

# Choosing the Right Car for You

Take this quick test to help you find the kind of vehicle that's right for your lifestyle. After you have answered all the questions, ADD the numbers in the boxes and DIVIDE by 12. Match your answer with those in the Answer Table at the bottom.

- How many people in your family?
- 1-2
  - 3-4
  - 5
  - 6
  - More than 6

- How many people, on average, ride in your car?
- 1-2
  - 3-4
  - 5
  - 6
  - More than 6

- What do you want most from a new car?
- Speed
  - Economy
  - Mix of economy & comfort
  - Comfort
  - Ability to haul people or things

- How important is performance? (speed & handling ability)
- Extremely
  - Very
  - Somewhat
  - Not very
  - Unimportant

- How often do you notice changes in gas prices?
- Very often
  - Often
  - Occasionally
  - Infrequently
  - Never

- What is the biggest item you might carry in your car?
- Weekend or duffel bag
  - Groceries
  - Several medium-sized suitcases
  - Four or more suitcases
  - 8-ft. Christmas tree

- What will be the car's primary use?
- Looking good
  - Commuting/basic transportation
  - 2nd car for small family
  - family/business/luxury car
  - Car pools/large family

- What kind of car do you think you want?
- Sports car/mini compact
  - Economy car
  - Compact car
  - Full-size sedan
  - Station wagon/van

- How willing are you to sacrifice fuel economy for size?
- Not at all
  - Not very
  - Somewhat
  - Very
  - Completely

- How often will you drive long distances in this car?
- Never
  - Rarely
  - Occasionally
  - Regularly
  - Only with large groups

- How important is crash safety in comparison with fuel economy and style?
- Unimportant
  - Not very
  - Important
  - Very
  - Crucial

- What type of image should your car project, and how important is that image to your decision?
- Fast-paced, fashionable & sporty; image critically important
  - Economical, socially conscious; image not very important
  - Family-oriented, down to earth; image somewhat important
  - Wealthy, prestigious; image very important
  - Practical; image unimportant

Source: USAA

## Answer Table

(Total your answers & divide by 12)

- 1 = Sports Car or Mini-compact car
- 2 = Four-seat subcompact or economy car
- 3 = Five-seat company or family car
- 4 = Six-seat luxury sedan or luxury car
- 5 = Station wagon, mini van or full-sized van

# Should You Buy or Lease?

With the prices of new cars rapidly increasing and the demise of tax deductions for interest paid on car loans, more people are considering leasing than ever. But, be sure to consider everything leasing involves.

When you buy a new car, at the end of the loan you own the car. When the last payment is made on a lease, you own nothing. You either turn in the car or exercise an option to purchase it at a predetermined price (residual value).

According to USAA, certain makes depreciate less, have high residual values, and consequently are better for leasing: *Acura, BMW, Honda, Infiniti, Jaguar, Lexus, Mercedes and most Toyota models*. Of course, you'll pay more, too, if you opt to purchase at the end of the lease.

Lease if you like to drive a new car every few years. If you plan to keep a car five or more years, buying is probably best.

Buy if you drive more than 12,000 to 15,000 miles per year. And buy if you are hard on car engines and interiors. You will be charged for excess wear and tear at the end of a lease. (If you

lease, keep regular maintenance records of inspections and minor repairs, including oil changes every 3,000 miles.)

The security deposit is usually refundable at the end of the lease; however, the disposition charge (to ready the car for resale) is usually the same or slightly higher than the security deposit. If you plan to buy the car at the end of the lease, you also may pay a purchase option fee.

In general, leasing is most favorable for businesses because of the tax breaks it offers. If you are not self-employed or if the car will not be used for business purposes, leasing is sometimes an expensive financing alternative because of higher (imputed) interest rates. The higher rates are due to low down payments and higher risks for the lenders. *And remember, you own nothing at the end of the lease term.*

Weigh the advantages and disadvantages. If you decide to lease, shop around for a "consumer-friendly" lease. And, *read the contract carefully before signing.*

# Buying a Used Car

There are many places to get used cars:

- **New car dealers** have many types of used vehicles for sale. There are former rental cars, commonly called “program cars.” These one- to two-year-old cars have rather high mileage but may still be warranted by the factory. Then there are vehicles traded in by new car buyers and those turned in at the end of a lease. Previously leased vehicles can be a good buy, since most are still under factory warranty, are well maintained and have low mileage, as required by the lease. All other used cars from new car dealers come with 30-day warranties.

- Another source of used vehicles is **rental companies** like Thrifty or Enterprise. Their vehicles also have rather high miles. They usually come with 30-day warranties from the company.

- **Used car dealers** have a wide variety of vehicles and a good selection of older used cars. Avoid fly-by-night operations, however.

- Cars from **used car companies with “no haggle” pricing** like CarMax and AutoNation tend to be higher priced than ones found elsewhere.

- And last but not least, there are **private owners**. Private owners usually advertise in newspaper classified ads. If you have enough information and follow the steps outlined below, a privately sold vehicle can sometimes be a great bargain. Keep in mind, however, that unless a vehicle’s still under factory warranty, it won’t come with any 30-day warranty.

Before buying any used car, have a mechanic inspect it. You’ll need a safety inspection before you can register the vehicle anyway, so spending \$60 or even \$100 up front to make sure the vehicle’s reliable makes sense. Ask to see any service records that may be available. They can help you tell how well the previous owner cared for the vehicle. They may also tip you off to lingering problems.

Needless to say, you should never buy any vehicle without really test driving it; that’s especially true when it comes to used ones. Drive it on the highway. Drive it in stop-and-go traffic. Drive it up hill and down. And sit in it long enough to determine its comfort level. If you can’t test drive it more than 5 miles, don’t buy it!

# Preparing Your Trade-in for Top Dollar

When buying a car, you have decisions to make about what to do with the car you presently own. To help you decide, get the *Black Book Used Car Market Guide* prices on your trade-in.

This guide is the one widely used by most auto dealers. According to the *Black Book*, “Clean” means very little interior or exterior wear, matching tires with good tread, mechanically sound. “Average” means visibly normal interior and exterior wear. Still a good vehicle with substantial service remaining.

With wholesale values in hand, you can get your vehicle ready for trade-in. You may want to detail your vehicle. Clean it inside and out. When the used car manager drives your car to give you his estimate, he is affected by how it looks and smells. Good tires are important to auto wholesalers, so have them balanced or replace them if they are obviously worn. Check the cost of alignments, if needed. Check your car for rust. If there

are spots, cover with touch-up paint. If your car has dings, “ding” specialists can remove them.

If there is a major mechanical problem with your car, knowing the trade-in value up front will let you know if it's worthwhile to fix. If it might cost more to fix your car than it's worth, decide NOT to trade it. It will only detract from your getting the best price on your new vehicle. Instead, think about donating it to a charitable organization.

If your car is in good condition, an important factor is mileage. The *Black Book* states: “The industry standard is 15,000 miles per model year. Mileage in excess of industry standards may lower the overall classification.” Conversely, low-mileage cars bring top dollar.

Trade-ins are negotiable. Chances are, a dealer will offer you a low figure up front, in expectation that you will counter. Knowing the value of your trade-in first is crucial to getting a good car deal.

# When 1.9% Sounds Too Good to Be True

Low, low interest rates advertised by many automobile manufacturers — 1.9% to 4.9% — often sound too good to be true! If they sound too good to be true, they usually are. In the fine print of the ad, one learns the rate is on “selected” models or that the rate is good for only 24 months.

Even if you still like the “selected” model and term of the loan, there is another common practice used by some financing institutions (never your credit union) you should understand. It’s called the Rule of 78s. This is a loan agreement that contains a legitimate (but not very fair) prepayment penalty. And you will never be told about it when you sign the contract. This rule gets its name by adding the numbers 1 through 12 (for the number of months in a year), to get 78. With a one-year loan, you will pay 12/78 of the year’s interest in the first month, 11/78 the second month and so forth.

This becomes particularly ominous on a 48 or 60 month loan. During the first year of this loan you will have paid most of the interest due over the life of the loan. If you decide to pay the loan off early or refinance the loan at a lower rate, you have lost a great deal of money. The net effect of this type of auto loan is really a higher interest rate if it is figured on a simple interest basis. Credit unions only use the simple interest rate APR to calculate consumer loan rates. Therefore, credit union rates may sound higher, but are generally lower!

Low-interest financing also is costlier to the consumer when it is offered in lieu of a rebate. A reduction in interest rate saves much less than a cash rebate. You would have to find a 4-year loan at 5% APR (simple interest) or less to beat a \$1000 rebate on \$12,000 borrowed. It’s always to your advantage to take the rebate, bargain the price of the car down, and finance through your credit union.

# Using Home Equity for a Tax Deductible Auto Loan

In the quest for the best deal on a new car, many consumers are striving for the tax savings of deductible auto loans. In fact, a national survey of credit union members recently revealed more than one in five members (22%) with home equity credit lines use the funds to buy vehicles. Home equity loans have become popular because the interest payments may qualify for an income tax deduction.

**But do these tax savings mean real savings?** Experts agree the answer is maybe — but not always.

Financing a vehicle with a home equity loan has other advantages besides the tax savings. You can probably finance over a longer period of time. And you can sometimes get a better interest rate too.

Here are some tips to help you determine which direction is right for you.

**Consider other costs.** When you finance a home equity loan, you can expect to incur appraisal, credit check and possibly title-search costs. You may pay closing costs too.

These expenses could amount to hundreds of dollars. If you save

only \$1000 over the course of the loan, will your net savings be worth it?

**Keep the term short.** Say you have a four-year secured auto loan of \$15,000 at an 8.25% rate. You pay \$369.30 a month for a total interest expense of \$2,726.22. By comparison, the same amount over 15 years would cost only \$146.09 a month — but the total finance charge would be \$11,294.21!

However, with an equity auto loan you will realize a tax savings on interest paid. For example, if you are in a 28% tax bracket, your typical tax savings will be 28% of the finance charges paid each year.

If you're taking out a ten-year loan to finance a new car, ask yourself whether the car will even last that long. Let's face it, it's not in your best interest to continue owing on something that no longer has value. In six years you may find yourself needing a new car, with only half of your loan paid and valuable equity in your home tied up.

Consult your tax advisor and turn to your credit union too. Your credit union can show you all your financing options and find the best way to finance your car — so it fits your budget *and* meets your needs.

# Safety — You Asked for It

An average new car today costs more than four times more than it did 20 years ago. Some of this increase is due to inflation. However, much more is the result of consumers demanding — and getting — added safety and reliability features in their vehicles. While car makers must meet certain federal standards, each manufacturer comes up with its own designs, so costs vary.

Nevertheless, many current costs are legitimate. Consider the miserably cold and snowy winter suffered in the Northeast during 1996, when newer cars started each morning during record low temperatures. This was not the case in decades past. We've asked for side impact protection and other new safety features to protect our families. Now we are being asked to pay the price for these improvements.

Maybe it's time for consumers to stop and consider the costs to deliver all the improved reliability and safety features we now take for granted. Safety belts, head restraints, child proof locks, overall vehicle safety design, air bags, anti-lock brakes

and more, are being constantly improved by manufacturers — saving lives every year.

Not all improvements are uniformly heralded. For example, insurance companies give variable discounts for cars with anti-lock brakes because they say tests are inconclusive that they improve crash avoidance. Some companies insist drivers don't know how to use anti-locks effectively — thus they don't discount at all.

In general, performance of safety features varies according to manufacturer design and so should be shopped carefully. Pay attention too, to important crash test results and other surveys performed by government agencies and private firms such as J.D. Power and Associates and *Consumer Reports*. Remember that pick-ups, vans and utility vehicles are not required to meet all of the same safety standard as cars — another reason for you to shop cautiously.

The bottom line regarding new car safety and reliability at a fair price still requires you to be a knowledgeable consumer when you buy.

# How to Take a Test Drive

**B**efore you even consider test driving a car, look through *Car and Driver*, *Road and Track*, *Motor Trend* or *Automobile* magazines to get a good sense of what appeals to you. Then for a more sober perspective, check the annual automobile issue of *Consumer Reports* or *Consumer Guide* for reliability, frequency of repairs and safety data on your favorites. Remember, too, that there's plenty of automotive information available on the World Wide Web. Only then, when you have balanced panache against practicality, is it time to test drive the possibilities.

That, according to professional auto journalist Robert Hellman, is step one. Step two, he stresses is approaching the test drive with a clear head, and "the attitude that this is just one of several I might like." Settling on only one make or model in advance, he says, is not only a poor way to negotiate the purchase, but a poor way to judge the vehicle.

What, then, should you look for during a test drive? First, does the car have what you need in these categories: power; room; safety (crash-worthiness, airbags, etc.); ease of entry and

exit; local parts and service; and a solid warranty.

Then look and listen to avoid: excessive wind or engine noise; heavy or imprecise steering; poor gas mileage; sloppy fit (trim, molding, etc.); unreadable instruments; clumsy controls or levers; and poor resale value.

These are fairly objective qualities. But when you test drive a car, you also want to be attuned to "personal" issues that no magazine can settle for you. Our expert emphasizes that, "like a pair of shoes, a car has to fit — not only your body and your budget, but your life." Will your family's luggage fit in the trunk? Will your family fit in the seats? Finally, will the future driver of this car be happy with his or her seat and driving position? Hellman suggests you pay special attention to the latter, since so many models sacrifice shoulder room for aerodynamic roundness.

Our expert even suggests asking the salesperson to be silent during much of the test ride so that you get the proper feedback from the vehicle. Then after the test drive, just sit in the car for a few minutes. Your body will tell you all you need to know.

# How to Cut Your Insurance Costs

Over the lifetime of your car, operating costs can total almost as much as the original price. Insurance may account for nearly one-third of the final tab.

Rates for identical coverage can vary by 100 percent from one company to another. Competitive bids can save \$500 or more per year. In the long run, a little research will help you short cut your insurance costs.

## Here's how to lower your insurance bill:

- *Take a higher deductible.* For every \$100 your deductible rises, your collision cost drops by seven percent to 15 percent and your comprehensive cost drops by 15 percent to 30 percent.
- *Drop collision and/or comprehensive coverage on older cars.*
- *Eliminate duplicate coverage.* In states with no-fault insurance, you must carry personal injury protection. But any coverage beyond the required amount may duplicate health coverage.

- *Drive an economical car.* Luxury and sports cars may be costly to repair and be the target of thieves.
  - *Pay your insurance premiums semi-annually or annually.*
  - *Inquire about discounts.* Most insurers offer discounts for automatic seat belts, anti-lock brakes, auto theft devices, and side air bags. Many also offer discounts for students with a B grade point average or better. Some also offer discounts to non-smokers, non-drinkers and adults 55 and older who have passed a defensive driving course.
  - *Assign drivers to specific cars.* Designate your children as the primary drivers of the least valuable cars to save about 15 percent. Also, when your children pass a driver's education course, you can save five to ten percent on their coverage.
- Finally, insure all your cars with one agent to get a multi-car discount. If the same agent also insures your home, you may realize even greater savings. Review coverages with your agent annually.

# After-Market Aggravation

**A**fter spending hours in the auto dealership negotiating the best price for your new car, all you want to do is sign the papers and go home! But No! You don't sign the purchase agreement with your salesperson. That would be too easy. Instead, you will talk with someone in the finance department.

Well, okay. How difficult can that be since you have a pre-approved loan with your credit union? As your salesperson ushers you through the door, you get an uneasy feeling.

You're right. This isn't going to be quick or easy. "Finance" people earn commissions on selling you after-market products ranging from paint sealant and undercoating (rustproofing) to multiple-year extended warranties.

Trying to sell you any or all of these items can consume

additional hours of your time and add hundreds of high-profit unnecessary dollars to the deal. And since they now have the magic papers for you to sign, you are trapped.

Here is a way for you to avoid all this potential aggravation (and by the way, after-market items are not recommended for purchase). Tell your salesperson, before agreeing on a price, that you'd like to expedite your paperwork after the sale is agreed upon, because you don't wish to buy any after-market items.

If the salesperson balks, politely say thanks, get up and leave. Most likely the salesperson will reconsider your request. If not, there are plenty of quality dealerships who will grant your wish and process your purchase documents without requiring you to listen to another sales pitch.