

# THE BEST WAY TO BUY A USED CAR

*And Five Things You Should Avoid*



## USEFUL INFORMATION AND INSIGHTS

1. Research. Research. Research.
2. Financing
3. Five Things to Avoid

## RULE #1 OF BUYING A USED CAR: RESEARCH. RESEARCH.

For a lot of reasons, purchasing a used car just makes sense. Did you know that purchasing a one-year old car could cost 20% or more less than a new one, yet still be covered under the manufacturer's warranty?

However, to make sure that your investment is a wise decision a little more work must be done. To ensure that you're not taking a financial risk you have to do your research.

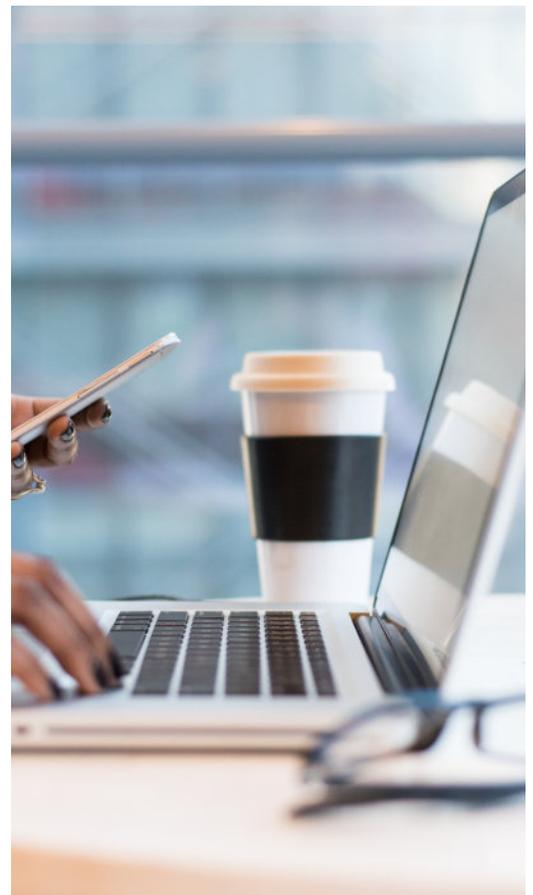
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## Step One: Do Your Research

You'll want to do some research on the make/model/year and that particular car's history. To start, try to find the most reliable make/model of car by checking an unbiased publication such as Consumer Reports. Evidence of a serious accident or a lack of maintenance is not always apparent from a visual inspection or test drive.

Also, there are certain makes and models that have more maintenance problems than others and there are even particular years within a make/model that have more issues than others.

Getting a vehicle history report from a company like Carfax will help uncover, total loss, structural damage, lemon, and flood vehicles. [Click here to see the Carfax](#). There are also free databases you can search online that will offer some basic information. Examples include is the National Insurance Crime Bureau's VIN Check service at <https://www.nicb.org/vincheck> and the Department of Justice's National Motor Vehicle Title Information System (NMVTIS) at <https://www.vehiclehistory.gov>

Next, you'll want to determine the fair market price for the vehicle. Search online to see what others are paying for the same or similar vehicles in your market. Do the research yourself or [check out the Carfax](#) for history-based value to make sure you are paying the appropriate price for your vehicle.

## Step Two: Informal Personal Inspection

Seeing a car in-person and completing a personal inspection is so important in determining the true condition of the car. Here are some things to look for:

- **Do the colors all match?** Do you see any paint on window or door trim that may indicate that the car has been repainted?
- **Do you see any sign of rust?** If a car is rusting, you'll often find rust at the bottom of the doors and in the body panels over the tires. Rust may also appear as bubbles on the surface of the paint if it has not yet broken through.



- **Check the tires**

- Is there ample tire tread? Measure tire depth with an upside down penny. If the top of the Lincoln Memorial is covered by the tread, the tire is good. If not, meaning tread depth is less than 2mm or 3mm, it will need replacing soon.
- Is the tire wear even across the width of the tread and between front and rear tires? Is the same brand and model of tire on all the wheels?
- Even tire wear is normal, but any of the other points above could be a sign of a serious problem.

### Step 3: Test Drive

If the car has passed your informal visual review, it's time for a test drive. It's important to complete a thorough test drive under a variety of conditions - stop and go driving, around a neighborhood, and at highway speed. The vehicle should start easily and shouldn't shake, make excessive noise, or smoke.

#### During the drive, note anything irregular such as:

- Vibrations or noises.
- Does the car pull to one side or vibrate when braking?
- Does it accelerate evenly and brake quickly?
- Are gear shifts smooth and predictable?

Any problems you notice on the test drive could indicate serious problems. In fact, particularly with older cars, some people try to sell them in order to avoid such an expensive repair. Be skeptical of any car salesperson telling you that unusual driving behavior is "normal" for the car you are considering.

### Step 4: Professional Inspection

Having a professional check the car is always a good plan - even if the car has been "certified" by the dealer. This is helpful not only so you know about the problems but also so you can use these minor problems as points of negotiation if you choose to put an offer in on the car.



You can either get a pre-purchase inspection from a repair shop or if the dealer will not let the car off the lot, try to find a mobile inspection service. Make sure to ask what the inspection includes, how long it takes and how much it costs. If the dealer will not allow that either then ask them to have the car inspected at a facility of your choosing (you will have to pay an inspection fee).

Once the vehicle has been inspected, ask the mechanic for a written report including a cost estimate for all necessary repairs. If you decide to make a purchase offer after considering the inspection's results, you can use the estimated repair costs to negotiate the price of the vehicle.

See more in the MoneyEdu article,  
**[Evaluating a Used Car](#)**

## NEXT STEP: FINANCING

When financing a car, there are two main factors – the interest rate of the loan and the term of your financing.

Obviously, lower interest rate loans are less expensive than higher interest rates loans, but what interest rate should you pay? Your interest rate is determined by a variety of factors, including your credit score and choice of lender. In general, it's best to obtain financing approval before shopping for your car.

### Understanding Total Loan Cost

One of the more important components of a loan is the term – that is, how long it takes to pay it off. Auto loan terms are generally between three and seven years. The shorter the term, the lower the cost.

*For example, if you finance a \$40,000 car at 7% over 3 years, your total interest cost would be around \$4,400. Financing over 7 years would cost approximately \$10,700 – that's more than twice as much.*

So why would anyone ever choose the more expensive loan? The monthly payment of the 3-year loan is higher – much higher. Longer terms help you “afford” a more expensive car, but the total cost is higher, and you'll be making payments for years longer.

## Monthly Payment Options

In the example above, the payment for the 3-year loan was over \$1,200 per month. But what if you could only afford to pay \$600? One option would be to finance less over a shorter term.

*For example, a 3-year loan with a \$600 monthly payment would cover a debt of around \$20,000 – which is the approximate value of the same \$40,000 car after four years.*

**Again, here is where a used car can save you money.** You can still get all of the great things about a new car in a well-maintained used car, but you might only pay \$2,200 in interest and the loan would be paid off in 3 years rather than 7 years. You'd also save in sales taxes and depreciation, though your repair costs may be higher.

Not sure how much you should spend on a car payment? A common rule of thumb is that your total car expense, including payment, gas, insurance – everything – be no more than 15-20% of your monthly take home pay. The lower, the better.

## What can you actually afford?

When considering how much to spend for a car, most people think only in terms of the sticker price or monthly payment. But owning a car includes many other costs that can add up in ways you may not expect. The total of all of these expenses is known as the total cost of ownership.

### Here are some costs to consider when researching a vehicle:

- How much will insurance cost? Either contact your insurance company or check out the website below to compare auto insurance rates.
- What is the vehicle's fuel economy?
- State registration for that particular vehicle
- Typically plan to spend 10% to 15% of your total monthly budget on all automotive expenses.

**See the total cost of an auto loan including financed amount and loan terms.**

**[CHECK OUT THIS CALCULATOR](#)**

# THINGS TO AVOID WHEN PURCHASING A USED CAR



1

**Not having your financing ready.**

Know in advance what you can afford and shop local banks and credit unions for the best loan deal before you shop for the car.

2

**Not researching your purchase.** There's no reason to shop for a car without a target price, buy a car that's a known clunker, or to be surprised by fuel, insurance or depreciation costs after the purchase.

3

**Not performing a mechanical check of used cars.** A mechanical inspection can give you more information about potential expenses you may incur sooner than later (new brakes for example). A mechanical inspection may also give you the knowledge you need to negotiate a better deal.

4

**Impulse buying.** Being pressured to make a purchase on the spot is a great way to pay too much for a car. At the very least, take a night to consider your purchase and an hour or two to call around to other dealerships to get prices for similar cars.

5

**Forgetting that buying a car is a financial, not emotional, decision.** You may absolutely love one particular car, but is it the best financial decision for you? Even if you find a car you love, take a night to sleep it over before making your decision - chances are it will still be there tomorrow.

See more things to avoid in the MoneyEdu article,  
**[Common Mistakes When Buying a Car](#)**

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