



# Drive Away Happy

Buy new, buy used, or lease? These are just a few of the many decisions you'll need to make before happily driving away with a vehicle. While shopping for a car or truck is exciting, it is also no simple matter. You can avoid buyer's remorse by making important financial and practical decisions before signing on the dotted line.

By reviewing the pros and cons of buying and leasing, how to analyze and determine your personal requirements, how to get the best purchase price and financing deal, and the laws that protect your rights as a consumer before you shop, you can be sure to make the right choice.



595 Market Street, 15th Floor  
San Francisco, CA 94105

**800.777.7526**  
[www.cccsf.org](http://www.cccsf.org)



## Some Things to Consider

Shopping for a car can be complicated and time-consuming. It involves balancing your desires with your economic reality, deciding whether to buy or lease, and knowing what is the best deal for you. To make the process efficient and improve your chances of driving away happy, you will need to consider:

- **Your Needs** – Think about your transportation requirements. Does your car 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** – Your desires certainly play a part in the car buying decision. Make, color, options, and style are all important to being happy with your final choice. Read car-oriented magazines and websites for ideas.
- **Your Budget** – It is easy to get carried away and end up with a car that is out of your price range and a monthly payment beyond your capacity. Your budget, not a salesperson's opinion, should dictate your decision. Review your income and expenses to see what you have available each month for auto expenses.

## Determine How Much You Can Afford

Complete the worksheet on page 3 to see how much money you have available for car expenses. Make sure you include a monthly car payment, insurance premium, gas expense, the projected cost of maintenance and registration, and any parking

expenses. If you need to estimate, use conservative figures. If you find there is little or no money available for auto expenses, you may need to rework your budget by reducing or eliminating non-essential expenses.

## Save for a Down Payment or Total Car Cost

While it is possible to buy a car with no money down, you will end up paying a lot more for it if you do so. The more you borrow, the more the car will ultimately cost.

To decrease the amount you finance, it is wise to make a significant down payment. With enough savings, you may be able to purchase a car outright (typically an option when buying a used car, rather than a new one).

Effective saving begins with first determining how much you want to save (determined by using the budget worksheet on page 3), then setting a reasonable date to achieve your goal. Use automatic deduction to make the process easy. Arrange with your financial institution to have a set sum deducted from your checking account and automatically deposited into savings.

## New, Used, or Lease: Advantages and Disadvantages of Each

After you determine how much you can afford to spend, the next step is to decide between buying new, buying used, or leasing. It is important to be familiar with each option's positive and negative aspects.

While leasing a car may enable you to get “more car” for less money each month than what you might be able to purchase, it is important to remember that leasing means renting. When the term of the lease is up, you return the car. At that point, you have the option of paying any outstanding fees for mileage or damage, or purchasing the car outright. Often, 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, during the course of the lease contract, you choose to return the car, very high penalties will likely apply. (Review the chart on page 4.)

## Budgeting Worksheet

### Monthly Expenses

Rent/mortgage	\$
2nd Mortgage	\$
HOA (association dues)	\$
Property taxes	\$
Homeowner's/Renters insurance	\$
Gas/electric (average)	\$
Water/sewer/garbage	\$
Telephone/Cell Phone	\$
Groceries	\$
Household items	\$
Health insurance	\$
Prescriptions/doctor visits	\$
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	\$
Gifts/cards	\$
Pet care	\$
Banking fees/postage	\$
Cigarettes/alcohol	\$
Religious/charity	\$

### Monthly Expenses

Car payment #1	\$
Car payment #2	\$
Gasoline	\$
Maintenance/repairs	\$
Auto insurance	\$
Auto registration	\$
Tolls/parking/mass transit	\$
Other	\$
<b>Total monthly expenses</b>	=

### 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	\$
<b>Total monthly income</b>	=

### Net

Total monthly income	\$
Total monthly expenses	-
Over/under	=

## Advantages and Disadvantages of New, Used and Leased Cars

### Buying A New Car

Advantages	Disadvantages
<p>You can order the exact make, model and options that are most important to you.</p> <p>There are consumer protection laws on your side.</p> <p>The car has value and becomes an asset as the loan is repaid.</p> <p>New cars are typically most reliable.</p> <p>Most warranties cover repairs and parts.</p>	<p>New cars can be very expensive – with a high purchase price, requirements for full insurance coverage, and costly registration fees.</p> <p>The value of the car depreciates almost immediately.</p>

### Buying A Used Car

Advantages	Disadvantages
<p>You may be able to use savings to purchase the car outright.</p> <p>Used cars are less expensive than new cars.</p> <p>As loan is repaid, the car becomes an asset.</p>	<p>A used car's history is usually unknown. It may have been insufficiently maintained, and therefore less reliable.</p> <p>Used cars rarely have warranties.</p> <p>Older cars tend to wear out – the maintenance cost increases over time.</p>

### Leasing A Car

Advantages	Disadvantages
<p>The monthly payments are comparatively low.</p> <p>Leases are relatively short-term, so you can drive a new car every few years.</p> <p>Typically, leased cars have comprehensive warranties.</p> <p>The required up-front cost of a leased car is low.</p> <p>You can often get a luxurious model for small monthly payments.</p>	<p>The car does not belong to you.</p> <p>It is very difficult and expensive to get out of a lease contract.</p> <p>The cost of insuring a leased vehicle can be very high.</p> <p>You must have good credit.</p> <p>They come with mileage limitations – often 10,000-15,000 per year.</p> <p>You must pay for any additional mileage or damage beyond basic wear and tear.</p>

## Credit Reports and Credit History

Your credit history will have a serious impact on the interest rate you will be offered. The better your credit score, the better rate you will be eligible for. Other factors, such as length of employment, income, and expenses may also be considered when determining the type of financing you may qualify for.

If your credit report isn't perfect, you may consider having someone with good credit co-sign the loan for you. Be cautious about using this option though, as the cosigner assumes equal responsibility for the repayment of the loan. Any late or missed payments will appear on each of your credit reports.

Some financial institutions may offer special loans for first time buyers. These may enable you to get a loan at a reasonable rate even if you have a limited credit history.

## Financing Options and Implications

Because financing increases the total cost of the car, the loan you get is very important. Make sure you understand the following aspects of the loan agreement before you sign any documents:

- Exact price you're paying for the vehicle
- Amount you're financing and finance charge
- Annual percentage rate (APR)
- Number and amount of payments
- Total sales price

## Shop for the Best Deal

The total amount you will pay for your car depends on its price, the annual percentage rate (APR), and the length of the loan. When shopping for the best deal:

- Don't be fooled by an advertised low monthly payment – if the length of the loan is long and the interest rate high, you may be paying more.
- Be wary of extremely low promotional APRs. Though you may qualify for particularly low rates by making a large down payment, it may be more affordable to pay higher financing charges on a car that is lower in price or to buy a car that requires a smaller down payment.
- Look for manufacturer's incentives. Dealers may offer cash back on specific models.



## Beware Zero Percent Financing

Zero percent financing sounds like an amazing bargain – after all, how can you beat a no interest loan? Often, you can. Such “deals” frequently come with inflated prices for extended warranties and loan insurance, high application fees, and pre-payment penalties. And because you forfeit the rebate option, you end up paying a higher price for the car. You may also be required to repay the car in three years or fewer – resulting in a very high monthly payment. See Table A below.

While the 0% interest offer seems to make sense, giving up the rebate and having a short-term loan can make for pretty steep monthly payments. And in the long term, it only costs \$60 more to take the 5% loan over five years, with much more reasonable payments.

Zero percent financing can be elusive. It is only offered to those with very good credit, as determined by the lender. And it is often not available for the most popular cars and trucks.

**Table A: Zero Percent Financing**

Price	\$20,000	\$20,000
Down Payment	– \$2,000	– \$2,000
Manufacturer Rebate	– \$2,000	– 0
Amount to Finance	= \$16,000	= \$18,000
Interest	5% interest loan	0% dealer loan
Loan Period	60 months	36 months
Monthly Payment	\$301	\$500
Total Cost	\$18,060	\$18,000

## Dealer and Finance Company Loans

At an auto dealership, you will be encouraged to use dealer financing. While not all dealer loans are bad, in most cases a loan from your financial institution will be preferable. Table B below shows the difference between a loan at 5% interest (a good rate), and one at 15% (a rate often offered by finance companies). The higher interest rate increases the loan payment by \$80 per month, resulting in an increased total cost of nearly \$4800.

**Table B: Comparison of Dealer**

Amount Financed	\$16,000	\$16,000
Interest	5% interest loan	15% interest loan
Loan Period	60 months	60 months
Monthly Payment	\$301	\$381
Total Cost	\$18,060	\$22,838

## Be Prepared

Never walk onto a car lot unprepared. Before you go, you should already know:

- The model and options you are looking for
- Your transportation needs
- How much you are willing to spend
- How much you can afford to finance
- How much you can spend on a monthly payment

Gain a good understanding of price, models and features by conducting research using car-buying magazines, books, and the Internet. Be sure to compare models and prices in ads and at dealer showrooms. Visit your financial institution before you shop, so you can seek your vehicle armed with the knowledge of how much you can spend.



## Used Car Test Drive Checklist

### Before you drive

- Get the Vehicle Identification Number (VIN) so you can check the vehicle history report at [www.dmv.org](http://www.dmv.org) or with another vehicle history report provider.
- Check the National Highway Traffic Safety Administration's website at [www.nhtsa.gov](http://www.nhtsa.gov) for any recall information.
- If you have a friend or relative who is experienced with cars, bring that person along for the test drive.

### Engine

- Check the engine oil, transmission fluid and coolant levels when the engine is cool.
- Examine hoses and belts for signs of excessive wear.
- With the engine running, listen for any knocking, ticking or tapping.

### Exterior

- Confirm the VIN. In more recent models it's usually visible at the bottom of the front window on the driver's side.
- Check the car's body for potential signs of undisclosed accidents, like unevenness in the paint or ripples or dents in the exterior.
- Check the ground beneath the car before and after the engine has been running to see if there are any fluid leaks.
- Take out your ruler and place it inside one of the grooves of the tire's tread. The tires should have at least  $\frac{1}{4}$  inch of tread.
- Check the tires for signs of excessive or uneven wear, cracks or splitting.
- Make sure the tires have no objects lodged in them, like nails or screws.
- When you check for rust, pay special attention to the underside of the car, the wheel wells, the edges of doors and windows, and the trunk.

## Interior

- Are there any rips or stains on the seats?
- How does it smell?
- Do the heating and air conditioning work?
- Test the horn, turn signals, windshield wipers, door locks and dome lights.
- If you have a child who uses a safety seat, check to make sure your safety seat will work with the vehicle.
- Turn the key to the accessory position – the one right before the engine is engaged – and make sure all the dash warning lights illuminate.

## Windows

- Are there any cracks that could develop into bigger problems?
- Do all the windows go both down and up?

## Driving

- Does the transmission shift gears smoothly?
- If the car has a manual transmission, is the clutch easy to engage and are the gears easy to shift?
- Briefly take your hands off the wheel while you are driving at a low speed. Does the car veer to one side?
- When your car is idling at a stop sign or light, does the engine sputter? Does it lurch forward when you take your foot off the brake?
- Does the car vibrate excessively at high speeds?
- Does the cruise control work?
- Are there blind spots that could make lane changes difficult or dangerous?
- Intentionally hit a few bumps to see how the suspension feels on uneven surfaces.
- In an empty part of a parking lot, turn the wheel as far as it will go to both sides while you are driving and listen for any strange noises.



- While you are still in the parking lot, apply the brakes quickly and firmly while driving at 30mph.
- Look at the gauges while you are driving in the parking lot to make sure they all work and that no warning lights are on.

## Other

- Does the car have a spare tire (in good condition), jack and tire iron?
- Check that all the lights work, including the break and hazard lights.
- Open and close and lock and unlock anything that will – all doors, sunroof, trunk, glove box, etc.
- If you can afford to, have a trusted mechanic check out the car for you.

## Negotiate

To get the best price on your new car, you will often have to negotiate with the salesperson. Honing your bargaining skills will be worth it to you in the end, as it can often save you 10-20% of the advertised price. You may be able to negotiate a particularly good price on overstocked or less popular cars.

But remember – a deal isn't a deal if you end up with a car you don't really want. Sometimes ordering a car will save you more money than negotiating for one on the lot, as you won't be paying for unnecessary options.

## Trade in Your Old Car

If you already have a vehicle, you will likely be selling it and using the profit to pay for all or part of your new car. To get the best price, make sure you know your car's worth. Check reference books or the Internet to know its value (try [www.kbb.com](http://www.kbb.com) and [www.nada.com](http://www.nada.com)). After that, you have two options:

- Sell the car yourself. You will usually get the best price this way, but will have to allow for the time it takes to sell, as well as the effort of placing the ad, talking to and seeing a lot of people, and negotiating with buyers.
- Trade-in to the dealer. This is often the easiest option, though typically not the best deal. To ensure you get the most from a trade-in, do so only after you've negotiated the best possible price for your new car.

## Save on Car Insurance

Car insurance premiums (monthly payments) can be a substantial expense. However, you can improve your chances of getting the best deal.

- Improve your credit score. Insurers may use your credit score to determine the premium. Pay down excessive unsecured debt, pay off collection accounts, and pay your current financial obligations on time, every time.
- Establish long-term residence or become a homeowner – both connote responsibility.
- Avoid tickets, particularly moving violations. Attend traffic school if you can't.
- Lower your coverage amounts and increase your deductible. If you are a careful driver with a good driving history, it may be worth the risk.
- Buy a used car – premiums are cheaper.
- Avoid 4-wheel drive and high performance cars, which often carry higher premiums.
- Compare prices from local and national companies.

## Leasing and Lending Laws

The following federal laws protect your rights as a consumer.

### **Truth in Lending Act**

Requires creditors to provide written disclosure of APR, total finance charges, monthly payment amount, payment due dates, total amount being financed, length of the credit agreement, and any charges for late payments.

### **Federal Consumer Leasing Act**

Requires the leasing company to disclose the total amount of the initial payment, the number and amounts of monthly payments, all fees charged, annual mileage allowance, whether the lease can be terminated early, whether the car can be purchased at the end of the lease, the price to buy at the end of the lease, and any extra payments that may be required at the end of the lease.

### **Credit Practices Rule**

Requires creditors to provide a written notice to potential co-signers of their liability if the other person fails to pay.

### **Equal Credit Opportunity Act**

Prohibits discrimination related to credit because of gender, race, color, marital status, religion, national origin or age.

### Federal and State Agencies

- Federal Trade Commission  
877.382.4357  
[www.ftc.gov](http://www.ftc.gov)
- Federal Reserve System  
888.851.1920  
[www.federalreserveconsumerhelp.gov](http://www.federalreserveconsumerhelp.gov)
- Better Business Bureau  
703.276.0100  
[www.bbb.org](http://www.bbb.org)

Some state laws may provide you with additional rights. Contact your state's consumer protection agency or Attorney General's office ([www.naag.org](http://www.naag.org)).