

Save On That Auto!

The NPERS publication titled, “Where Did Your Money Go?” reviewed the three main sources of fixed debt—mortgages, car loans, and school loans—and how to calculate a “Debt to Income” ratio (DTI). This companion article will examine car payments and provide tips on how to navigate the process of purchasing an automobile.



Don't Spend Too Much

Everyone loves a shiny new car, but unlike a house or higher education, they should not be considered an investment. The vast majority of vehicles will decrease in value over their lifetime. Unfortunately, we often spend more than we should on them, thereby reducing funds that could have been allocated to down payments for a home or saving for retirement.

Many auto industry “experts” recommend car payments consume no more than 20% of monthly income. This is too much to allocate on an asset that will depreciate in value. A better rule of thumb is to limit the *total* purchase price to one-third or less of your annual gross income. An individual making \$30,000 a year (pre-tax) should spend no more than \$10,000.

Set your budget and stick with it! Once you are on the lot you may be tempted by that nicer vehicle that is just a bit out of your price range. Don't be lured into long term financing that would lower your monthly payment.

Depending on the financing, one extra year of payments can add thousands to the overall cost of the vehicle. In addition, when *finally* paid in full it will be one year older with a lower resale value. Focus on the overall price of the vehicle, not the monthly payment.

Patience is a Virtue

Never make an “impulse” purchase. Individuals who wander onto a car lot, look at the inventory, test drive one or two cars, and then “sign on the dotted line” are running the risk of buying the wrong vehicle—at the wrong price.

Do your research prior to kicking tires. After you have calculated the maximum amount you can spend, then determine the features you need. Consider seating, fuel economy, and operating costs including insurance and yearly taxes. Avoid the temptation to purchase a vehicle based on emotional, rather than real world needs.

Once you have a price range and a good understanding of your requirements, now you can begin the process

of researching makes and models. Try to narrow your search to vehicles that meet these needs. There are many on-line sources of automotive information that can assist with this process providing reviews and pricing. Make sure you are knowledgeable of the make/model/year of the vehicles you have selected and the fair market prices for your area of the country.

New or Used?

There is no denying the joy of ordering and owning a brand new car. A vehicle custom built for you with no potential history of poor maintenance or abuse is a beautiful thing. You might find a dealer offering rebates and financing that will drop the price of a new car into your budget. The downside is most new cars will depreciate significantly in the first two or three years of ownership. Buying a three or four year old vehicle will generally save you as much as 30% to 40% and allow you to purchase a make or model that would otherwise be outside your price range.

Most manufacturers have made improvements in design and build quality in recent years and newer model used cars generally last longer and have fewer maintenance issues. The problem with buying a pre-owned vehicle is the potential for ending up owning someone else's "lemon." There are steps you can take to reduce this risk.

Test drive and inspect.

During daylight, inspect the vehicle making sure to note any damage to the body, tire wear, and cleanliness of the engine compartment. Make sure all electrical devices function correctly including the wipers, radio, door locks, power windows, etc. During the test drive, turn off the radio and listen carefully for noises that may indicate mechanical issues. Does the vehicle start promptly and accelerate and stop smoothly? Is the seat comfortable? Does the air conditioner and heater work properly? Create a checklist prior to the inspection. If you need help, there are online resources that can recommend a list of items to review. Lastly, always have a final inspection done by your mechanic. If the seller refuses to allow this—then walk away.

Ensure the vehicle has a clean title.

There are multiple firms that can research the history of a used vehicle by its Vehicle Identification Number (VIN). Look for a history of prior accidents or other damage. Make sure the mileage reported in the past makes sense for the current odometer reading. If the car has a salvage title, it's best to walk away. You may get a lower price, but you will also have a lower resale value when the time comes to sell or trade-in.

Is there "life" left in the original warranty?

Most manufacturers limit basic warranty coverage to three years or 36,000 miles. A few may offer up to four or five years with higher mileage limits, and many will extend the coverage for the powertrain up to five or six years and 100,000 miles. A vehicle with remaining coverage is worth more, but

make sure the warranty will transfer if you purchase the vehicle.

Buy a certified pre-owned vehicle.

Many dealers now offer factory certified pre-owned vehicles. While slightly higher in price, these cars have been inspected and repaired as needed by the dealer and are sold with a new warranty. When buying a certified vehicle, make sure the manufacturer—not the local dealer—stands behind the certification and warranty. A factory certified warranty will be honored at other dealerships nationwide. Be sure to carefully read the warranty and review the certification checklist to ensure you understand what is covered and all major components of the vehicle were inspected.

Financing Matters

Get a pre-approved loan in advance. This opens up the ability to purchase from a private party and allows you to shop around for the best rates. Credit unions generally provide the lowest rates and a motivated dealer may offer an even lower rate.

Shop Around

Once you've narrowed down your desired vehicle options, it's time to start searching. Online websites such as AutoTrader or Cars.com allow you to peruse inventory and pricing for both local car lots/dealers and private sellers. Check the want ads in the local newspaper. Many areas of the country have third-party publications at the front of local stores with used car listings. Once you have identified all the potential purchase options/prices available, it's finally time to grab your inspection checklist and go shopping.

Negotiate!

You have finally found the vehicle(s) that meets your needs and now it's time to buy. Before starting the negotiations, be sure to mention you are aware of the book value of the car and

indicate you are checking out multiple vehicles. Never lead the seller to believe this is your "dream" car.

Now it's time to make your offer. You can start with an initial "low" offer and then begin the back and forth "haggle" or simply state the price you are willing to pay based on your research and stipulate that is your one and only offer. If negotiations are stalling, politely thank them for their time and walk away.

Final Thoughts/Tips

If you have a current vehicle it may be best to sell it yourself. In many circumstances you can get more from a private buyer than the trade-in amount offered by a dealer. If you prefer to trade-in your old car, first establish the purchase price for your new vehicle before discussing the trade-in. Make sure you have a solid idea of the value of your trade-in and be prepared to refuse to sell if you aren't getting a reasonable offer.

It's been said the best time to buy a new car is in late December when dealers are trying to reduce inventory. As for used, many recommend waiting until the end of the month. Salesmen may be trying to make quota and a used car that has been on the lot for more than 60 days is a deal waiting to happen. Shop during "low traffic" times when there are few other shoppers on the lot. Avoid weekend afternoons.

Watch out for additional "add-ons" increasing the price. Dealers may try to add items like rust-proofing, paint sealant, extended warranties, or "prepping" to inflate the negotiated price. Again, stick to your negotiated price and walk away if necessary.

Understand the contents of the sales contract. If there is any part of the paperwork you do not understand or if the numbers are not adding up, then be sure you resolve this before signing.

Remember, this is a major purchase. Don't rush the process. It may take time to find the right car at the right price.