

Consider hidden costs before buying a new car

Written by Jason Alderman
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These are interesting times for potential car buyers. Because so many people have become wary of the faltering economy and are avoiding auto showrooms, nervous car manufacturers have been slashing prices, issuing rebates and offering extremely competitive financing terms – at least to people with sound credit – to lure in business.

But for many folks, the temptation to take advantage of those great offers is tempered by fears that government bailouts for automakers won't necessarily ensure their long-term solvency. That uncertainty, in turn, casts doubt on the viability of their long-term product warranties. If you are thinking about trading in your old car for a newer model, keep these financial factors in mind:

Depreciation. New cars typically lose 20 percent or more in value once driven off the lot. Thus, on a \$25,000 loan with 10 percent down, you would automatically owe \$22,500 for a car that might only be worth \$20,000. If you had to sell it suddenly, could you come up with an extra \$2,500 to pay off the loan?

Insurance. Insuring a new car is often much more expensive than with older vehicles. Before purchasing, ask your carrier for estimates on a few different models for comparison's sake. And ask for a quote on gap coverage, which will pay the difference between the car's actual cash value (factoring in depreciation) and your outstanding loan or lease balance, should the car be stolen or totaled in an accident.

Taxes and fees. When calculating how much car can you afford, don't forget about sales tax and fees for title, registration and license plates that could add anywhere from a few hundred to several thousand dollars to the purchase price. Ask the Department of Motor Vehicles for current fee rates.

Your credit rating. A strong credit rating will qualify you for the best interest rates from auto manufacturers' financing arms, banks and credit unions. But with only fair or mediocre credit, you'll likely pay higher rates and qualify for lower loan limits – if you're eligible for a loan at all.

Review your credit reports before seeking financing so you can correct any errors, omissions and fraudulent activities that could seriously impact your credit score. You're allowed to order one free report per year from each of the three major credit bureaus at www.annualcreditreport.com

You can purchase your credit scores for about \$15 each at www.myfico.com. Or, to estimate your credit score for free, visit What's My Score, a financial literacy program run by Visa Inc. (www.whatsmyscore.org/estimator .) The site also features tips on repairing damaged or unestablished credit scores.

Do research. Find out in advance the invoice price (dealer's cost, minus incentives) and bargain up from that, rather than down from the manufacturer's recommended "sticker price." Research invoice amounts online at sites like Kelly Blue Book (www.kbb.com), www.edmunds.com , and www.cars.com

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Trade-ins vs. separate sale. You may prefer the convenience of trading in your old car with the dealer, although you can probably get more selling it on your own. Just be sure to treat it as a separate transaction after you've settled on a sales price and loan terms.

Remember, there are many car-buying considerations besides color and option packages that will impact your financial bottom line. For a comprehensive guide to buying or leasing a car, including financing considerations, visit Visa's free personal financial management site, Practical Money Skills for Life (www.practicalmoneyskills.com/car).