

Buying a Car

Buying a car is a complicated financial decision that involves a number of important choices.

Factors considered by most car buyers include new vs. used, paying in full vs. financing, and what you want vs. what you need. And to make matters worse, the final price you pay is often determined by negotiation, so it can be hard to tell whether or not you are ultimately getting a fair deal.

Determining the right car is a decision only you can make, and there are a host of options to consider when determining the make and model. In car language, the “make” is the brand and “model” is a particular car type manufactured under that brand.

Here are some factors you will want to consider when making your decision:

Fuel Expenses

Depending on the type of car and how many miles you drive, simply keeping fuel in the tank could be one of your biggest expenses.

Some people need the extra passenger or cargo room offered by a SUV or pickup truck, or they plan to drive off road. Others like the *idea* of a SUV or truck, but will probably not use the extra space or power. But owners of larger vehicles will pay higher fuel costs than owners of smaller vehicles.

Insurance Expenses

Many car buyers get an unpleasant surprise after they purchase their car – an insurance quote. In fact, the cost of insuring a car can be one of the main expenses, especially if you choose a sporty car or have a history of traffic accidents or violations. Always get an insurance quote before buying a car.

Reliability, Maintenance and Repairs

Unfortunately, all cars are not made to the same quality and reliability standards. And this difference is reflected in factors such as repair costs, the inconvenience of missing work or school because of trips to the repair shop, your safety in the event of an accident, and how much value the car loses over time.

One of the easiest expenses to overlook when considering a car purchase is the cost of maintenance and unforeseen repairs. Consider the difference in total maintenance costs between a car that requires scheduled maintenance every 15,000 miles, compared with a car that requires no maintenance other than oil changes and tire rotations until 100,000 miles.

Depending on the cars involved, the difference could be thousands of dollars over five years.

But the biggest out-of-pocket expense you are likely to face, particularly with used cars, is out of warranty repair. Not only do repairs cost money, you may have to miss work because of time spent at the repair shop – making a repair cost even more.

The best way to minimize repair cost is to buy a well-maintained car from a dependable manufacturer. Independent, non-profit publications such as Consumer Reports publish detailed reliability rankings each year that you can find at your local library.

Depreciation

Another concept to consider is depreciation - the amount in value that a car loses each year. Every car depreciates, but the amount of depreciation varies widely between makes and models. New cars also depreciate considerably faster than used cars. In fact, the average new car loses around 40% of its value in the first two years alone.

Considering depreciation and financing costs, one situation many car buyers find themselves in is being in an “upside down” loan, meaning they owe more on the loan than the car is worth. So in the event you wanted to sell the car and pay off the loan, you would have to not only sell the car, but you would have to actually pay your lender additional money. And since lenders use your car as collateral and actually hold the title to the loan, you cannot sell the car unless you can pay off the loan.

The best way to avoid an upside down loan is to make a substantial down payment (20% or more) and keep the financing term as short as possible – preferably three years and no more than five. Buying a car that keeps more of its value is a solid strategy, as is buying a slightly used car.

Total Cost of Ownership

When considering how much to spend for a car, most people think only in terms of monthly payment – a mistake that ignores the many other expenses listed above.

To minimize the total cost of owning a car, choose a fuel-efficient model, consider a used car rather than a new car, and minimize financing costs by financing for 36 months (or use a cosigner to qualify for a lower interest rate loan).