

Keys To A Smart Ride

Consumer Alert!

1-888-995-7856 **ALLIANCE**
Credit Counseling

By Edward Tonini, Director of Education.

In 2005, the average American family spent 15% of their income on transportation.

U.S. Bureau of Labor Statistics

Are you having any pain at the pump? According to the U.S. Bureau of Labor Statistics, the average American family spends as much on transportation as they do on shelter. Here are some strategies to help you make smart choices concerning your transportation costs.

Consider Your Options

When considering how to get from point A to B, it might be helpful to weigh the advantages and disadvantages of using (or partly using) the following environmentally-friendlier alternatives to being a lone driver.

- ✱ **Carpooling.** If you can arrange it with a co-worker or someone who works near you, you can cut your costs in half and gain some company.
- ✱ **Public transportation.** Bus, streetcar, subway, light rail, or train. Consider the following as you weigh this option: costs, safety, practicality, and what you can do while someone else does the driving.
- ✱ **Alternate transportation.** If you live close enough to your destination, consider walking or riding a bike.
- ✱ **Work-at-home or telecommute.** If your job will allow it, consider implementing a day (or days) where you work from home.

Steps To Buying

If you decide to buy a vehicle, anticipate these steps.

1. Determine How Much You Can Afford

Review your monthly spending plan (budget) to see what price you can realistically handle. Remember to include all the estimated costs – price, registration fees, taxes, insurance, gas, maintenance and repairs. If you don't think that you'll be able to find a satisfactory vehicle for the amount you can afford, you'll need to find ways to increase your monthly income and/or lower your expenses. For assistance with this, read our publication *More With Less*.



2. Research

Once you have completed your financial tune up and settled on a price range, you'll want to get the most for your money. What kind of vehicle will best suit your needs? What features are most important to you - reliability, fuel efficiency, resale value, head/leg room, air conditioning, anti-lock brakes, dual airbags, cargo space, etc? The internet provides a convenient way to research vehicles. Two particularly helpful sites are www.edmunds.com and www.consumerreports.org (Consumer Reports publishes an annual car

buying guide which you can find at most public libraries).

3. Select A Few

After you have decided on a few models that will meet your needs, the next step will be to locate them. Places to look include: classified ads, used vehicle publications, auctions, and dealerships. The internet can be a convenient way of searching several of these sources. A few websites you might want to check are: www.edmunds.com, www.ebaymotors.com, and www.autotrader.com.

Once you have located a few specific vehicles, you will want to inspect them. Visually check the vehicle inside and out. Test-drive the vehicle and check that all functions work properly.

In the case of a used vehicle, ask to see its maintenance records and find out from the previous owner if there were any issues you would want to know about. For a small fee, you can obtain a report from www.carfax.com to find out if there are any major issues in the vehicle's

New or Pre-Owned?

Depreciation is highest in the first years of ownership, so buying a new vehicle represents a greater cost. Financial experts recommend buying a two or three year old pre-owned vehicle with low mileage and some remaining factory warranty.

Contents On Back

- Steps... (continued)
- Buy or Lease?
- Minimize Post-Purchase Costs
- Professional Help
- To Find Out More



history. Finally, it would be wise to pay a trusted mechanic to examine a vehicle before you buy it.

4. Negotiate

Once you have decided on your first choice, you will make an offer to buy the vehicle. Never pay the sticker price or asking price. You can find out a reasonable price for retail sale and for private party sale through the internet (such as www.edmunds.com, www.kbb.com). In the case of a new vehicle, you would be smart to start your negotiations based on what the dealer paid for the vehicle (ask the dealer to show you their invoice or, for a small fee, you can find this out through the internet). If you have a trade-in vehicle, you can also get a good idea through the internet of what it should be worth (www.edmunds.com, www.nada.com). Always negotiate the price before discussing whether or not you have a trade-in or how you intend to pay for the vehicle.

5. Close The Deal

Get the total price in writing and have the seller sign the sale contract before you do. Read it carefully to determine that it correctly states what you agreed to. If you find the seller has added anything and the bottom line is not what you agreed to, be prepared to walk away.

Buy or Lease?

How will you pay for the vehicle? There are three options: cash, loan, or lease. The decision to buy or lease involves a comparison of the total costs of the alternatives and will be influenced by your personal values.

Check Your Credit Rating. To get an idea of whether you will qualify for financing and at what interest rate, you'll want to obtain your credit reports and scores. To allow yourself time to work on any credit issues you find, it's best to check your reports at least six months before applying for credit. For information on obtaining your credit reports, clearing up errors, and raising your score, read our publications listed below.

Financial experts advise to "avoid borrowing money for consumption purchases, especially for items that depreciate in value (like cars)" (Eric Tyson). The following lists of pros and cons may help.

Lease

A lease is essentially a rental agreement; you never own the vehicle. You agree to uphold specific care and maintenance requirements and to make monthly payments for a certain term (typically two to four years). Your monthly payment is based on the difference between the purchase price and what the vehicle will be worth at the end of the lease.

Reasons for leasing:

- ✓ You don't have the cash to buy a vehicle.
- ✓ You're able to get a monthly payment that is lower than a payment on a loan.
- ✓ You need a new car every 2-4 years.

Disadvantages:

- ✗ Generally costs more than a loan.
- ✗ Requires a downpayment or trade.
- ✗ There are penalty fees for above normal wear and mileage, and for early termination.
- ✗ You cannot modify or customize the vehicle.
- ✗ You always have a monthly payment.
- ✗ Difficulty qualifying if your credit rating is below average.
- ✗ Beware of an open-ended lease which carries extra cost at the end (vs a closed-ended lease).

Buy with a loan

Reasons for getting a loan:

- ✓ You don't have the cash to buy a vehicle.

Disadvantages:

- ✗ Total cost is more than if you pay cash.
- ✗ Difficulty qualifying if your credit rating is below average.
- ✗ Potential for owing more than the vehicle is worth.

Buy with cash

Reasons for paying cash:

- ✓ Lowest overall cost.
- ✓ Greatest price negotiating position.
- ✓ No credit rating requirement.
- ✓ No monthly payment.

Disadvantages:

- ✗ Requires time and effort to save up the funds.

Minimize Post-Purchase Costs

Skip the extended warranty. If you've done your research, you'll be choosing a vehicle with excellent reliability and consumer-research organizations report that service contracts (extended warranties) are not worth the price.

Use regular unleaded gas. Unless, your owner's manual states that your vehicle won't run on regular octane, consumer-advocate research finds that "premium" gasoline is a waste of money.

Compare Insurance. Shop insurance carriers to find the best rates. Choose your benefit coverage and deductible amounts to get the most value from your policy.

Buy gas at wholesale clubs. If you have a membership, the price is often significantly less.

Keep your vehicle maintained. Regular servicing (such as changing the oil and filter every 3,000-4,000 thousand miles, and replacing a clogged air filter) saves you money by maintaining fuel efficiency and by extending the life of your vehicle. Keeping your tire pressure at the proper level avoids an unnecessary decrease in mileage and premature tire wear.

Determine the best routes and times.

Test alternate times and routes to determine which ones will produce the best mileage.

Slow down. Each 5 mph you drive above 60 mph reduces your fuel efficiency by 10%. Aggressive driving (rapid acceleration and stops) can lower your mileage by as much as 33%.

Lighten up. Rid your vehicle of unnecessary weight.

For more tips, visit www.fueleconomy.gov.

Professional Help

If you would like someone else to do your searching and price negotiation, you can pay for that service. Visit www.autobytel.com, www.carpaint.msn.com, www.carsdirect.com, www.autoweb.com, www.autoadvisor.com, www.carbargains.com, or www.carsource1.com, for more information.

To Find Out More



- *Personal Finance* (Garman & Forgue, Houghton Mifflin Co. 2006)
- *Car Buying Guide* (Consumer Reports, www.consumerreports.org/cro/cars/index.htm)
- Read the following articles available at our website www.knowdebt.org/education.php:

- *The Spending Plan*
- *How To Check Your Credit Reports*
- *How To Dispute Errors On Your Credit Reports*
- *Raising Your Credit Scores*