Car Buying 101
New or Pre-Owned

Presented for
University of Connecticut
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Do you really need a car?

Perhaps not, if you are...

- Planning to live in an urban area
- Have mass transit options
- Can use taxi, ride hailing, ride sharing services
- Willing to rent when you need a vehicle
New or Used?

• Financially, used almost always beats new
• New, however, gets you...
  – Latest technology
  – Warranty coverage (perhaps)
  – Peace of mind
  – Great aroma (for a few weeks or months)
Buying vs. Leasing

Buy! Unless you have specific reasons not to
Leasing keeps lessees at the top of the depreciation curve

For a $36,000 new vehicle

9-Year Depreciation: Buy
Total: $31,200

9-Year Depreciation: Lease
Total: $54,000
Buying vs. Leasing

• Depreciation savings buying: $22,800

• Less...

  Added maintenance costs: $ 4,500
  Replacement tires/batteries/etc. $ 1,900

• Net Savings: $16,400

  (Plus, insurance costs reductions for older cars and reduced tax/registration fees)
Still Interested?

- Millennials: The most likely to lease
- Lease payments are less than loan payments
- More car for the same monthly payment

- Cap Cost = Vehicle Cost
- Cap Cost Reduction = Down Payment
- Money Factor x 2400 ≅ Interest rate
- Rent = Lease fees, interest, profit
- Subvented = Factory subsidy

- Remember to check the:
  - Mileage limits
  - Normal wear and tear
  - Closed-end lease
  - GAP insurance
  - Inception and disposition fees
## LeaseGuide.com Example

<table>
<thead>
<tr>
<th></th>
<th>Lease- 6%</th>
<th>Loan – 0%</th>
<th>Loan – 6%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car Price</td>
<td>$23,000</td>
<td>$23,000</td>
<td>$23,000</td>
</tr>
<tr>
<td>Down Payment</td>
<td>$ 1,000</td>
<td>$ 1,000</td>
<td>$ 1,000</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>6%</td>
<td>0%</td>
<td>6%</td>
</tr>
<tr>
<td>Residual</td>
<td>$11,000</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Months</td>
<td>36</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>Payment</td>
<td>$388.06</td>
<td>$611.11</td>
<td>$669.28</td>
</tr>
</tbody>
</table>

However, at the end of the lease, you own nothing. At this point your choices are: buy the leased vehicle or buy/lease another vehicle.
Gas or Electric

Gasoline engines are inefficient

For each dollar spent on gasoline:
- 60 cents goes to generating waste heat
- 12 cents goes for overcoming engine friction
- 6 cents goes for pumping losses
- 3 cents is for idle times
- 19 cents actually goes to moving the car

For each dollar spent for electricity for an electric car, 60 cents goes to moving the car.
Electric Options

- Hybrids
- Plug-in Hybrids
- Pure BEV (Battery electric vehicle)
Car Buying: Three Transactions

• 1. Buying the new car or truck
• 2. Disposing of the old car or truck
• 3. Financing the transaction

For best results, keep the transactions SEPARATE!
Step One: Car Buying

• Assess needs and wants:
  Where do you drive?
  How do you drive?
  How many passengers?
  How much cargo?
  Do you tow a trailer, etc.?
  Remember the wish list…
Remember (As If We Could Forget)
Gasoline Costs

With gasoline at $2.50 a gallon, 10,000 miles will cost you…

- $2,083 at 12 mpg  ($40 a week)
- $1,667 at 15 mpg  ($32 a week)
- $1,250 at 20 mpg  ($24 a week)
- $1,000 at 25 mpg  ($19 a week)
- $ 833 at 30 mpg  ($16 a week)
- $ 714 at 35 mpg  ($14 a week)
- $ 625 at 40 mpg  ($12 a week)
- $ 556 at 45 mpg  ($11 a week)
- $ 500 at 50 mpg  ($ 10 a week)
- $ 455 at 55 mpg  ($  9 a week)
If Gasoline Prices Rise

With gasoline at $3.50 a gallon, 10,000 miles will cost you…

$2,917 at 12 mpg ($56 a week)
$2,335 at 15 mpg ($45 a week)
$1,750 at 20 mpg ($34 a week)
$1,400 at 25 mpg ($27 a week)
$1,169 at 30 mpg ($22 a week)
$1,001 at 35 mpg ($19 a week)
$ 875 at 40 mpg ($17 a week)
$ 781 at 45 mpg ($15 a week)
$ 700 at 50 mpg ($13 a week)
$ 637 at 55 mpg ($12 a week)
# The Real Cost of Driving

AAA’s Average per-mile costs

<table>
<thead>
<tr>
<th>Cost per Mile/Year</th>
<th>10K/Yr</th>
<th>15K/Yr</th>
<th>20K/Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compact Car</td>
<td>$0.595</td>
<td>$0.464</td>
<td>$0.398</td>
</tr>
<tr>
<td>Midsize Car</td>
<td>$0.780</td>
<td>$0.610</td>
<td>$0.523</td>
</tr>
<tr>
<td>Large Sedan</td>
<td>$0.975</td>
<td>$0.750</td>
<td>$0.635</td>
</tr>
<tr>
<td>SUV</td>
<td>$1.00</td>
<td>$0.773</td>
<td>$0.657</td>
</tr>
<tr>
<td>Average Cost (sedan)</td>
<td>$0.783</td>
<td>$0.608</td>
<td>$0.519</td>
</tr>
</tbody>
</table>

Cost per Hour to Drive a Compact Car: $35.70
Don’t Forget

• Call your insurance agent before signing any contract.
• Compute your property tax assessment on that new vehicle.

Never look upon your car as an investment.
Speaking of Insurance

- Connecticut requires auto insurance
  - Minimum coverage 25/50/25
  - Minimum is not nearly enough
  - Must have underinsured/uninsured coverage
Borrowing from a Bank?

– Bank will require that you maintain collision insurance coverage

– Bank will also require comprehensive coverage
Set a Budget

25% of annual gross pay for one vehicle

50% of household income for all vehicles

Note: The average American household cannot afford the average new or used vehicle
Used Car Buying

Looking for a private seller?

But…

Watch for “Curb-Siders”

Ask the 4 key questions:

Do you own the car?

Do you have a clear title?

Is the car registered and insured?

How long have you owned the car?
Step One: Used Car Buying

Check the vehicle history with the understanding that there is no perfect system

• CarFax
  Check out: http://abcnews.go.com/2020/video/check-carfax-18743237

Or…
• Carproof.com
• Experian's Autocheck.com

And, check out:
• http://vehiclehistory.gov
Step One: Car Buying

Weed out obvious clunkers

Never sign any contract or leave a deposit until the used car is checked by a professional auto technician.
Check the Paperwork

- Registration
- License Plate
- Proof of insurance
Buying from a Dealer or Private Party

Let the pricing waltz begin!

Understand the dealer’s perspective

You want to play *Price Is Right*
Dealer may want to play *Let’s Make a Deal*

How to break through…
Car Buying

Feel free to e-mail or text…
New Car Buying

Remember: Invoice ≠ Dealer Cost

Consider the following:

- Factory-to-dealer incentives for volume
- Factory-to-dealer incentives for customer satisfaction
- Factory-to-dealer incentives for advertising

And…Holdback

Holdback is money that the dealer will receive from the manufacturer, based on the MSRP base, MSRP total or invoice, usually on a quarterly basis.

Gaining Invoice and MSRP numbers over the Internet is now a little more challenging…
Step One: Car Buying

There are also added costs for dealers that do not show up as part of the invoice data available on the Internet.

Examples include advertising assessments and dealer participation in promotions.
Step Two: Selling the Old Car

Options….

Trade it in (remember the tax advantage)

Sell it privately

Donate it

Bury it in the backyard
Step Three: Financing

Consider options....

Consult with an advisor at your credit union

Remember, low percentage rate financing is not always the best route

Beating Zero Percent is possible
Remember the Details

Review each contract
Make sure an authorized agent of the dealer has signed on
Check the VIN
Compare the price sticker to the contract
Examine the car thoroughly
Prepare for “Round Two”
Verify the in-service date
Round Two with the F & I Folks

- Financing
- Leasing
- Insurance
- Extended Service Plans
- Key Replacement
- GAP
- Disability and Life Products
- Wheel and Tire
- Road Club Packages
- Prepaid Maintenance
- Appearance Plans (Paint, Dent, Upholstery)
Car Buying 101

Review the contract
Do NOT sign anything you do not understand
Do not allow major factors in the deal to be conditional
Place a time limit on the deal
Put as little money down as possible

(Note: This refers to money that you leave to secure the deal until you pick up the car, not the initial amount of your money that you will put down if you take a loan.)
• Understand that many contracts call for arbitration in the event of a dealer-customer dispute.
Remember…

You are the customer…

If you do not like the way you are being treated…LEAVE!

Fall in love with a car only after it is yours