a good thing – lenders don't care how you look, where you're from, what race or religion you are, or where you fall on the Sox vs. Yanks continuum. All they care about is whether you're good for the money. And the only criteria they use to determine this is the numbers on your credit score. Which is why you should take care of your credit...yesterday.

So do yourself a favor: If you're not already doing what you need to do to take care of that credit history, start today. And either way, get yourself a copy of your own credit score and your own credit report. At least that way, you'll know what the lenders know about you, and you'll know what to expect. The good news is, you're at the right place.

### **Buying a Car : So What'll It Be?**

Alright, then. The next step might just be the most important one: what're you're going to buy? Sounds like a simple question – after all, you already know how much you can spend, so you get the most expensive car you can, right?

Uh, no. There's actually a lot more to picking a car wisely. Here are some things to consider: What do you need? Did you catch that last word? Need. Not want. Everybody wants a gorgeous little convertible, but not everyone needs it, especially on a budget. So ask yourself: What do you need?

- **How will you use the car?:** Getting to class? Going home for the weekends? Road trips? You know what you need. Don't confuse it with what you want.
- **Where do you live?:** New York City? Then you can probably get away without four-wheel drive, and you might want something small enough to fit into tight spaces (and if you do live in NYC or another city with good public transportation, consider not buying a car). Jackson Hole, Wyoming? Well then, a 4x4 might not be a bad idea after all.
- **What kind of driving do you do?:** If you spend most of your drive time in a city, you may want to go with the automatic transmission. Trust us on this.

**Shop around:** You know what you need, now figure out what cars give you those things. Start with the auto magazines and websites, things like Consumer Reports. Check the manufacturers' websites for factual details about features and dimensions. Ask your friends. Just don't expect to get good comparative information from a dealer. He is, after all, trying to sell you something.

By the way, you'd be wise to shop around for the right dealer, too – it matters. All dealerships pay the same price for the cars in the beginning. But the dealerships with better CSI (Customer Service Index) ratings often get better bonuses that allow them to offer you a better price. Find those dealerships.

**Get in and drive:** You don't buy a pair of jeans without trying them on first – why would you buy a \$20,000 car that way? Take the car you're looking at test drive, and if you can, do it without the salesperson in the car. In fact, you may want to rent the cars you're interested in. It'll cost a little money, but you'll be able to drive them all day without listening to a hard sell.

**Think about getting used:** Okay, so it doesn't have that smell, but you can get "new-car scent" at the car wash, and it's a lot cheaper than buying an actual new car. Of course, buying a used car comes with its own set of concerns:

- **Quality control:** You can look at a car's paint job and its odometer, but neither will tell you how it's been treated. Get a car's VHR (Vehicle History Report) using the Vehicle Identification Number. It'll cost you about \$10-\$15, but you get a report on any major accidents that may have weakened the frame. You can start at places like carfax.com.
- **Where do you buy it?:** Used car salesmen have a lousy reputation, but a dealership isn't a bad place to buy. Most manufacturers nowadays offer warranties and "certified" used cars, which can give you a little peace of mind. Of course, you can get a better price from someone who's offering their car on craigslist, but buyer beware.
- **More homework:** Check the Kelley Blue Book value for any used car before you buy – that way you'll know roughly where the negotiation ought to begin. Ask the seller questions – What was the car used for? How'd you get that dent in the front bumper? Bring the car to a mechanic you trust, and consider subtracting even minor repairs from the price you'll pay for the car. Remember: it's a used car. If you're not being careful, you're being stupid.

## Buying a Car : Buy or Lease

There is, of course, a way to get a car without buying it – and no, we're not talking about grand theft. In some cases, it may be a good idea to lease a new car, which basically means that you pay to use the car for a few years.

**Here's how it works:** You put money down and make monthly payments, just like buying a car, but you don't own the car – and at the end of a predetermined period, you return the car to the dealership. It's not for everybody, but leasing has some advantages. Briefly, the pros and cons:

**The upside:** Leasing comes with lower monthly payments than buying, and there's usually a much smaller down payment, so it can be good for people who want a new car but don't have a whole lot of cash right now. When the lease is up (usually after three years or so), you can either give the car back or buy it as a used car.

**The downside:** The car may feel like it's yours, but it's not. You're actually paying the dealer (or more accurately, the leasing company) a premium to cover the depreciation on your vehicle. In other words, when you give it back to them, they have to sell it as a used car, which is worth a lot less. So when you return the car, you'll be charged extra for anything that lowers its resale value – for instance, if you put too many miles on it or you bring it in with dings on the doors.

You're also locked into the lease for the specified term. If you decide you want out of your three-year lease after two years, you'll have to pay the remainder of the lease, plus any termination fees. And if you plan on buying it at the end of the lease, you'll end up paying a lot more when you add together the leasing cost and the cost of buying the car. If you think you'll want to hang onto the car, you're probably better off just buying it outright.

## Buying a Car : Scoring a Good Deal

Researching cars is one thing – negotiating with a car salesperson is a whole other ballgame. But if you follow a few basic guidelines and some handy tips, you'll be fine – and you might just get yourself a good deal.

**You're in the driver's seat:** Whatever it feels like on that showroom floor, remember that you have all the power. If you don't like the salesperson you're talking to, or if you're not getting the price you want, you can always walk away. There's always another dealer down the street.

Even if you don't want to walk away permanently, don't be afraid to walk away temporarily. Go home and sleep on it. Don't give in to dealer pressure – they're not the ones who'll be paying the monthly tab, you are. You have every right to move at your own pace.

**Know your stuff:** The more you know when you walk into the dealership, the better off you'll be. That doesn't mean you need to be an automotive engineer just to get a good deal, but if you know what make and model you want, and what options, that limits the amount of selling you'll be subject to. If you can focus the conversation on price, you reduce your risk of being talked into a high-end options package that you just don't need.

**Negotiate like a pro, even if you're not:** No question about it, negotiating price with a car dealer is one of the most stressful things you'll ever do. Just remember to keep your cool and remember the following tips, and you'll be fine.

- **Don't get excited:** If a salesperson catches you drooling on the hood, you've just lost a little negotiating power. Keep your emotions in check, and the onus is on them to give you a reason to buy.
- **Don't talk about financing:** Tell them you're paying cash – they won't hold you to it. If you agree on a price before you work out the payment plan, the dealer has fewer avenues by which to inch up their profits.
- **Take your time:** The salesperson is there all day anyway, so he may try to tire you out. Stay strong, keep negotiating, and you might save some money. An extra hour of persistence could save you a few hundred dollars.
- **Watch out for good cop, bad cop:** You know the drill – Sales Guy says if it were up to him, he'd give you the price you're asking for, but he needs to ask his manager. Now you're thinking Sales Guy is on your team, right? He's not. It's you vs. them, don't forget that.
- **Ask to see the invoice:** That'll tell you how much they bought the car for. If they won't show you that, it's probably because they're offering a lousy deal.
- **Shop late in the month:** Dealerships get bonuses and rebates from manufacturers based on monthly sales quotas. Depending on how your dealer's doing, you might find a little more leeway as the 30th approaches.
- **Don't haggle if you don't want to:** Some dealers – Saturn, for one – don't negotiate. It's the same price for everyone. If you really don't like haggling, that may be your best bet.

**Let's talk price:** Look, car sales is a business. Nobody's going to sell you a car if it's a bad deal for them. So you'll need to find a price that works for the dealer – but that doesn't break your budget. Find that fair price, and you'll drive home in a new car.

When you do start talking price, there are some terms you should know:

- **Invoice price:** We mentioned this above – the invoice tells you what the dealer paid the manufacturer for the car. Do some Web research – if you can find out what the dealer paid, you'll know where that fair price begins.
- **MSRP - Manufacturer's Suggested Retail Price:** That's the "sticker price," the number on the car's window. It's not a price tag, it's a starting point. Of course, if the model you want is in high demand, you probably won't get much lower.
- **Dealer incentives:** Manufacturers sometimes give dealers extra money, bonuses and rebates for selling overstocked and undersold cars. Find out if the car you're interested in buying has any dealer incentives attached to it. Then subtract that amount from the price you're willing to pay.

So how much should you pay? Obviously, it's impossible to do your negotiating for you, but if you offer somewhere around \$200 more than the invoice price, minus any dealer incentives, you've probably started a good negotiation. You may not get that price, but it shows you know what you're doing.

**Beware the add-ons:** Once you've settled on a price, the dealer will probably offer all kinds of add-ons – anything from an extended warranty to detailing the car before you drive away. Feel free to refuse these, even if they try to include them automatically. Most are optional:

- **Destination charges:** Some manufacturers charge separately for shipping the vehicle to the dealer. You can't get around this. But check the sticker to make sure it wasn't already included in the price.
- **License and registration:** Also unavoidable, but call your state's Department of Motor Vehicles to make sure the dealer hasn't padded this fee.
- **Extended warranties:** Also called service contracts. If you buy a car with a good service history, this shouldn't be necessary.
- **Dealer prep:** In other words, getting the car ready for you. The dealer gets paid for this. Don't pay twice.
- **Credit insurance:** This insurance pays off your car loan should you die while leasing it. As long as you have life insurance, don't worry about it.

There are others, too. Just be assertive. If you don't understand what the add-on is for, ask. And if you don't have to pay a fee and you don't want to the fee...don't pay the fee.

When it seems as though a price compromise is inevitable, ask for more. Ask to throw in the floor mats. Ask for some small extra you want on the car. You won't get it if you don't ask. So what do you have to lose?

**One more step:** Make sure everything's in order. You've worked hard to negotiate a price – now take a minute, or an hour, or overnight, to be sure that you can afford that price. Include financing and gas and insurance. Check it all against your budget. If you can't make it work, don't buy the car! Period.

The salesperson will flip. You'll feel lousy. You'll probably be completely disappointed. But none of those things is worse than screwing up your financial future. You'll get through a little disappointment – a lousy credit rating will burden you for years to come.

## **Buying a Car : Paying For It**

Unless you have the cash to buy a car outright, you'll need to find someone to front you the money. If you're smart, you'll do that before you start negotiating. Plenty of lenders will pre-approve you for a certain loan amount based on your income and credit history. That way, you'll know exactly how much car you can afford, and you'll be able to leverage your financing deal against the financing offered by the dealership.

**Getting the financing:** There's only one hard-and-fast rule when it comes to financing: go with whoever gives you the best deal. There are plenty of options open to you, including the following:

- **The dealership:** This is as easy as it gets – you buy the car, then you walk 15 feet to the financing person's office, and you set up your payments. Of course, the rates you get may not be the best, so you need to shop around for a loan beforehand, to make sure it's a good deal.
- **Banks and credit unions:** The same bank that keeps your money in a vault will lend you what you need to buy a car, and you'll usually (but not always) get a better deal than the dealer is offering. Credit unions may have even better rates. Either way, you'll probably need a 10-20% down payment on this kind of loan.
- **The Internet:** As with everything else these days, you can shop for car loans on the Internet. You miss out on any kind of personal relationship, but you can get quick approval and very competitive pricing.

**Important finance vocabulary:** Don't let yourself get derailed by all the lingo when it comes to securing financing. Here are a few key terms to familiarize yourself with:

- **Total price:** Basically, it's just that – the price you and the dealer finally agree on, minus any rebates. The dealer will calculate tax based on this amount.
- **Down payment:** This is what you put down to symbolize your intent to pay off the rest of the vehicle. The more you pay up front, the less you'll pay every month, and the lower your interest rate may be.
- **Interest Rate:** This is the rate a lender charges you for borrowing money. A higher rate will increase your monthly payments. To see how the rate affects the total amount you'll end up paying, play around with our loan calculator.
- **Term:** This is how long you'll be paying off the loan. The longer the term, the smaller your monthly payment, but the more total interest you will pay.

**The power of a trade-in:** If you've already got a car or truck, ask about trading it in. Depending on what your car is worth, you may be able to use it as a down payment.

Then again, you may not get much at all for it – it all depends on what the dealer thinks he can re-sell it for, either on the lot or at a used-car auction. Before you head to the dealership, check the Kelley Blue Book to see what your car is worth. If the dealer is offering you less than you can get by selling it yourself, the trade-in becomes less attractive. As always, research is the key.

## **Buying a Car : Insurance**

You have a car. Now you need insurance. In most states, that's the law, but even if it weren't the law, it's common sense. We're sure you're a fabulous driver, but not everybody is, and there's always a risk that something will happen no matter how careful you are. That is, after all, why they call them "accidents," right?

Here, then, is a quick rundown of the essentials of buying auto insurance.

**Types of insurance:** When you call an insurance agent, you'll have a whole slew of options. Here's a handy translation guide for when the agent starts slinging slang:

- **No-fault:** If you're in an accident, your insurance company compensates you, no matter whose fault it was. (Thus the name.) Then they try to go after the other driver if they think they have a claim. Some states have no-fault insurance, some states don't.
- **Fault:** If you live in a fault state, you will be required to prove that you have "financial responsibility" – you're able to pay for any damage or injury that you may cause. Either fulfill minimum insurance requirements or have proof that you have the financial means to pay for such amounts.
- **Uninsured and underinsured motorists:** If you're in an accident with someone who can't pay for the damage, your insurance company covers the difference. This protects you against damage costs including lost wages, medical bills, pain and suffering.
- **General liability:** This is the coverage the law requires in most states. If someone causes damage to your property or causes you injury, that person's insurance will cover it. It also covers damage you may cause to other people's property and injuries to the people, and it protects you from lawsuits. Consider getting higher liability coverage than is required to prevent being underinsured.
- **Collision:** Collision reimburses costs related to repairing damages to your car due to an accident. It usually covers you even when you drive a rental or someone else's car.
- **Comprehensive:** This covers a wider swath of incidents, including fire and theft, natural disasters, explosions, even riots. Required for a lease or a loan.
- **Medical payments insurance:** Covers hospital and doctor bills, and even funeral expenses, that result from an accident. Check first to make sure it doesn't overlap with your health insurance.
- **Personal injury protection:** PIP policies cover medical charges not covered by the Medical Payments Insurance – lost wages, child care, etc.

**What affects the rates?:** Certainly the kind of coverage you want and the size of your deductible, which is the amount that you're responsible for before insurance kicks in (the bigger it is, the cheaper the rates). But statistics play a huge role, too. Insurance companies hedge their bets by charging more to insure people with statistically higher accident rates, and charging less for the good risks. The latter list includes:

- Women
- People over 25
- Married people
- People with good driving records
- People who drive less
- Certain vehicles: Big, heavy cars and trucks are considered at lower risk than smaller, lighter ones. Expensive cars are costlier to repair than economy models. Sports cars are more at risk than other cars.

**Ways to save on insurance:** Insurance is a big expense, but it can be smaller. Just follow a few simple principles:

- **Shop around:** As with anything, this is a good idea. Make a few extra calls, and you could save yourself hundreds of dollars a year. But don't automatically go with the lowest quote – make sure you're comparing the identical coverage from one company to another, and get recommendations on service-oriented agents.
- **Raise your deductible:** Like we said, the higher the deductible, the lower the cost of insurance. Just be careful not to set your deductible so high that you can't afford to pay it when you have a claim.
- **Drop collision and/or comprehensive on old or cheap cars:** If your car is worth less than \$1,000 or so, there's no real point in spending hundreds of dollars to protect it from scratches and dings.
- **Buy a boring car:** Boring to car thieves, that is. Pick a car that gets stolen less often and you'll get a much lower rate.
- **Low mileage discounts:** Drive less, pay less. Catch a ride with your friends. Get a job near your home. If you live in a city, take the subway or whatever public transportation that city provides.
- **Equipment discounts:** Cars with automatic seat belts, airbags or anti-lock brakes cost less to insure. Of course, they may also cost more to buy, so do the math.
- **Multiple insurance discounts:** If you have other insurances, such as renters or life insurance, with the same insurance company or multiple drivers on the same insurance policy, you could qualify for a discount.