



# Decide What Car You Can Afford

**F**rom sweet-riding new sedans to hill-climbing SUVs, those vehicles that roll across your TV screen all sound so affordable as pitched by the auto companies. But will one of them really fit into your budget? In fact, due largely to low auto loan rates and big rebates, new cars recently have been at their most affordable level in 20 years, according to statistics from Comerica Bank in Detroit.

Careful research and budgeting will help you get the right vehicle without the one option nobody wants: onerous monthly payments.

To get to that goal, work backward. Don't pick a car or truck and try to cram it into your budget. Instead, figure what monthly payment you can afford, and find the vehicle that fits. And think beyond monthly payments to the costs of auto insurance, gasoline, maintenance, and repairs. Then fit those car costs into your overall budget.

With your maximum monthly payment set, start making choices to hit your target. The biggest question is whether to buy new or used. Buyers

often are attracted to new cars by rebates and low-rate financing. "But in an interest rate environment of rising rates, you'll see fewer 0% financing incentives and more consumers purchasing used vehicles," says Senior Economist Steven Rick of the Credit Union National Association (CUNA), Madison, Wis.

Whether you are buying new or used:

**1. Check reliability**—Nothing can torpedo a budget like unexpected repair costs. New cars will have a warranty, but you may well plan to keep your vehicle beyond the three years or 36,000 miles covered by many warranties. The annual *Consumer Reports* survey of mechanical problems with different models cites not only an overall rating, but specific problems as well. With used cars, reliability becomes even more important.

**2. Look at continuing costs**—Think about not just what it costs to buy a car but what it costs to own one. Apart from potential repair costs, insurance and gasoline costs are continuous. But with a new car, depreciation—the value it loses each year—is a major factor. *Edmunds.com* wraps up all these vari-

ables in a feature called “True Cost to Own.” Comparing vehicles shows that a vehicle costing less to buy now than a competitor may in fact cost more to own over a five-year period.

**3. Negotiate hard**—One sure way to cut overall costs is to reduce your purchase price. With new cars, don’t let big manufacturer rebates distract you from negotiating the purchase price. Look for the dealer cost or “invoice price”—on sites like *Edmunds.com* and Kelley Blue Book (*kbb.com*). Then aim for a selling price before any rebate of no more than 2% over the invoice price (that would be \$400 more than a \$20,000 invoice). Very popular cars and trucks may be an exception to this rule and be selling closer to manufacturer’s suggested retail price (MSRP).

Having to deal with financing questions at the dealership can distract you from negotiating the best price. If you arrange financing in advance at your credit union, then reduce costs by taking

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the rebate and negotiating hard, you really can wind up with an affordable vehicle in your driveway.

### Longer Terms = More Interest Charges

With the prices of high-end vehicles hitting \$35,000 and up, monthly car payments are really climbing. And while the maximum loan term once was 60 months, it’s not uncommon for some financial institutions to offer 72-month loans or even longer. There is a caution: Even though taking out a longer-term loan reduces your monthly payment, it means a higher interest rate and results in higher total finance charges on a rapidly depreciating asset. This example shows different terms for a \$30,000 loan.

Term	Finance charge	Monthly payment	Total finance charge
60 months	6.50%	\$587	\$5,219
72 months	7.00	511	6,826
84 months	7.25	456	8,342
96 months	7.50%	\$417	\$9,986

Source: CUNA’s economics and statistics department; Home & Family Finance