

Buying Your 1st Car

What to know to be confident about handling the car buying process.



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Buying a vehicle - whether it's a car, truck, or SUV - can be a complicated undertaking. With lots of industry-specific jargon, large numbers and high-pressure sales tactics, each decision can be overwhelming.

This guide will help you demystify some common car-buying concepts by walking you through the choices step-by-step. By the end, you can walk into a dealership confident about how to handle the car-buying process; and ultimately walk away with the car of your dreams at a price you can afford.

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Section
1

First Steps: New vs. Used?

There's no one answer to this question and much of it depends on your personal situation.



First Steps: New vs. Used?

Maybe it's your first time visiting a car lot as a would-be buyer, and you're beaming with anticipation and nerves. Maybe it's just time to upgrade to something fresh and new. Whatever the case, there's one big question weighing on your mind:

Do I buy new or used?

There's no one answer to this question and much of it depends on your personal situation.

Here are a few key factors to help you make the best decision.

Warranty

First, there's the case of the warranty. Almost all new cars come with a built-in manufacturer's warranty that's good for three years or 36,000 miles. This is an invaluable benefit to buying a new car, as even the best-engineered machines sometimes break down. In addition to major repairs, some warranties cover routine maintenance, such as oil changes.

If you have someone else covering the expenses for the first few years, that is money you're saving. You'll want to make sure you stay on schedule for that routine maintenance, though, or you could void your warranty.





Used car dealers inspect incoming cars and perform any necessary repairs and cosmetic improvements, but they can't predict what part might need repaired next.

Repairs

Vehicle repairs come with the territory of car ownership, whether you're buying new or used. No matter how well the car is made, some parts will wear out over time. While you can expect to pay more to maintain a used car than a new one, no one gets away completely free.

Given the possible expenses involved in repairs, buying a pre-owned vehicle can be a bit of a gamble. Used car dealers inspect incoming cars and perform any necessary repairs and cosmetic improvements, but they can't predict what part might need repair next.

Typically, a dealership that also sells new cars will spend the time and money to ensure their used inventory is also up to snuff. Buying from a used car specialist or looking for a vehicle on a site like Craigslist can be a bit more risky. It's definitely cheaper, but you're going into that deal with no idea what the past owner has done to the car. The risks could include anything from a terrible smell to that dreaded check engine light. Whatever it is, you're either going to have to live with it or pay to fix it out of your own pocket.



Depreciation

Depreciation is a big concern when buying a vehicle. Depreciation is an asset's loss of value over time. A car is worth less the older it is. The biggest depreciation occurs immediately. Any new car depreciates by approximately 11% of its original value as soon as it leaves the lot for the first time.

For example, let's say you purchase a brand new car that costs \$26,675. It would depreciate by \$2,934 as soon as it rolls off the lot. That's \$2,934 you'll never see again, and that's only on the first day. Within the first two years, provided you've kept the car in near-perfect shape, the car will be worth just 74% of its initial purchase price. So that same vehicle would now be worth only \$19,739 - meaning you've lost \$6,936 in the value of this asset.

NEW CAR VALUE	\$26,675
ROLLS OFF THE LOT	\$23,741
WITHIN 1ST TWO YEARS	\$19,739

Before buying new, be sure you're ready to make that hefty commitment.

If you're buying used, the loss that new car buyers experience is your gain. For starters, all that money now gone to the depreciation is money you save.

Not to mention that after the 26% a car loses in the first two years, the amount lost in depreciation drops significantly every year. After the third year, you'd typically lose only 7% of the original value. After that, the value lost to depreciation is just about negligible. That means that not only do you save more than 25% when you first buy, you also don't need to worry as much about losing money to depreciation. The money's already been lost by someone else; it's not your problem!





Thanks to a large number of lease returns, a wide array of used cars that are about three years old are currently on the market. This makes buying a used or certified pre-owned (CPO) car more attractive than in recent years.

In addition, there are more inexpensive new cars available than ever before, making your choices positively dizzying, regardless of your budget.

You'll be able to get the most car for your money if you buy used, though you'll pay a higher interest rate, have a shorter warranty period and won't know the car's full history.

Everyone buys cars for different reasons. That means that what you're looking for in a car is different, too, as are the reasons you're willing to save or spend money. Everyone has a different reason to decide whether to buy new or used.

If your goal going in is to save as much money as possible, there are some things you'll want to keep in mind.

- Am I willing to take the risk on the car surpassing its warranty?
- Am I willing to pay extra for maintenance and repairs?
- Do I want to take a chance that the past owner treated the car poorly?
- Is it really worth losing so much money to depreciation?

The more questions you ask, the more confident you can be in your decision to buy new or used.





Section

2

Choosing a Car: What to Consider

This is the biggest purchase you'll make other than your home. So don't rush out to the dealership for a test drive just yet.



Buying Your 1st Car



Choosing a Car: What to Consider

Whether you choose to go new or used, you've only just begun making decisions. Your biggest choice comes in deciding what kind of car to get. This is probably the biggest purchase you'll make other than your home, so you'll want to be confident in your decision.

Start by researching the cars that have caught your eye to see if they fit your budget. Visit automaker websites and independent automotive information sites to assess the features that are important to you. Be sure to take note of MSRPs (manufacturer's suggested retail prices) and invoice prices.

Check local inventory listings to see what is available in your area. Choose cars that would cost at least 5 percent less than your monthly budget to give yourself some room to cover operating costs, including gasoline, insurance, repairs and maintenance.

Print out or electronically save web pages that have pertinent details. Don't, however, rush off to the dealership for a test drive just yet.



If you're stuck, consider the following:

Resale

How long do you plan to keep your car? Do you plan to drive it until the wheels fall off, or do you see yourself wanting to upgrade in a few years? If this is a car you plan to own for less than five years, you need to look at the potential resale value.

Cars from luxury brands, such as Lexus and BMW, tend to hold their value fairly well. Cars with a reputation for longevity and dependability, like Toyota and Subaru, also tend to depreciate slower than other brands. Also, look for relatively recent vehicle lines. These are car models that will likely still be in production several years from now, ensuring parts and service won't be hard to come by.



Gas Mileage

This may seem obvious, but too many buyers fall in love with the styling and handling of a vehicle without taking into consideration the cost of keeping that gas tank full.

Suppose you are choosing between two cars. One model gets 20 miles to the gallon and the second is more economical at 30 mpg. Assuming you drive 15,000 miles per year, the annual cost of gas for the first model is \$1,875 at a pump price of \$2.50 per gallon. The more efficient car will cost you just \$1,250 to refuel. That's a difference of \$625 or just a little more than \$50 per month. That can be a significant difference in your monthly budget.



Day-to-Day

Many people start car shopping by making a list of things they occasionally do or want to do someday. They may want to own a boat, so they need a car that can tow. They go camping sometimes, so a car that can off-road is preferred. This is a good way to end up with more car than you need.

Instead, look at what you use your car for on a daily basis. For most people, this is a commute to work and back. For this, you need a comfortable car that gets good gas mileage and is easy to park. For special occasions, you can always rent a car or truck. How many times a year do you see yourself picking up furniture or hauling a trailer? If it's less than five, remember that you can still rent a truck or van for such occasions.



Buying or Leasing?

You have options when it comes to how to purchase your car. You can buy it, which means you'll take out a loan for the purchase price. When the loan is paid off, the car is yours, free and clear.

You can also lease a car, which is essentially a long-term rental. At the end of the lease term, you may have the option to buy the car, depending on the terms of the lease. If you choose not to purchase it, you may be charged penalties for things like excess mileage or damage to the vehicle.

Generally speaking, leasing a car isn't as good a deal as buying. If you absolutely must have a top-end luxury car, a lease is one way to make it affordable. The tradeoff, though, is that you are building no equity. You'll never be able to get a trade-in, and you may have to make expensive penalty payments when getting your next car.



Consider a Lease Carefully

Leasing might be attractive to you if you always trade in cars to keep them new and you drive a minimal number of miles annually. Take a look at our [lease vs. buy calculator](#) to help you decide what the best choice is for you but also consider the points listed below.



Mileage restrictions. You often have a lower monthly payment with a lease BUT... read the fine print. Many low payment leases have low mileage allowances and you could pay penalties if you drive more miles than allowed. Consider the chances that the number of miles you now drive could change in the future.



Possible wear and tear fees. Leases usually have "excess wear and tear" provisions. These could cause you to have unexpected charges at lease termination if there has been any damage to your car.



Continuous Payments. In a lease situation, you will have to turn in your vehicle and likely have another payment to replace it.



Insurance. If you wreck your lease car rather than one you own, your reimbursement may be less than what you owe on the lease. You may want to get "gap" coverage to cover the difference. The price of "gap" coverage for your lease vehicle could wipe out a chunk of the monthly price advantage of leasing rather than buying, so bear this in mind.

A new car for the same amount of money would have fewer features, but you'll also have a full warranty and pay a lower interest rate, and often you'll get free maintenance and roadside assistance.

For many, a certified pre-owned car is the ideal compromise. These vehicles are cheaper than new cars, and they often have some warranty left and must meet certain criteria to help ensure their reliability and condition.





Section

3

Financing Tips and Tricks

Learn the inner workings of
finance & insurance and how to
get out with the best deal.



Buying Your 1st Car



Financing Tips and Tricks

After you've picked out your car, your next step will be determining financing and insurance. This is the last opportunity dealers use to make more money off their sale to you.

Here's how to get out with the best deal you can.

The Inner Workings of Finance & Insurance

Dealers don't just want to sell you a car, they want to coordinate the car loan, too. That's because they typically receive a flat fee or a commission on the auto loans they facilitate, regardless of whether the loan is from the manufacturer or a local lender.

Typically dealerships do not do their own financing. Generally speaking, Finance & Insurance people (also known as F&I) take the estimated price of the car, the actual value of the car and your credit history to shop the deal to a number of different lenders. These may include, local banks and credit unions, as well as national lenders and manufacturer finance departments. These vendors each quote an interest rate and relevant fee information to the salesperson or sales manager.

Car dealers usually have long-standing business relationships with these lenders, which may include incentives for selling a loan from a specific lender. In addition, dealers may have the option of marking up the interest rate to earn additional incentives. The lenders are competing for the dealer's business, not necessarily for yours.

Dealers don't just want to sell you a car, they want to coordinate the car loan, too. That's because they typically receive a flat fee or a commission on the auto loans they facilitate.





Closing The Deal

Make no mistake; financing is profitable for dealerships in many ways. Unless you come in armed with a pre-approval, you're almost always better off if you make financing the last part of your transaction with the dealership.

This doesn't mean, though, that you don't want to think about financing until that point.

While the dealer knows that lower interest rates make you more likely to buy a car, in this transaction you're not the customer. You're the product. The dealer is trying to sell your business to a lending organization while making as much profit as possible on the transaction.

It may be convenient to handle the financing of your vehicle with the dealer once you've agreed to a sale. However, because of the background detailed above, you can see how you may end up paying a premium for that convenience.

Come talk with us at the credit union before you reach that point. We can help you identify price ranges and terms that are best suited to your budget while also getting you pre-approved. It will shorten the process for you, give you buying leverage and minimize your susceptibility to aggressive sales tactics.



Is 0% Financing Worth It?

If you're shopping for a car because you've seen an advertisement for 0% financing, you're not alone. Campaigns in which manufacturers offer deals like 0% financing for 60 months, are incredibly popular for car buyers and dealers alike. If it were honestly a losing proposition for the manufacturer, they likely wouldn't keep doing it.

How, then, could they possibly make money on the financing? The answer is two-fold: volume and selectivity.



The volume part of the money-making strategy is simple. Zero percent financing gets people on the lot and encourages them to think about buying a specific brand of car. The manufacturer and the dealer both make some money on each car sold, so the 0% financing trades some profit per car in the hopes that they'll make up for it in number of cars sold.

Selectivity is the other side of volume.

Not everyone who comes to a 0% financing event will qualify for that rate. These loans are usually short-term and if your history with credit is anything less than perfect, don't expect to qualify for these rates. Roughly 60% of people who apply for these loans end up being rejected.



If the dealer is offering 0% financing over the life of the loan, expect it to be a limited term. This means a much higher payment than you'd have on a five- or seven-year loan.



Choosing 0% financing will often prevent you from taking advantage of other discount options like manufacturer rebates and other discounts. This last hiccup can mean 0% financing is actually more expensive than a loan that's obtained through a private lender like the credit union.

To see this effect, let's take a look at some numbers. We'll assume that you're paying \$20,000 for a car. You're presented with two choices:

- 1 You can take 0% financing on a three-year loan.
- 2 You can get a 4% interest rate on a five-year loan from the credit union, plus a \$2,000 manufacturer's rebate.

Let's see how those options break down.



If you take the 0% financing option:

\$20,000.00	
- 0.00	<i>Rebate</i>
20,000.00	<i>Purchase Price</i>
+ 0.00	<i>(0% interest rate)</i>
20,000.00	<i>Total Cost</i>
÷ 36	<i>Months</i>
\$555.55	<i>Per Month</i>

Monthly Payment **\$ 555.55**

Your monthly payment will be \$555. Assuming no other fees or problems, you'll pay \$20,000 over the life of the loan. Your payments will be higher, and if you can't make one of them, you'll be paying more in interest next month (in addition to all the months that follow).

If you take the rebate:

\$20,000.00	
- 2,000.00	<i>Rebate</i>
18,000.00	<i>Purchase Price</i>
+ 1,888.63	<i>(4% interest rate)</i>
19,888.66	<i>Total Cost</i>
÷ 60	<i>Months</i>
\$331.47	<i>Per Month</i>

Monthly Payment **\$ 331.47**

Your monthly payment will be \$331.47 - a much more reasonable amount. Over the life of the loan, you'll pay a total of \$19,890. That means you will save \$20 and have a lower car payment, too.



Even if it's not compatible with cash back incentives and other rebates, arranging outside funding before you go to the dealership can be a tremendous negotiating advantage. By continually postponing questions of financing, you can let the dealer think there's still money to be made. This position might lead them to give you more on your trade-in, lower the price of the car or offer you more options.

The loan you get to pay for your car may be the biggest financial decision you make outside your home. You owe it to yourself to do your research and treat this decision with diligence. You wouldn't buy a car just because it had an enticing price tag. Why would you do that with a loan?



Know How Your Car Affects Insurance Premiums

Although most people are well aware of how their driving record affects their insurance premiums, many don't realize just how much their car affects the rates as well. Everything about your car, including the year, make, and model, affects the rate. In addition to that, some things you may not even know about your car can have an impact on car insurance premiums. These factors are important to understand especially when shopping around for a new car.





The make and model of your car have a big impact on rates as well. The cost of parts, repairs, or even replacement can be very expensive for the insurance company.

Year, Make, and Model

The age of your car has a lot to do with your insurance premiums. That is because the older your car gets, the more value it loses. The less valuable your car, the less expensive it may be to repair or replace, making it cheaper to insure because the risk to the insurance company of paying out a large claim is reduced.

Of course, each car depreciates at a different rate, and each car starts with a different value, so the impact on insurance rates varies across different vehicles. Often, an older car may be cheaper to insure.

The make and model of your car have a big impact on rates as well. High-end luxury cars usually cost more to insure because they are more valuable to begin with. The cost of parts, repairs, or even replacement in the event of a total loss can be very expensive for the insurance company. Thus they will charge a higher premium.

The model also has an effect on insurance rates. Two cars that are from the same manufacturer but are different models can have different rates. In fact, even the difference between two cars with different trim levels can make a difference. A sedan, for example, may cost less to insure than the coupe version of the same car. This is because coupes could be considered sportier and statistically at a higher risk of an accident.



The Risk of Theft

Generally, due to higher rates of vandalism, theft, and crashes, urban drivers pay more for car insurance than do those in small towns or rural areas.

Insurance companies use statistics on the frequency of theft for every car on the market to help them determine how high the odds are that your car will be stolen. Certain cars consistently make the most-stolen lists, and these cars will therefore cost more to insure. The insurance company is at a higher risk of having to pay out on a car that is likely to be stolen.

While anti-theft devices and satellite monitoring systems that are installed in most newer cars can help to reduce the risk of theft, a car that is commonly stolen will continue to carry a higher premium. This is just one of the many statistics that a car insurance company uses to determine rates, and one of the things that is important to think about when car shopping.











Value and Risk

Cars are rated on two main factors, which are derived from all of the information about year, make, model, and theft statistics. What it all comes down to is the value of your car, and the risk of theft or accidents.

The value of your car will mainly affect the optional portions of your insurance, such as the collision portion; although there is some impact on the other areas of your insurance. While dropping collision coverage could reduce your rates, it is generally not a very good idea since the high value of your car would make it hard for you to pay for damage or replacement.

The risk factors of theft and accidents will also impact a variety of areas in your car insurance rates. Of course theft statistics will impact comprehensive costs, since theft is the most common source of claims against comprehensive coverage. Accident statistics will impact mainly the cost of your liability & accident benefits insurance.

10 MOST-STOLEN CARS IN 2016

1.		1997 Honda Accord
2.		1998 Honda Civic
3.		2006 Ford pickup
4.		2004 Chevrolet pickup
5.		2016 Toyota Camry
6.		2015 Nissan Altima
7.		2001 Dodge pickup
8.		2015 Toyota Corolla
9.		2008 Chevrolet Impala
10.		2000 Jeep Cherokee/Grand Cherokee

source: NerdWallet



Distance Traveled, Age and Credit Matter Too

■ **How often, and how far, you drive**

People who use their car for business and long-distance commuting normally pay more than those who drive less. The more miles you drive in a year, the higher the chances of a crash - regardless of how safe a driver you are.

■ **Your Age & Credit History**

Crash rates are higher for all drivers under age 25, especially single males. Insurance prices in most states reflect these differences. However, the silver lining is if you're a student, you might also be in line for a discount. Some car insurers provide discounts to student-drivers who maintain good grades.

■ **How is your credit?**

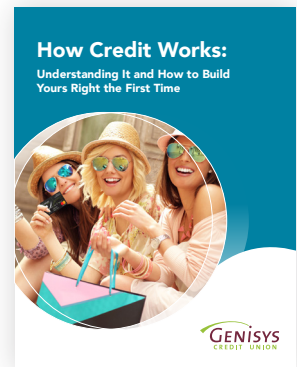
Many insurance companies use credit history to help determine the cost of car insurance. Maintaining good credit can have a positive impact on the cost of your car insurance.

So before you head down to the dealership, do some research. Does the vehicle that has caught your eye have a high cost for repairs or parts? Is this specific model often stolen? Knowing the answers to a few simple questions can go a long way in keeping your rates low.

Discuss your plans with a representative at the credit union, including the type of vehicle you're thinking of buying. Figure out what kind of rates they can offer. By doing your research ahead of time and knowing what financing options are available to you, you can let the dealer think there's still money to be made in the financing, which may strengthen your negotiating position on other parts of the transaction, like the price of the car or the value of the trade-in.

Want to read more about how to improve your credit score?

Check out our eBook:





Section
4

The Last Decision: Extended Warranties & Add Ons

Be prepared for all the "extras" that will be offered to you and know what a fair price is for each one.



The Last Decision: Extended Warranties & Add Ons

You've finally done it!

You've gone through the test drives, the sales talk, the self-doubt and the sleepless nights - plus the mountains of paperwork. But you did it. The car of your dreams is yours. It's yours and it'll be perfect forever.

"But what if it's not?" asks the small voice in your head, echoing the salesman who's sitting across from you. "What if it's not perfect forever? What if something terrible happens to it? You don't want to be the one to pay for that, do you?"

You don't, so you fork over another small mountain of paperwork and another thousand dollars. You are now the proud owner of one of the car industry's biggest cash vacuums: the extended warranty.

Once you've reached an agreement to buy, be prepared to say "no" to all the extras you may be offered. Instead, say "no" and do the research at home for whatever add-ons interest you, and contact the dealership at a later date to negotiate fair prices for those items.





The concept of an extended warranty is simple.

You give the insurance agency a loan of roughly a thousand dollars, and they'll cover any damage your car sustains for the next few years. You're supposed to be getting the better end of the deal.

They'll tell you that accidents are frequent and expensive, so paying only a thousand dollars is actually saving you money. **In reality, more than 55% of participants in a recent consumer report said that they never used the extended warranty they had bought.** For those who had been given reason to use it, the cost of the repairs averaged \$837, leaving them with a sizable net loss.



There are a few legitimate reasons to invest in an extended warranty.

For one, if you're buying a used car, you might want to use the money you save on the actual car to pay for some extra insurance. **Used cars are twice as likely to malfunction as new ones, especially since you don't know how well the past owner treated them.**

If you do decide to buy an extended warranty, you should ask yourself: **Am I getting the best deal?**

One-third of the people surveyed reported attempting to negotiate the price down and saved \$235 on average. Also, you might think it's a better deal to buy your warranty with your car, but almost all brand new cars come with three years of manufacturer's warranty.

Don't pay for something you're already getting.





GAP – The other popular Add On

GAP insurance is designed for long-term, high-interest or low down payment financing. "GAP," or Guaranteed Asset Protection insurance, is automobile insurance that covers the difference between the total amount of the loan and the value of the car. It's protection against the worst-case scenario, that your car is totaled and you owe more than it is worth. Your comprehensive insurance coverage will only pay out the value of the car, leaving you on the hook for the remaining interest and finance charges.

But, as with any other purchase, shop around. Dealerships maintain institutional arrangements with insurance agencies, expecting you to purchase it without much thought. It's one of the last chances they have to seek profit on the sale, and they rely on you not to notice.

You may be able to find better rates on GAP insurance (and other insurances like Mechanical Breakdown coverage and Loan Payment Protection) from your credit union. While you might not think so at first, the credit union offers this type of coverage and has a strong track record of protecting members' purchases. Members have saved thousands of dollars on their claims and helped keep debt scenarios from turning into nightmares.

Most important, double check everything by calling your insurance provider and reading all the fine print. You may be able to come out of this actually having saved money on an extended warranty and add on insurance.



Use our [auto loan payment calculator](#) to see how your down payment, trade-in, and auto loan interest rates and terms affect the amount of car you can afford.



Summary

As you start your search be sure to use our [auto loan payment calculator](#) to see how your down payment, trade-in, and auto loan interest rates and terms affect the amount of car you can afford. Once you arrive at final numbers with the dealer, bring a signed document with the price of the car to the credit union, and let us get you financed!





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