Money Secret: How to Save Money on Cars

New vs. Used?

New cars have:
- High initial depreciation (when the value of the car decreases - There is about a 10% decrease in value as soon as your car leaves the lot!)
- Lower maintenance costs

Used cars have:
- Lower depreciation
- Higher maintenance costs
- If you are going to keep it for five years or less, a lower mileage used car might be a better option

NOTE: Most students do choose to go with a used car.
Amounts spent vary. The range is $3,000 to $10,000.

- Most cars get around 150,000-200,000 miles on average. If you buy a used car, you will get 150,000-200,000 miles minus the current number of miles already on the car.
- In general, it’s important to buy for reliability and fuel efficiency. A reliable and fuel efficient car will save you thousands over the long haul.

Ex. You drive a vehicle for 80,000 miles. A 25 miles per gallon car over a 15 miles per gallon car will save you 2,133 gallons of gas, at least $6,400 in savings.

Prepared for Finding Financing

#1: Clean up your credit report.
- Go to annualcreditreport.com - Experian
- If there are any mistakes and/or negative information, you can easily fix them online
- Ex. A student had a 4-year old late payment (would go off in 7 years)

#2: If you have no or little credit, arrange a co-signer.
- A co-signer is someone who must be willing to sign a contract and pledge that he/she will pay the lender all amounts due on the loan, in the event that you do not
- Produce evidence of sufficient income and/or assets to cover the amount of the loan
- Show stability in employment and residence

Research

Know that Sticker Price is Worthless!
- The amount the dealer is asking for IS NOT what you want to pay.
- Dealer’s True Cost = Invoice Price – Incentives – Holdbacks
- Incentives = From manufacturer if dealer sells
- Holdbacks = Help dealer finance the inventory on the lot - Manufacturer sends the dealer the holdback percentage from each sale

Example Comparison

2008 Toyota Camry LE
- $8,995 What dealer is asking
- $8,765 Blue Book
- 58,427 Miles
- City 23/Hwy 30/Comb 24 MPG
- Insurance Quote from All State: $55/mo.

This student decided on the Camry due to the good fuel mileage and low miles. The insurance is also around what he would like to pay.

Wait! He also needs to plan to pay taxes and registration, which he found at: nebraska.gov

Registration & Plate Fees = $41  Motor Vehicle Tax = $82  Sales Tax = $495
Has Savings of $3,000 - Down payment $1,800 - Tax & Fees $617
* No financing for these costs *

How Much You Can Afford

Try using the 20-4-10 Rule to get a car you can comfortably afford.
- Put down a 20 percent down payment
- Have financing that lasts no longer than four years
- Principal, interest and insurance that doesn’t exceed 10 percent of your gross household income

What if your income is low and you want to go above 10%? It’s generally okay - if you’ve figured out exactly how much you have to spend on your car each month.

Example for Student with $17,800 Gross Income

10% = $148
$50 = Insurance
$98 = Principal & Interest
3.4% = Average interest
4 years = Loan term
$4,500 = Loan total
$900 = Down payment
$5,400 = Total purchase price

$250
$50 = Insurance
$202 = Principal & Interest
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4 years = Loan term
$900 = Loan total
$1,800 = Down payment
$10,800 = Total purchase price

Notes:
He estimated insurance rates based on his current insurance rate. He estimated interest rates by pulling his credit score at creditkarma.com and researching current interest rates. He used the car loan calculator available at kbb.com/LoanCalculator

What You Need to Know
- The True Market Value or Blue Book Value = The actual market value of the car
- Kelley Blue Book - www.kbb.com
- Autotrader - www.autotrader.com
- Edmunds - www.edmunds.com

Resources Where You Can Compare Cards & Get the True Market Value
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Tips for Navigating the Car-Buying Process

Before You Step on the Lot, Get Preapproved for Financing at a Bank or Credit Union
You can “shop” for loans within 30 days & not harm your credit score.

About Dealership Financing Pros:
• Convenient & fast

Cons:
• High pressure
• Usually interest rates are higher than banks & credit unions
• Big sales push on add-ons
• Loans are often front-loaded (payments are made up of more interest in the beginning of the loan than toward the end – that’s bad if you think you may be paying the loan off early)

About Bank or Credit Union Financing Pros:
• Competitive interest rates
• Personal service
• No sales pitch for add-ons
• Know if you’re paying too much for a car
• Often provide free life insurance or disability insurance with loans
• Loans are usually simple interest loans (interest spread evenly over the term of the loan)

Following are some current interest rates:

<table>
<thead>
<tr>
<th>Credit Score</th>
<th>Bank</th>
<th>Credit Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>720-</td>
<td>3.20%</td>
<td>2.88%</td>
</tr>
<tr>
<td>700-719</td>
<td>3.31%</td>
<td>3.34%</td>
</tr>
<tr>
<td>670-699</td>
<td>4.83%</td>
<td>4.18%</td>
</tr>
</tbody>
</table>

Negotiate!
• Bring your Kelly’s Blue Book or other True Market Value printout to show you have done your research on this
• Focus any negotiation on the market value
• Keep in mind that about 2% of the sale price is a favorable profit for the dealer
• Remember that their invoice price IS NOT what they’ve paid, even if they say it is
They get holdbacks and incentives from the car manufacturer

Don’t Talk About Trade-Ins
• If the dealer knows you’re trading in, they will try to confuse you with numbers
• Negotiate the sale price of the car you are trying to buy first
• Once you have a firm sale price you can start negotiating the price of your trade-in
• Know the true market value for your trade in so you know what you should be getting
• Carry yourself with confidence! Be relaxed & ready to walk out if you aren’t offered a good deal

Time Your Shopping
• Stay away from Mid-February through early June
People spending their tax refunds run up used car prices
• Buy new cars when the model year ends
September-December
• You may get a better deal towards the end of the month, but don’t count on it
• Visit in poor weather conditions and show up an hour before closing time - Dealers might be more eager to close the sale

Before You Buy
Used cars are sold “AS IS” with no guarantees or warranties! "AS IS" means you accept the car with all of its problems, whether they are known to you at the time of purchase or not.

What should you do to protect yourself?
• Have the car checked out by a qualified and trustworthy mechanic of your choice BEFORE you buy it or put down a deposit. This costs $75 to $100 and it can save you from a bad deal and thousands of dollars in car repairs
• Review the car’s repair and maintenance records [carfax.com]
• Look for signs that the auto has been involved in an accident

If you have questions, Student Legal Services (3rd floor - City Union) will review any proposed contract before you sign the contract.

After You Buy: Registering Your Car
In Transit stickers are only valid if they are from the dealer and are good for 30 days. If you get stopped, register the vehicle within 10 days of the ticket.

Pay Registration & Taxes at:
Department of Motor Vehicles
625 North 46th Street
Lincoln, NE 68503
(402) 441-7497

Estimate costs at:
http://www.nebraska.gov/dmv_cgi/vte/cgi/dmv cgi

Motor Vehicle Tax is based upon the MSRP (Manufacturer’s Suggested Retail Price) of the vehicle. The MSRP on a vehicle is set by the manufacturer and can never be changed.

Motor Vehicle Fee is based upon the weight and use of the vehicle and is adjusted as the vehicle ages.

After You Buy: Insurance
• Liability insurance covers damage to the other person’s vehicle ONLY and for injuries up to the policy limits
• To cover damage to your own vehicle you will need to purchase comprehensive or collision coverage
• If you own or drive a car, you must purchase liability insurance - The minimum liability insurance required by law is:
  • $25,000 for each person, $50,000 for each accident, and $25,000 property damage
Nebraska’s comparative negligence law means that if you are in an accident and you are 20% negligent while the other driver is 80% negligent, you can recover 80% of your damages from the other driver and his insurance company. With collision insurance your own insurance company will cover the remaining 20%.

If You Have a Lemon
If you have purchased a new car that is having constant, serious repair problems, Nebraska has a “LEMON LAW.” This applies to you if:
• The manufacturer or dealer are unable, after a reasonable number of attempts, to repair or correct any defect which substantially impairs the use and market value of the motor vehicle to the buyer
• Reasonable number is four or more attempts to fix the same problem or the car is out of service by reason of repair for a total of more than 40 days
• The problem must not be the result of abuse, neglect, or unauthorized modifications of the car by the buyer

If this applies to you, visit Student Legal Services (City Union).