Neighborhood
CREDIT UNION

Buying a Car

PARTICIPANT'S GUIDE

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Your Car Buying Guide

The information in this guide may be used to assist you in shopping for a vehicle and negotiating with dealers and lenders.

"Must-Haves" vs. "Nice-to-Haves"

Use the spaces provided to brainstorm what you need *and what you* want *in a vehicle.*

Must-Haves: What do you need in a vehicle?

Nice-to-Haves: What do you want in a vehicle?

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Costs of Buying and Owning a Vehicle

Before shopping for a new car, it's important to know how much car you can afford. Using the monthly averages listed below, ***or*** *your current expenses, record how much you can afford to spend on a vehicle each month. If you know how much you can afford to spend in a month, you may want to work backwards.*

Monthly Averages[1]

Loan payments:	$500
Maintenance and fuel:	$225
Insurance:	$100
TOTAL:	**$825**

Your Budget

Monthly Car Payment	$
Car Insurance	$
Maintenance and Fuel	$
TOTAL:	$

Lowering Your Payments

How much of a down payment can you make? Can you trade in another vehicle you already own?

Cash down payment	$
Trade-in ACV	$
TOTAL:	$

[1] https://www.forbes.com/sites/jrose/2018/10/02/the-one-monthly-payment-killing-your-wealth/#3f033f9d43c1; https://newsroom.aaa.com/tag/cost-to-own-a-vehicle/; https://www.iii.org/fact-statistic/facts-statistics-auto-insurance

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Your Creditworthiness

Your Credit Report and Score

There are several agencies that calculate your credit score using a variety of information, including your payment history and the length of your credit history. Your score may also be available from the following sources:

- Your credit card company
- Your bank or lender
- Purchased through the credit reporting bureaus

My Credit Score: _____

Your DTI Ratio

List your debts and all of your sources of income. Then add up the totals in the space at the bottom of the chart. Use these totals to calculate your debt-to-income ratio, or DTI ratio.

Monthly Debts	÷	Monthly Gross Income	=	X 100 (DTI %)
Total: $	**÷**	**Total: $**	**=**	**%**

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The 20/4/10 Rule

The 20/4/10 Rule may help you determine if you can afford a particular vehicle when you begin shopping around.

Make at least a **20% down payment.**	Don't agree to more than a **4-year loan term.**	Spend no more than **10% of your gross income** on vehicle payment and vehicle insurance.

Complete the calculations to see what you can afford.

1. How much can you put toward a down payment and/or trade in?

$ _____ = $_____ purchase price you can afford
.20

2. What is your gross monthly income (income before taxes are taken out)?

$ _____ = $_____ what you can afford per month on a vehicle payment
.10 and vehicle insurance

**NOTE: Even though the 20/4/10 Rule is a smart tool for budgeting, it may not address your personal financial situation in the market.*

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Resources

Payment Options

	PROS	CONS
Cash Cash purchases are paid up-front. There is no need to take out a loan, because the vehicle is paid for outright.	• You will not have to pay interest. • You own the title of the vehicle immediately.	• It's difficult for many people to save enough to pay outright.
Direct Lending With direct lending, you get a loan directly from a financial institution (bank or credit union).	• You can shop around for the best deals. • You can work with your own trusted financial institution. • You can get approval for a loan amount before you start shopping so that you know what you can afford.	• Time and effort are required to find the best deal. • You may not be able to negotiate as much as you can with dealership financing. • The vehicle is typically used as collateral on the loan. If you cannot pay the loan, the vehicle may be repossessed.
Dealership Financing With dealership financing, the borrower signs an agreement with the car dealership at the time of purchase. The management of these agreements is usually processed or sold to a financial institution.	• It's convenient to buy a car and get financing at the same time. • Dealers sometimes offer special deals or will negotiate agreement terms.	• Your ability to shop around for different financing options is limited if you are negotiating with just one dealership. • The vehicle is typically used as collateral in the agreement. If you cannot pay the loan, the vehicle may be repossessed.
Leasing Leasing a car is like renting an apartment—you don't own it. You agree to lease the vehicle for a set time, after which the car is returned to the dealer.	• You may be able to switch out vehicles every few years and always drive a relatively new car. • Monthly lease rates are usually lower than finance payments. • Some leases have purchase options at the end of the lease term.	• Lease terms usually have usage rules. For instance, you may be charged extra if you put too many miles or too much wear on the car. • Sometimes, lease terms prohibit you from moving out of the area. • Because you do not actually own the car, you cannot sell it.

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Is Leasing Right for You?

1. Do you drive more than 10,000 miles per year?	**YES/NO**
2. Do you tend to put a lot of wear on your vehicle (scratches, dents, upholstery wear…)?	**YES/NO**
3. Do you plan to move out of the area in the next 2 to 3 years?	**YES/NO**
4. Do you want to be able to sell the vehicle later?	**YES/NO**

If you answered YES to any of these questions, leasing may **not** be the right option for you.

Your Credit Report

Getting your reports for free

You are entitled to receive one FREE credit report from each of the credit reporting bureaus every year. You can order your copies online at: www.annualcreditreport.com or by calling 1-877-322-8228. There are three credit reporting bureaus:

- **Transunion**: www.transunion.com
- **Equifax**: www.equifax.com
- **Experian**: www.experian.com

Checking for errors

Be sure to check your credit reports carefully for any errors, including:

- payments incorrectly marked as late;
- listed accounts that you did not sign up for; and
- incorrect Social Security numbers or other incorrect personal information.

Report any errors you find to the agency that recorded the error (the credit card company or bank, for instance) AND the credit reporting bureau(s). Follow these steps to report errors to the credit bureaus:

1. Notify them of the error in writing.
2. Include copies of any documents that support your claim.
3. Send all information by certified mail, and select “return receipt requested.”
4. Follow up with a phone call if you have not heard back in 30 days.

For more information about disputing errors, visit the Federal Trade Commission website at: consumer.ftc.gov.

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When You're Ready to Buy

Research your options

- Look at published car reviews from reputable companies, such as *Consumer Reports* (www.consumerreports.org).

- Research vehicle price ranges.
  - Consumer Reports: www.consumerreports.org
  - Kelley Blue Book: https://www.kbb.com/car-research/
  - Edmunds: https://www.edmunds.com/research/

Shop around

- Shop around at both local and online dealers.
- Shop around for financing options with both direct lenders and dealers.

Negotiate

- Negotiate the total cost of the car with the sales associate.
- Negotiate your loan terms. These may include interest rates, APR, and term length.

Loan Evaluation Worksheet

Use an online loan calculator to calculate the monthly payment and total payments.

Loan Terms	Example	Option 1	Option 2	Option3
Vehicle Cost (less trade-in and down payment)	$20,000			
Loan term length	4 years/48 months			
Interest rate or APR (use only one or the other for each option)	3.5%			
Monthly payment	$447.12			
Total payments over life of the loan	$21,461.76			

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Online Resources

Car reviews and price ranges

- Consumer Reports: www.consumerreports.org

Other resources on auto loans and leases

- Loans: https://www.consumerfinance.gov/consumer-tools/auto-loans/answers/
- Leases: https://www.consumer.ftc.gov/articles/0056-financing-or-leasing-car#ShouldIlease
- Federal Reserve Board "Key to Vehicle Leasing": www.federalreserve.gov/pubs/leasing

Industry resources

- National Auto Dealers Association (NADA): www.nada.org
- Americans Well-Informed on Automobile Retailing Economics (AWARE): www.autofinancing101.org

Credit reports and credit scoring

- Improving your credit score: https://www.federalreserve.gov/pubs/creditscore/creditscoretips_2.pdf
- Obtaining your credit report: www.annualcreditreport.com

Glossary

Actual cash value (ACV): the value of a vehicle according to industry standards.

Add-ons: extra features that can be added onto the base model of a vehicle. This may include features like daytime running lights, four-wheel drive, or GPS.

Amortizing loans: borrowers pay a set amount each month to pay off both the interest and the principal. A greater percentage is usually applied to interest at the beginning of the loan.

APR (Annual percentage rate): the cost of interest and fees a lender charges annually for financing.

Base price: how much a car costs without any add-ons or options.

Co-signer: someone, often a parent, relative, or friend, who agrees to pay the loan back if the borrower cannot. A co-signer may be needed if the buyer doesn't qualify for a loan on their own.

Creditworthiness: how lenders determine a person's ability to pay back a loan. This is based on a person's credit background and credit score.

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Credit report: information collected by the credit bureaus on a person's credit background.

Credit score: a number assigned to a person based on their credit background.

Down payment: an initial payment made toward the cost of the vehicle. It can be cash, trade-in, or both.

Debt-to-Income Ratio (or DTI): the amount of debt a person has compared to how much income they earn. A person's DTI helps give lenders an idea of their capacity to take on more debt.

Extended warranty: provides limited coverage after the manufacturer's warranty ends.

Financing: an agreement made with a dealer to purchase a vehicle if the buyer cannot pay in full. The buyer will likely be required to make monthly payments toward the purchase of the vehicle, and these payments may include interest and fees.

Interest: the amount charged to borrow money.

Loan term: the length of time it will take to pay back a loan. Generally, the longer the loan term, the more a borrower will pay.

Manufacturer incentives: special deals offered by manufacturers, usually on certain models during certain times of the year.

MSRP (Manufacturer's Suggested Retail Price): the price the car manufacturer suggests the car be sold for.

Principal: the money you originally agreed to pay back.

Rebate: an incentive, generally cash back on purchases, that manufacturers offer to get people to buy their vehicles.

Truth in Lending Act (TILA): a law that requires lenders (or dealers) to provide borrowers with written disclosures about the terms of a loan.

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