



# Put Yourself In The Driver's Seat:

**A Car-Buying Guide**

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## Introduction

Owning a car can be one of life's most exciting experiences.

Whether you want a car to get to and from work, to pick up and drop off family members, or to shop for groceries, having your own car can make life a lot easier. However, buying and owning a car are not always easy to do. Purchasing a car can also be confusing and you may be targeted with unfair sales tactics by car salespeople.

With this guide, the National Endowment for Financial Education® (NEFE®) and the National Council of La Raza (NCLR) have joined efforts to help you make smart financial decisions when you buy your car.

Owning a car is part of the American Dream. It can help put you on the road to prosperity. This brochure is designed to help you make it happen.



## Getting started: The basics of car buying

There are many things to consider before purchasing a vehicle. This guide can help you prepare ahead of time and get the best deal on a car. You can use the worksheet in the Resources section to write your answers as you do your research.

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### Five Do's and Don'ts to keep in mind:

- 1. Do** bring a trusted friend to help you stay focused and get the deal you deserve.
- 2. Do** figure out how much you can afford **before** you go to the dealer. Low monthly payments may sound good, but much more goes into the actual cost of owning a car – like gas, insurance, taxes, and repairs.
- 3. Don't** get emotional. Car sales staff take advantage of people who “fall in love” with a particular car. Any legitimate offer will be good the next day, so if the dealer says “Buy now,” that really means “Beware.”
- 4. Don't** believe everything the sales person says. Check the car out for yourself, or have someone you trust check for you (especially a used car).
- 5. Don't** sign anything you don't understand. If the contract is confusing or in a language you don't understand, ask a friend or community-based agency for help in understanding the contract.

## First things first: Do your research

Before you start shopping for a car, new or used, you need to do your homework. With a little preparation, you will be in a better position to get the best deal. Here are four steps to get you started. Also, check out the Resources list at the end of this guide for more places to find information.

### Step 1: Define your needs

Ask yourself:

- How will you use your car? To get to work or school?
- How many miles do you drive in a typical week?
- What are the road conditions you'll be driving in most of the time? (Highways, rural roads, or city streets)
- How many people will be in your car on most trips?
- What weather conditions will you drive in? (Sunny and warm, rainy, snowy winters)

### Step 2: Find the car that is right for you

Determine what you *need* in a car versus what you *want*. The make, model, features and options you choose in a car affect the price. Skip on the extras, and you could save a lot of money. Make a short list of your needs. For example, if you share carpooling duties with neighborhood families, you may need a bigger vehicle. If you have a long commute, you need a car that gets good gas mileage.



### Step 3: Understand your credit

Before you shop for your car or your car loan, check out your credit report. You're entitled to a free credit report every 12 months from each of the three national consumer credit reporting companies – Equifax, Experian, and TransUnion. To receive your free credit report, call 1-877-322-8228 or visit their Website: [www.annualcreditreport.com](http://www.annualcreditreport.com).

**Remember:** Only your credit report is free. Each company will charge a small fee for your score.

### Step 4: Get preapproved for a car loan

Before you shop for your car, you should shop for a loan. Visit your local bank or credit union to be preapproved for a car loan. Compare their financing offer to the dealer's offer. Oftentimes your bank or credit union can offer better loan terms. When you know what you can afford, and the terms and interest rate you qualify for, you'll be in a stronger position to negotiate for the best price on the car.





## Will I qualify for a loan?

Having a good credit score means you can qualify for a better interest rate on your car loan. When you know your credit score, you have an idea what's a fair interest rate and can negotiate with the dealer.

If you don't have a credit history yet, some dealers or banks may charge you a higher interest rate. However, you should still shop around. Many banks and credit unions have special programs to help you establish your credit history.

*It is important to determine what you need in a car and what you may want.*

**✓Tip:** You may be thinking of asking a friend or relative to be a co-signer on your car loan to help you qualify. Be cautious about this. It's best to avoid joint ownership. The co-signer will be responsible for making payments if you don't make them and you will both be listed on the title. For tips on how to establish a credit history or understand your credit report, visit [www.nclr.org](http://www.nclr.org)

## What will your car cost?

Many factors will affect the final price of a car, such as buying new or used, or choosing to lease. Other expenses will add to the maintenance costs over the life of the car, like gas, mileage, taxes, insurance, and other expenses. These resources will help you do your research before you buy:

- Kelley Blue Book, available at the library or at [www.kbb.com](http://www.kbb.com), for the price of used cars in this model with certain mileage.
- *Consumer Reports* magazine (available at many libraries) for car ratings on reliability, maintenance costs, gas mileage, and safety.
- Your local paper, to find out what rates local dealers are offering.

### New vs. used

A new car may seem to have many advantages, but used cars should not be overlooked. Check out this chart that compares the positives and negatives of both.

	Positive	Negative
New	<ul style="list-style-type: none"><li>■ Has never been driven</li><li>■ Comes with a factory warranty</li><li>■ May have new safety or other features</li></ul>	<ul style="list-style-type: none"><li>■ Expensive</li><li>■ May not be able to afford all the “extras”</li><li>■ Will lose value</li></ul>
Used	<ul style="list-style-type: none"><li>■ Affordable</li><li>■ May be able to afford a car with the “extras”</li><li>■ May come with a dealer warranty</li></ul>	<ul style="list-style-type: none"><li>■ May require a higher downpayment</li><li>■ Sold “as is” and may have had damage in the past</li></ul>



**Other expenses to consider:**

### **Fuel type and miles per gallon**

Gas will be a huge expense over the life of the car. Before buying, consider the grade of fuel your car requires (premium-grade gas will cost a lot more over time). Also, compare miles-per-gallon for each car you are considering.

### **Insurance**

Car insurance is required and should be included as part of your car-buying budget. A number of factors, like the kind of car and whether you are a man or a woman, can affect the price of your insurance. Check with your insurance agency to see what your rates will be for a certain car before purchasing it.

### **License, tax, and registration fees**

The Department of Motor Vehicles (DMV) or County Clerk/Recorder can give you an idea of the taxes and fees required for your car and what kinds of identification (ID) you'll need to provide. Some states charge taxes and registration fees ever year. You may also be required to get an emission or smog test. Every state requires some form of official personal identification, such as a driver's license or state ID card, before it will register a car. Some states may require proof of legal U.S. residence as well.

### **Maintenance costs**

Normal expenses include fluids, brakes, new tires, new batteries, car washes, tune-ups, as well as repairs. You can save some money if you learn how to take care of a few basic things (like changing the oil, replacing belts, or changing a flat tire) yourself. Read your car manual for money-saving and maintenance suggestions.

## How will you pay for it?

Depending on your finances and the price of the car, you can either pay cash or borrow the money from a bank or credit union. Most people need a car loan to buy their car. There are many places to look for car loans: banks, credit unions, online direct lenders, loan brokers, finance companies, and car dealerships. Remember, you need to shop for financing the same way you shop for your car: understand the components of a loan and look for the best deal.

**✓Tip:** Shop for your car loan before you go to the dealer. Be sure to compare the loan the dealer offers you to your preapproved loan from your bank or credit union. Don't let the dealer talk you into using their financing unless it is truly the better deal.

### What goes into a loan?

■ **Down payment:** Having money saved to use as a down payment will reduce your loan amount. It will also lower your interest rate, saving you a lot of money over time.

**Beware:** Sometimes dealers will offer financing plans that require no down payment or a very low down payment. These plans can be dangerous because they typically come with very high interest rates, so you will pay a lot more for the car than you need to.



✓ **Tip:** Beware of a dealers that promise you a better rate after you sign the paperwork. This is often a trick. After a few days later the dealer will claim they can't give you the terms you agreed to and have you come back to sign another contract with worse terms. This is known as “yo-yo” financing.

- **Length of Loan:** The number of car payments you will make before the loan is paid off affects both your total purchase price and your monthly payment amount. Having a shorter the term (or fewer months) will cause your monthly payments to go up because you are choosing to pay off your loan sooner. However, you will actually save money because you will pay less interest.
- **Interest Rate:** Your interest rate is usually determined by your credit history. If you have good credit, you will get a lower interest rate. If you have bad credit, you're rate will be higher. However other factors, such as the size of your down payment, can also impact your interest rate.
- **Annual Percentage Rate (APR):** Your APR includes your interest rate and any fees you are financing with your loan. When shopping for loans, be sure to compare the APRs, since this gives you a better idea of the true cost of the loan.

**Important!** Be sure you can afford your monthly payment amount **before** signing a contract. Also, make sure the monthly payment quoted to you is the final monthly payment in the contract. Extra options and features may increase the final monthly payment substantially.

This chart shows how your interest rate and loan terms affect your monthly payment and total cost of the car.


Car Cost Comparison					
Car	Amount Financed	Interest Rate	Loan Term	Total Monthly Payment	Total Price Paid For Car
1st car choice	\$20,000	10%	6 years	\$370	\$26,677
2nd car choice	\$12,000	6.5%	3 years	\$367	\$13,240
3rd car choice	\$12,000	24%	5 years	\$345	\$20,712



## Know your numbers

A good rule for budgeting is to spend **no more than one third of your income** on housing and credit payments, including your car loan. Use this worksheet to figure out what your monthly car payment should be.

	Example	Your Numbers
Your annual take-home pay (after taxes)	\$38,000.00	\$
Your monthly income (your take-home pay, divided by 12)	\$3,166	\$
Your monthly income x .33 (to find 1/3 of your take-home pay)	\$1,045	\$
Monthly rent or mortgage (subtract your monthly housing cost; in this example, \$650)	-\$650	\$
Monthly credit cards (subtract your monthly credit-card costs; in this example, \$90)	-\$90	\$
Monthly student loans (subtract your monthly costs; in this example, \$105)	-\$105	\$
Any other monthly debts (subtract any additional monthly payments you make; in this example, \$0)	-\$0	\$
Maximum budget available for a monthly car payment	\$200	\$

 **Tip:** If loan rates go down or your credit rating improves, you may be able to refinance and save yourself a lot of money. Check with your local bank or credit union to see if this option makes sense for you. Always make sure the amount you'll save is more than the total cost of changing your loan.



## If you hit a bump in the road

You've done all the research and bought your car. *Congratulations!*

In most cases, all will go well and you'll enjoy your car for years to come. But what happens if you run into trouble once you've taken it home?

### Problems with the car

Occasionally, a car can have defects that seriously affect safety, use, or value. If you discover major problems with a recently purchased car, you may have a "lemon" – a car that has more problems than similar cars of its age, make, and model.

There are federal and many state "lemon laws" to help you get your car repaired or even replaced. The rules vary from state to state. Check out the Better Business Bureau Web site on lemon laws: [www.lemonlaw.bbb.org](http://www.lemonlaw.bbb.org) for more information.

### Problems with money

If you are having trouble making your monthly payments, explain your situation to the company who holds your loan. You may be able to work out a repayment schedule.

If you're still struggling, get help from a nonprofit credit-counseling agency like the National Foundation for Credit Counseling ([www.nfcc.org](http://www.nfcc.org)) or Affiliates of the National Council of La Raza ([www.nclr.org](http://www.nclr.org)).

Ignoring your situation and hoping late payments will go unnoticed won't help. You risk having your car repossessed, leaving you with no car. Plus, all the money you have paid on your loan will be gone with nothing to show for it.

## Resources

There are hundreds of resources including books, Web sites, and the people you know and trust. Here are some key definitions and contacts that might be particularly useful on the road to car ownership.

### Glossary of car terms

**Car title:** The title is a certificate of ownership, and you'll need this if you want to sell your car later on. When you pay off your car loan in full, the title to the car will be in your name.) It's important to get a "clear" title to your car, meaning that it belongs to you and no one else has a legal claim to it.

**Collateral:** An asset (something valuable that you own) pledged to the creditor until the financing is paid off. For example, if you own your home, it may be used as collateral for your car financing.

**Credit insurance:** Optional insurance that pays the unpaid balance if you die or become disabled. The cost of optional credit insurance must be disclosed in writing, and, if you want it, you must agree to it and sign for it.

**Extended service contract:** Optional protection on specific mechanical and electrical car parts you can buy in addition to any warranty coverage provided with a new or used car. The cost(s) must be disclosed in writing, and, if you want it, you must agree to it and sign for it.

**Finance charge:** The interest charged on the loan amount.

**Fixed-rate financing:** A finance rate that stays the same for the life of the contract.

**Guaranteed auto protection (GAP):** Optional protection that pays the difference between what you owe on your vehicle and what your insurance company pays you if your car is stolen or destroyed before you have paid off your loan. The cost of GAP must be disclosed in writing, and, if you want it, you must agree to it and sign for it.

**Variable-rate financing:** A finance rate and amount you pay that changes over the life of the contract.

## Research Tools: Web Sites and Worksheet

Use these Web sites and fill in this worksheet as you do your car-buying research.

**AWARE (Americans Well-informed on Automobile Retailing Economics):** free car-buying information  
[www.autofinancing101.org](http://www.autofinancing101.org)

**Car History Information:** history information: detailed information on a particular car for a fee  
[www.carfax.com](http://www.carfax.com)

**Consumer Action:** cars, credit, and money management, [www.consumer-action.org](http://www.consumer-action.org)

**Consumer Reports magazine:** rates new and used cars annually. Available at most public libraries; some free information available online [www.consumerreports.org](http://www.consumerreports.org)

**Credit reports:** request free annual credit reports by calling 1-877-322-8228 or online [www.annualcreditreport.com](http://www.annualcreditreport.com)

**Federal Trade Commission:** buying, financing, and maintaining a car [www.ftc.gov](http://www.ftc.gov), select Consumer Protection, then Consumer Information, then Automobiles

**National Council of La Raza:** financial and homeownership counseling [www.nclr.org/counselors](http://www.nclr.org/counselors); tips on building and improving your credit [www.nclr.org/credit](http://www.nclr.org/credit).

**National Foundation for Credit Counseling:** credit help with Spanish- and English-speaking counselors  
[www.nfcc.org](http://www.nfcc.org)

**Smart About Money:** advice and practical information on how to start achieving financial goals, including financing a car [www.smartaboutmoney.org](http://www.smartaboutmoney.org), search for Car

**Spendster:** tips on spending money responsibly [www.spendster.org](http://www.spendster.org)

## Research Worksheet

Amount of money I want to spend on a car per month:				\$
Most money I can spend on a car each month based on budget:				\$
	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>	
Purchase price				
Taxes/Title/Registration				
Insurance costs				
<b>Total Cost of Car</b>				
MPG/fuel type				
Estimated maintenance costs/reliability				
APR and loan terms				
Down payment requirement				
Other features:				





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NCLR—the largest national Latino civil rights and advocacy organization in the United States—works to improve opportunities for Hispanic Americans. Through its network of nearly 300 affiliated community-based organizations (CBOs), NCLR reaches millions of Hispanics each year in 41 states, Puerto Rico, and the District of Columbia. To achieve its mission, NCLR conducts applied research, policy analysis, and advocacy, providing a Latino perspective in five key areas—assets/investments, civil rights/immigration, education, employment and economic status, and health. In addition, it provides capacity-building assistance to its Affiliates who work at the state and local level to advance opportunities for individuals and families. Founded in 1968, NCLR is a private, nonprofit, nonpartisan, tax-exempt organization headquartered in Washington, DC. For more information, go to [www.nclr.org](http://www.nclr.org).





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National Council of La Raza and the National  
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