



# Buying a Car

Buying a car is the first major purchase for most individuals. Unfortunately, confusing pricing, terms, and ancillary costs can make the purchase a stressful and trying time for many. Financial education will assist in the car buying process, and help ensure you are receiving the best overall value for your purchase.

## Car Sales Defined

A **new car** purchase is when an automobile, which was never previously owned, is purchased directly from a recognized dealer.

A **used car** purchase is when a previously owned automobile is purchased from a recognized auto dealer or other car-selling business.

A **private sale** is when an automobile is sold from one individual to another.

## Car Lease

Leasing a car has become a popular option to drive a new car at an affordable price. Instead of financing the total amount of the car, financing is based on the car's **residual value**, the car's value at the end of the lease. The higher the value, the less an individual will finance. Lease terms typically last between two to three years.

Frank purchases a \$25,000 car which he finances for 60-months at 3.25% interest. His monthly payment will be **\$452.00**.

Kayla leases the same car for a 36-month lease, at 3.25% interest, with a residual value of 55%. Her monthly lease payment will be **\$328.00**.

While the monthly payment is considerably less with the lease, there are potential drawbacks to consider before agreeing to lease a car.

- Unlike a car purchase, you don't own the car at the end of the lease. You have the option to purchase the car at the residual value or look for another car, which means you are typically making payments longer.
- Leases restrict the number of miles you can drive and charges a fee for every mile driven over the limit.
- A lease requires you to keep up with routine maintenance such as oil changes, tire rotation, fluid replacement, etc.

## Conducting Research

You can easily start the car buying process online from the comfort of your home, without the pressure of a salesperson, using independent online resources.

The **Manufacturer Standard Retail Price (MSRP)** is often referred to as the sticker price, the price that is displayed on the car window.

The **Invoice price** is the price the manufacturer charged to the dealer. This is typically thousands of dollars less than the sticker price. Dealers typically pay even less than the invoice price for the car after factoring in rebates and other incentives. For this reason, the invoice price is a common price to negotiate.

**NADA** and **Kelly Blue Book** are industry standards for calculating the value of used cars. Most financial institutions rely on one of these two resources. Additional, reputable online resources include Edmunds.com and Consumer Reports.

A **Customer Rebate** is a dollar amount discount offered by the manufacturer to the customer as an incentive to purchase a car.

**Promotional Financing**, as low as 0%, is another incentive offered by the manufacturer. Customers usually require a minimum credit score to qualify.

Prior to visiting the dealer, be sure to get pre-approved financing from your credit union. This will provide you with the confidence and knowledge that you are getting the monthly payment you are comfortable with for your budget.



**Horizon Tip:** Customers can usually take advantage of either a cash back rebate or special financing, not both. To determine the best deal, calculate the payments on your own. It may be a better deal to accept the cash rebate and secure your own financing at your own credit union

## Car Insurance

Part of your car budget should include the cost of insurance. If you are a newer driver, you may find yourself paying as much per month for insurance as you will for a car payment. When securing car insurance, consider these tips:

- **Shop around.** The company offering the best rates and terms for your parents may not offer the best for you.
- **Ask for discounts.** Many of the top insurance companies offer discounts for students with good grades or those who have completed a driver's education program.
- **Limit your mileage.** Many companies also offer discounts if you drive a limited number of miles per month. Discounts are also often available to students away at school who leave their car at home.
- **Consider the car's safety features.** Cars with advanced safety features; including multiple air bags, rear cameras, lane departure systems, and anti-theft systems will result in lower premiums.

## Negotiating the Best Deal

Once you have decided on the right car for you, it is time to start negotiating. Almost everything is negotiable; price, term, and add-ons – and it applies whether you are purchasing a new or used car, or leasing. Here are some tips:

- **Know your numbers.** This is where research is key. Before you start negotiating it is important to know the invoice price, eligible rebates and promotions, interest rates at your financial institution, and anything else you can learn. The more facts you have at your disposal, the better your position to negotiate.
- **Focus on purchase price.** Dealerships are notorious for focusing on the monthly payment, deflecting the purchase amount and interest rate. Here is what happens if you only focus on monthly payment; in this example an approximate amount of \$350.00:

\$20,000 financed at 2.75% for 5 years is \$357.16 monthly.

\$22,500 financed at 4.00% for 6 years is \$352.02 monthly.

If you focus solely on payment, the second option seems like a better deal. However, the individual will pay \$2,500 more for the car and an additional \$1,415 in interest with the second option.

- **Beware of Add-Ons.** As consumers have become more savvy to the car's invoice price, dealers have relied on selling add-ons to increase their profit margin. Paint protection, Scotch Guarding, Rustproofing are all minimum expenses that dealers often charge hundreds of dollars to add to the final price. Other popular add-ons include window tinting, car alarm, remote start, extended warranty, GAP, and maintenance plan.



**Horizon Tip:** Determine the value of each additional item on a case-by-case basis. A remote start may be worth the extra cost (especially in January and July), could add to the car's resale value, and be better to install at the dealer than a third-party supplier.

## Understanding GAP

**Guaranteed Asset Protection, GAP Insurance**, covers the difference between the car's value and the remaining loan balance. Typically, a car will lose 20%-25% of its value within the first year, and gradually continue to decrease in value in subsequent years. Let's say your car was stolen or **totaled**, damaged to the extent it cost more to repair than to replace. Your insurance company will pay out the amount the car was worth at the time, which may be less than what you owe to pay off the loan. GAP Insurance covers the difference, often includes your deductible, and may provide a rebate if you purchase a new car with GAP.

## Trouble Getting Approved On Your Own

If you have poor or insignificant credit, or just started a job, you may not be able to get approved for the loan on your own. In this case, you will require some help.

A **co-signer** is someone with a solid credit history who guarantees the loan will be paid. In the event the borrower becomes delinquent on the loan, the co-signer promises to assume responsibility for the payments.

A **co-borrower** is someone who, is equally responsible for paying back the loan, and whose income will be factored into the capacity to afford the loan payments. Any adult with sufficient credit can be a co-signer. For young adults building their credit, parents or family members are usually among the first people to ask. Be aware, if you become delinquent on the loan, the payments will be the responsibility of the co-signer and could cause them undue financial burden and/or harm to their own credit score.



**Horizon Tip:** If your loan required a co-signer, or was assigned a higher interest rate, you may be able to refinance the loan. After making a year's worth of on-time payments, your credit score may improve to a point you would be eligible for a loan in just your name at a lower interest rate than before.

Embark on your financial journey  
with Horizon today!



Give us a call at  
570-326-3636



Visit us online at  
[horizonfcu.org](http://horizonfcu.org)



Visit your nearest branch  
location

Federally Insured by

**NCUA**

