

# POTHOLES IN CAR BUYING

## Avoid all the nasty surprises.

### Simple tools and advice from Secured Advantage Federal Credit Union

Whether you're a first-time car buyer or an experienced car owner, we've packaged some of the best advice to give you a head start. As the old saying goes, "let the buyer beware." Shopping for and finding the perfect vehicle can be stressful. In this regard, we've put together these tips on securing financing, researching your options and closing the deal so you can avoid the potholes of car buying.

Other than a house, buying a car is one of the largest purchasing decisions you will make. And, like a home, the first step to car buying should be getting pre-approved.

#### DO YOU KNOW HOW MUCH YOU CAN BORROW?

The general rule is you shouldn't spend more than 25% of your monthly net income. Keep in mind that this take-home pay ratio should be applied to all vehicles in your household. While you may be approved for more, you don't have to borrow the full amount. In fact, it is important to consider your existing debt and the true total cost of ownership.

Your FICO Score will determine the rate and the terms of your loan. When considering your monthly payment, be sure to factor in gasoline, insurance, maintenance and future repairs. Registration fees and taxes factor in, too. If you have a second vehicle that will need replacing soon, think about how you can begin saving now.

Be conservative with your monthly estimates. Even 15% of your annual income may be too much if you are carrying a fair amount of debt.

With a better understanding of your car expenses, you'll be better equipped to find the car that fits your budget. Not only that, when you get pre-approved by Secured Advantage, you become a "cash buyer." You can keep negotiations focused on price and eliminate the back-office shenanigans.

#### DREAD CAR BUYING? DO YOUR HOMEWORK.

By starting with your budget, you've eliminated the trap of overbuying and helped narrow down your list to affordable options. Before you step foot inside a dealership, know what you are looking for:



How big is your household?



Do you want to save with a fuel efficiency vehicle?



Are power and performance crucial to your purchase?



Do you need the ability to haul or move things?



Do you need a car that's more spacious?



Do you want a trendy car that reflects your lifestyle?



Is safety a chief concern?

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As you narrow your choices to your top 3-5 vehicles, research dealer incentives such as cash-back deals and the invoice price of your interested models (not MSRP). If you have a car to trade in, Kelley Blue Book® and the National Automobile Dealers Association are great resources, which consider condition, mileage and added options.

## NEW, USED OR CERTIFIED-PREOWNED?

It's a used car market right now, with projections of used auto pricing falling by 20% over the next four years. While you'll get the most bang for your buck buying used, certified-preowned vehicles usually offer some warranty, making it a nice compromise between used and new. When you buy new, however, you get the latest safety and performance features, longer basic and limited powertrain warranties, and other benefits, such as a roadside assistance program.

A report by McKinsey shows the average buyer visits less than 2 auto dealerships, down from 5 dealerships 10 years ago. Studies have shown 8 in 10 shoppers conduct online research before they make a purchase, and there are several great websites – even fun online quizzes – to help you narrow your search.

The moment you step foot on a showroom floor, it's the dealer's mission to get you to buy. You can limit the hassle and the hustle by doing your homework first.

## READY TO BUY? HERE'S THE RIGHT WAY TO MAKE AN OFFER.

While you should know your ideal monthly payment, never tell your salesperson. With this key piece of information, there is no incentive for the dealer to go lower. And while they may still meet your figure, they may have fiddled with parts of the deal that are not as favorable.

Most dealers will negotiate on the manufacturer's suggested retail price. This is the price the dealer would like you to pay for the car. Instead, focus on the invoice price, which is closer to what the dealer may have paid for the car.

A target of 2% above invoice is usually a good deal, but nowadays you might be able to do better. There are dealer sales incentives, holdbacks and rebates offered by the manufacturers that the dealer can either offer to you or hold for profit.

Keep the value of your trade-in separate. When negotiated together, you'll get a break on the new car or the value of the trade-in, but rarely ever both. While it can serve as a nice down payment toward a new car, you won't get retail value for it. After all, the dealer wants to sell it for a profit.

Instead, research the true wholesale value of your trade-in online and get free appraisals from multiple dealers. You may even want to consider selling the vehicle on your own.

If you don't feel comfortable with the price, know that it is always okay to walk away. It's often the best bargaining chip you can play. If you've settled on a make and model, you can reach out to other dealers for the same car. When dealers compete, you win.

## MORE USED CAR BUYING TIPS

- Test drive cars on hills, highways and stop-and-go traffic.
- Examine the car for damage.
- Get the opinion of a hired mechanic.
- Ask for a car's maintenance record and search Carfax® or e-autohistory.com
- If sold "as is," dealer has no responsibility. All repair costs are on you, the buyer.

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[www.SecuredAdvantageFCU.com](http://www.SecuredAdvantageFCU.com)



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