



Buy or Lease?  
New or Used?

## I Need Some Wheels

The first decision you will need to make when you are thinking about getting a car is whether to buy a new or used car. A car is an asset, an item of value that you own. Unfortunately it is a depreciating asset. This means that it is worth less as time goes on. When you drive your new (or used) car off the lot, the value starts to fall. So, is it smarter to lease a vehicle instead? In the next few slides we will look at the advantages and disadvantage of buying vs. leasing. We will also look at the differences between buying new or used.

## Buying a Car - Advantages

- Pride of ownership
- More economical
- No mileage penalty
- Increased flexibility



There are many advantages to buying a car. When you purchase a vehicle, it belongs to you. The first advantage to buying a vehicle is that you have the pride of ownership. You can add accessories and personalize it to meet your needs and wants. You can add an awesome stereo. You can add rims. You can put stickers on it. Basically, it is yours to do with as you please. You don't have to ask others for rides. You have your **own** car! If you take care of it, it will likely last many years.

The second advantage is that it is more economical in the long run. If you spread the cost of the vehicle over the years you own the vehicle, it will cost you less than leasing a car. For example: suppose you paid \$20,000 for a car. If you drive the car for five years, you basically paid \$4,000 a year. The longer you drive the car, the less you "paid" each year. If you keep the car for 10 years, you essentially only paid \$2,000 a year. The longer you own the car, the less it costs you in the long run.

When you lease a car, there is usually a mileage limit, or a limit on how many miles you can drive the car per year without being charged extra. The third advantage to owning a vehicle is that there is no mileage penalty. You can drive it as often or as little as you choose.

The final advantage is that you have increased flexibility. You can sell the car whenever you decide to. With a lease contract, you are locked into the vehicle for the length of the contract. Again, when you purchase a vehicle, it is yours to do with as you choose.

# Buying a Car - Disadvantages



- Higher down payment
- Higher monthly payments
- Responsible for maintenance costs once warranty expires
- Selling or trading may be a hassle
- Money is tied up in the car

There are also several disadvantages to buying a car. The first is that you will probably have to make a down payment on your purchase. This down payment is usually higher than the down payment to lease a vehicle.

Second, the monthly payments when you are buying a car are generally higher than lease payments. This is because you are paying interest on your loan when you buy.

The third disadvantage is that when you own a car, you are responsible for keeping it running. You have to pay for maintenance and repair costs. New tires, brakes, and other parts can be expensive. You will need to set aside money in your budget to cover expected and unexpected repairs.

The fourth disadvantage is the hassle of selling or trading-in your vehicle for another one. When you sell your car, you will need to determine a fair price and advertise the sale somehow. Then you have to be available to potential buyers who will want to see and drive the car. You may have to negotiate with potential buyers also. These things can be troublesome. When you decide to trade in your vehicle, you need to be sure you are getting a fair price for it from the dealer. Car dealers usually give you less money for the car than you would get if you sold it on your own.

The final disadvantage is that your future income is tied up in your car. When you buy a car, you are committing your future income to a monthly payment for 4 to 7 years.

## Leasing a Car - Advantages

- Lower monthly payments
- Lower down payment
- Drive a nicer car for less
- Lower repair costs
- Drive a new car every 2 or 3 years
- No trade-in hassles at the end of the lease
- Pay sales tax only on the portion of the car financed



When you lease a car, you are basically renting it for a long period of time, usually 2 to 3 years, and you have to give it back at the end of the lease.

There are some advantages to this. Leasing has become more popular because you can get a more expensive car for lower monthly payments. A lower down payment is another advantage to leasing. So, you can drive a nicer car for less each month.

The fourth advantage is that there are lower repair costs with leased vehicles. This is because with a 2 or 3 year lease, most repairs are covered under the manufacturer's warranty on the car.

The fifth advantage is that you can drive a new car every 2 or 3 years. Every time your lease expires, you can get a different car. This lets you take advantage of new styles and technology every few years.

There are no trade-in hassles at the end of the lease. You simply return the car to the dealership, pay any extra charges, and you are no longer obligated to that car. Of course, if you don't lease or buy a new one, you have to walk home!

The final advantage is that you pay sales tax only on the portion of the car that you finance—that is the length of the lease.

# Leasing a Car - Disadvantages



- You don't own anything
- Mileage is limited
- Lease contracts can be confusing
- Leasing is more expensive
- Wear-and-tear charges
- Early termination difficulties

There are also several disadvantages to leasing a vehicle. First, and most important, is that you don't own anything! You are just renting the car for a long period of time.

Second is that there is usually a limit to how many miles you can drive the car during the lease, usually 12,000 a year. This is called the allowable mileage. If you go over the limit, you are charged a fee for every mile over you go, usually \$.10 to \$.25 per mile. This can really add up if you drive a lot.

The third disadvantage is that lease contracts can be confusing. This makes it difficult to know if you are getting a good deal. There are lots of phrases and clauses in the lease that limit what you can and can't do with the car. Drive-off fees are usually included in the contract also. This is the amount of money you must pay to begin the lease—like a down payment. This usually includes the Department of Motor Vehicles fees, leasing fees, and a security deposit. Be sure to ask lots of questions if you decide to lease a vehicle!

Another disadvantage is that although the monthly payments are lower, the actual cost of leasing the vehicle is more expensive in the long run. You can't drive the car longer to get more for your money.

Many dealers charge wear-and-tear for the use of the vehicle. If you return the leased vehicle with scratches or dents, you may have to pay extra fees for repairs. These costs can really add up for everyday wear and tear.

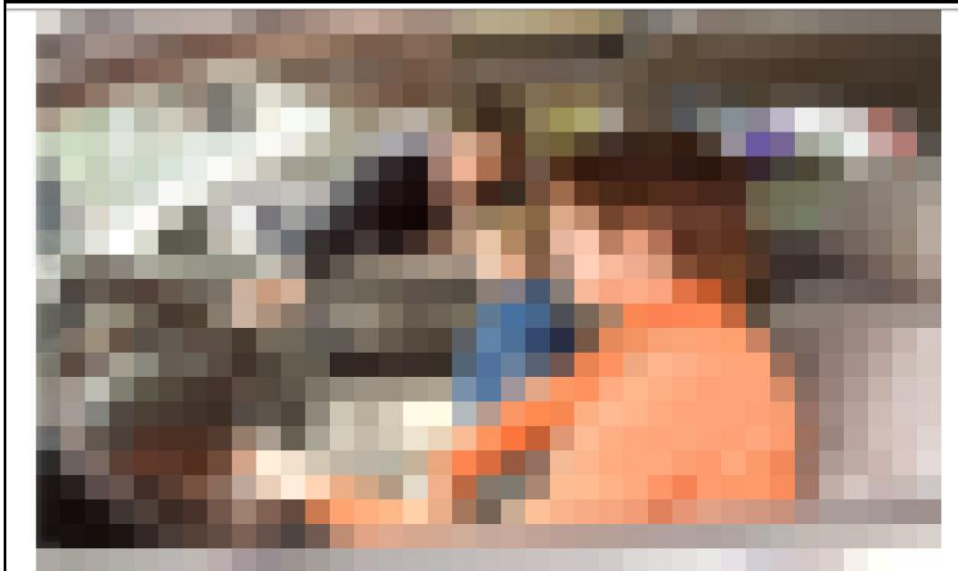
Finally, it is very difficult to end a lease early. If your financial situation changes or your driving needs change, you may not be able to get out of the lease. So, when you sign on the dotted line, you are committed to 2 or 3 years regardless of what changes in your life. You can't sell the car and get something more suitable to your needs.

## Lease or Buy?



So which one is the right choice for you?

## New or Used?



The major factor that determines whether you buy a new or a used car is usually the cost. A new car can be very expensive. Many times you can get more for your money with a good used car. Most depreciation, or decline in value, occurs in the first two years. So, you may be able to get a good used car with all of the kinks worked out and with more gadgets for a lot less than a new car.

Remember that when you buy a car, it is a depreciating asset. So, no matter how much you pay for it, the value declines as you use it and as newer models are introduced. This is another reason for buying a used car instead of a new car. From the minute you buy a car to the minute you sell it, it is a drain on your income. No other major purchase depreciates as quickly as a car. The minute you sign the papers on a new car, it is considered a used car and it loses value as soon as you drive it off the lot. The value of a car depreciates by about 50% every 4 years. Popular brands of cars do depreciate at a slower rate and usually have a higher resale value.

Another thing to consider when deciding between a new or a used car is the warranty. A warranty gives you the assurance that the car will do what it is supposed to do and that it is free of major defects. New cars come with a manufacturer's warranty, usually for the first 30,000 to 50,000 miles. Some manufacturers give you a 100,000 mile warranty. Dealers also offer you the opportunity to buy an extended warranty so that you can protect yourself against major repairs after the manufacturer's warranty expires. Think carefully about this though. Many of the normal repairs are not covered by an extended warranty, like tires, hoses, and brakes. An extended warranty may not justify the cost.

If you buy a used car from a dealership, you may be able to get a warranty. This is not the manufacturer's warranty. It is a guarantee from the dealer. These warranties are usually for 30 to 90 days and have a mileage limit as well. They do not cover everything on the car. The Buyer's Guide is a sticker that is required by the Federal Trade Commission. It must be posted on every used car sold by a dealer and it must state what is covered and for how long. If the Buyer's Guide is marked "As Is" there is no warranty and you should think carefully before buying!

If you buy a used car from a private seller, you will not get a warranty. Any repairs that need to be made must be done by the buyer after the sale has been completed. There are several publications that advertise used cars for sale. Auto Trader and the newspaper are two very common publications. Due to the limited space in these advertisements, many people use abbreviations for the features of their car. Do you know what these abbreviations mean?

Remember, when you are deciding whether to buy new or used, most of the money you put into a car, you will never get back. You should put off buying one until you absolutely need one, and don't spend more on it than it takes to get a good, safe vehicle!

# Tips for Buying a Car

- Determine your budget
- Save for a big down payment
- Identify your needs and wants



First you will need to determine what you can afford. Remember when setting up your budget that buying a car involves more costs than just the monthly payment. You will need to include money in your budget for gas, insurance, repairs, and maintenance. All of these things will add \$150 to \$200 to your monthly cost. Some experts say that you should include the same amount as your monthly car payment in your budget to cover these costs.

You should put off buying a car until you can save up the biggest down payment possible. This will reduce the total amount of interest you will end up paying on the loan. For example: suppose you buy a \$17,000 car with a \$2,000 down payment. A five-year loan at 10% will cost you \$4,100 in interest and give you monthly payments of about \$320. But, if you save \$7,000 for a down payment, with about the same monthly payment, you could pay off the loan in three years and save \$2,500 in interest. Also, lenders will probably give you lower rates because of your larger down payment.

Make a list of the things you want and need in a car. Prioritize your list. Remember, the more extras you add, the more your car will cost you. You should consider the least expensive type of car that will meet your needs. You can save thousands by leaving off special features.



# Tips for Buying a Car



- Do your research
  - Compare alternatives
  - Narrow your list
  - Research insurance rates
- Get credit pre-approval
- Test drive
  - Check the history of a used vehicle
  - Get a used car checked by a mechanic

Next, get smart! Do your research. Use the Internet at sites like [www.kbb.com](http://www.kbb.com) (Kelley Blue Book), [www.autoweb.com](http://www.autoweb.com), [www.autobyte.com](http://www.autobyte.com), [www.autos.yahoo.com](http://www.autos.yahoo.com), [www.edmunds.com](http://www.edmunds.com), and [carpoint.msn.com](http://carpoint.msn.com) to find out about the various options available to you. Research things like reliability, satisfaction of other buyers, safety, economy, and performance. You can also go to the library and use printed publications such as *Consumer Reports*, *Changing Times*, and the *NADA Official Used Car Guide* to research your choices. Determine which features are most important to you and use these resources to find the models that have the highest ratings in those categories. This research will help you to narrow your list to the top 3 to 5 models that you would like to test drive. You should also research insurance rates for the vehicles you are considering. This is very important. Some cars are more expensive to repair, making them more expensive to insure. You need to know this before you make a decision on which car to buy.

Before you go to the car lots or to look at private cars for sale, go to the bank and get a quote on how much the bank will give you to finance your car. It is important to know this so you don't find a vehicle that is out of your price range. Credit unions typically have the lowest rates. Shop around for the best car loan rate. [Bankrate.com](http://Bankrate.com) will give you interest rates in your area and car loan calculators. Car dealers can offer financing, but they are rarely the lowest rates. Some banks give you a break if you have an account with them. Car loans will be discussed in more detail in the credit unit. The loan quote is usually good for 30 to 60 days. By getting a quote ahead of time, you will know if the car dealer is offering a better deal or if you should use your bank to finance the loan. You can use some loan calculators online to figure out the cost of your loan too. [Financecenter.com](http://Financecenter.com) and [giggocar.com](http://giggocar.com) are two good sites to use for this.

Visit car lots and private sellers to test drive each of your top choices. NEVER buy on the first visit. Take your time. Don't show emotions. If you act excited about a car, you are much more likely to get taken advantage of. During the test drive, compare the ride, handling, features, and cost of each alternative. If you are looking at a used car, listen for noises and pay attention to odd smells or smoke emissions that might indicate problems. If you are looking at a used car, ask for a CarFax report. This will give you an idea of the repair history of the vehicle. You will need to know the Vehicle Identification Number (VIN) of the car in order to obtain the report. The VIN can be found on the driver's side of the windshield. Many used car dealers will provide the report free of charge. If you are dealing with a private seller, you will probably have to pay for the report yourself. You should also ask to take a used car to a mechanic that you trust to get it checked out for hidden problems.

# Tips for Buying a Car

- Negotiate a fair price



Next, determine and negotiate a fair price. You can use the same Internet sites and library publications listed above to find out the fair prices for each of your top choices. When you go to the dealership, be prepared to negotiate. Ask to see the dealer's invoice. This is the price they paid for the car. After you add in some profit for the dealer, you will have a starting point for your negotiations. AAA says that 3-6% above the invoice price is fair. For used cars, the Internet sites usually give you a price range for different vehicles based on the condition of the vehicle—fair, good, or excellent. Don't pay more than you planned! Be ready to walk away if you can't get the deal you want. Tell the dealer you are willing to walk. Get a quote in writing and go to other dealerships to compare prices for the same vehicles. This will give you more leverage when you are negotiating. Ask dealers to beat their competitor's prices. Certain times of the year are also better for buying cars. The end of the year, October to December, toward the end of the month is a great time to buy. Sellers are motivated to clear their lots for the new models and you may be able to find some good deals by taking advantage of their eagerness to sell.

Beware of dealer add-on's. Some dealers love to make extra money by selling you things you don't really need. They charge for car mats, detailing (washing), protective wax, and extended warranties. Don't pay for these! They are high priced items that add little to the value of your car. Another way that car dealers may take advantage of buyers is through their trade-in. Always, keep the negotiations for your car purchase separate from your trade-in negotiations. If you can't get the price for your trade-in that you think is fair, and you probably won't at a dealer, it is better to sell your car yourself and use that money as a down payment for the new car.

## Final Tidbits



Cars are expensive. Take care of your investment. Change the oil at recommended intervals. Have rust removed before it spreads. Follow the manufacturer's maintenance recommendations. You can find these in the owner's manual, usually every 3,000 to 5,000 miles. Watch for warning lights and check your fluids regularly. Keep your vehicle clean inside and out. Wax your car twice a year. Let your car warm up in cold weather. If possible, keep your car in a garage. By doing all of these things, you will increase the resale value of your car.