

Ahhh...That New Car Smell!

Got the new car urge? It's hard not to—ads are everywhere touting the new models and all of their wonderful new features. And then there are the apparently great clearance deals you can get on this year's models. So if you've got the bug, here are some car-buying and leasing tips from the Budget Guy.

Know Thy Limits

You gotta think about more than just the monthly payment. Instead, you need to balance four financing factors: (1) How much in total you want to pay for that car or truck, (2) how much of that you can pay today, (3) how long you want to take to pay the rest, and (4) how much per month you want to pay.

Unfortunately, these four factors don't always play nicely with each other. So...

Finance First, Buy Later

Look at it this way—who knows more about structuring car deals...the dealer who makes them daily or the car buyer who only makes one every few years? When you both buy and finance through the dealer, there are just too many moving parts—some of which you won't see until the very end when you're tired and just want to get in your new car and go home!

Even those dealer financing specials with really low interest rates or no interest until 2057 aren't giving much away—they're making it back by not discounting the price of the car as much, by sticking in add-ons, etc.

So before you ever step onto that car lot, check out the financing at your credit union and a couple of banks. You don't need to know exactly what you're going to buy to decide what total price, down payment, length of loan and monthly payment best fit your finances.

And in the interest of keeping it simple...

Don't Mix Old and New

Whatever you do with your old truck, don't get it mixed up in the purchase of the new one. (I once thought I was smart enough to ignore that

rule...) You'll get the most money for your old car by selling it privately. Otherwise, just shop it around to several used car dealers.

With your old car out of the picture and your financing issues worked out, you're ready to hit the dealers. You've taken everything off the table except for one—the total cost. And that makes negotiations a lot simpler because...

It's The Total That Counts

Negotiate only one number, the total, bottom line "drive-out" cost. That cost should include tax, title, license, and any other little goodies the dealer wants to slip in like dealer prep, advertising costs, roadside assistance. All you care about is the bottom line cost to take that truck home with you. How that total gets allocated to various items in the dealer's paperwork doesn't really matter. And if you think you've agreed on that number but the paperwork comes back with something different, get up and walk out. ("That extra \$75? Oh, sorry, I just found out from my sales manager that the shop had already applied fabric protector to the seats.") Consumer Reports (consumerreports.com) and Edmunds (edmunds.com) have excellent information to help you decide on a fair drive-out price.

That drive-out price must fit with your financing, of course. And speaking of financing, keep in mind that...

Short Is Sweet

The shorter the loan, the better: 42 months is great, but no more than 48 months. Yes, I know, there are a lot of car loans being written for 60 months and longer—I've seen as long as eight years! Anything longer than four years, though, and you're just setting yourself up to be sucked into a never-ending money trap.

The problem with longer loans is that you will owe more than the car is worth for most, maybe all, of the term of the loan. Known as being "upside down," it puts you in a real bind if you should need to replace your vehicle before the loan is paid off.

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Sure, you can roll the payoff into the loan for the new car. What a deal that is—you just increased the amount of time and interest required to pay off a car you no longer have, and you're even more upside down in your new one! You've also probably got a longer note with a higher payment. Where does all that leave you if you need to replace this car?

So go for a shorter loan, even if that means buying a less expensive vehicle. And while you're working on your financing, make sure you...

Get Credit Where Credit is Due

Check out your credit reports (free once a year) and scores (small fee; varies by credit bureau) at annualcreditreport.com. You might be surprised by what you find. Most credit reports have errors, many of which are serious enough to affect the interest rate you'll get. Clean those up and it could lower your rate. If the reports are accurate and your credit score is still low, there are ways to increase your score in a fairly short period of time. (See "Getting Credit Where Credit is Due" and "It Was a Dark and Stormy Night" in the Budget Guy archives on the SHPC website.)

If you're thinking of leasing, then in addition to checking your credit status, you should...

Look Before You Lease

Does leasing seem like an easier way to go? It certainly looks pretty simple—you go in, they tell you how much it will cost each month, and at the end of the lease you just give the car back and walk away. (Except that you'll need to lease or buy something else or you really will be walking away.) With leasing, you can even get a nicer vehicle for the same monthly payment than you would have if you were buying. What could be better!

A poke in the eye with a sharp stick, perhaps? When you lease, you're back in the game of negotiating both the price of the vehicle and the financing. So you're back to all the moving parts. But there's more to it than that.

When you lease, you're basically paying for the expected depreciation of the vehicle during the term of the lease (on average, about 45% of purchase price in the first three years). So your cost to lease depends on the "residual value" of the vehicle—the estimated value at the end of

the lease. A higher residual value means a lower leasing cost. On the other hand, you might want to be able to buy the car at the end of the lease. At that point, you'd want a lower residual value.

Then there are things like the money factor, gap insurance, mileage allowance, balloon payments, etc. A lease may seem simple, but it's really a complicated deal with complicated contracts and unfamiliar terms. It can be difficult and expensive to get out of if your circumstances change during the course of the lease, and at the end, you will probably have to pay \$1,000 or so in wear and tear charges unless you've been absolutely fastidious in taking care of the vehicle. Then there's the need to find another set of wheels, whether you're ready for that cost or not.

So does leasing ever make sense? Sure—if you stick with the same car you would have bought so that your monthly payment is reduced (most people upgrade to get a fancier car for the same payment), and if you save the monthly difference between the payment to buy and the payment to lease, and if you invest that savings and are able to earn more than the money charges in the lease, and if you're able to do all of that consistently lease after lease.

In other words, it's highly unlikely that leasing will be a better deal financially. However, if you are someone who babies their vehicles and either just has to have a new car every two or three years, or always needs a car that's under warranty, leasing may make sense. Just be aware that you will be paying for those things.

If you must lease, look for a subsidized lease with an artificially low interest rate and/or artificially high residual value. These are offered through dealers and are used by the manufacturers to get you into one of their vehicles. (After all, you'll need another one when the lease expires...)

But before you commit to leasing, think about how nice it would be not to have any car payment at all. Yes...,

Paying Cash is Heavenly

It takes some time and effort, but it's possible to work yourself out of ever hav-

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