

Car Buying

Short-term Asset Ownership

Considerations for Car Buying

Take a moment to imagine your life without private transportation. Think about how you will get to and from work each day. If public transportation is accessible, how long it will take, and how many transfers you will need to get from point A to point B? If you have children consider, how will you get them to and from school, day care, and/or extra-curricular activities? Now add grocery shopping, doctor's appointments, and unplanned trips to your list, and see how complicated things get. This can be a typical day for individuals who do not have their own car.



Not having accessible transportation complicates simple errands such as doctors appointments or a trip to the grocery store.

Car buying can be a difficult step. However, owning your own car may help to improve employment options, and those who own their own cars are more likely to be homeowners. Clients may want to repair or improve their credit score before purchasing a car. A primary decision is whether to purchase a new car or a used car. Here are some considerations:

New Car	Used Car
Usually more expensive	Typically more affordable price
Generally reliable and come with a warranty	Often need more repairs; may have a limited warranty
Insurance typically more expensive	Insurance typically less expensive
Variety of vehicle and feature choices	Limited vehicle and feature choices
Generally lower interest-rates or low-interest financing options	Traditional financial institutions may charge higher interest-rates

The Federal Trade Commission (FTC) offers some key tips for purchasing a car:

- Consider your driving habits, needs, and budget
- Research car models, options, and prices
- When financing, consider how much money you can put on a down payment, the monthly payment you can afford, and the interest rate
- Make sure you understand the loan agreement before signing anything
- If purchasing a used car, ask for the maintenance record and have a maintenance worker inspect the car

Resources

Annie E. Cassie Foundation
www.aecf.org

Bankrate
www.bankrate.com

Edmunds
www.edmunds.com

Federal Trade Commission
www.ftc.gov

Kelly Blue Book
www.kbb.com

National Auto Dealers Association
www.nadaguides.com

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Financing Options

There are three options for car financing: get a loan, lease the car, or pay with cash. Car loans typically run for 36-60 months, and can be purchased from a traditional financial institution or from the dealer. Clients may be able to secure a lower APR from a traditional financial institution, so they may want to get a pre-approved loan before going to the dealership.

Leasing a car is usually less expensive than purchasing a new car. A loan is still involved, but a client's credit application is sent to several banks that offer competitive rates. A lease should only last for about 3 years, and during the leasing period clients are responsible for maintenance upkeep and repairs. There is typically a mileage allowance of 12-15,000 mi/year, and if they go over this amount there are extra fees. At the end of the lease clients can either purchase the car for a set price (established at the start of the lease) or they can return the car and use the down payment to lease another car.

The other way to finance a car is to purchase it by writing a check, although this may not be practical for many buyers. With this option buyers can avoid the down payment, interest, and monthly payments.



Whether purchasing or leasing a car, clients must decide which financing option is best for them.

Avoiding Car Scams

Many scams loom around car buying, here are some things to consider or avoid:

- "Packing" occurs when the dealer offers a monthly price that you agree with, but to meet that price they add a bunch of hidden fees (i.e. unnecessary accessories like paint/fabric protector, window etching, etc.).
- Dealers are required to disclose information about the history of used vehicles, including if there were any accidents, if it was previously a rental car, if it was a lemon law buyback, etc. so be sure to ask for this information
- At "Buy here/pay here" lots financing is provided by the dealer at high interest rates. Dealers often attempt to sell cars with high mileage for a down payment that *should* cover the entire cost of the car. If you fail to make payments the car can be repossessed by the dealer who can continue to make profit off the same vehicle. Avoid these high interest loans and try to get pre-approval from a bank or credit union if possible.

While shopping for a car avoid making a purchase based on a monthly price quote. Negotiate with the dealer on the total amount you are willing to spend for the car.

Special Opportunities

Vehicles for Change

Vehicles for Change is a nonprofit organization that provides affordable refurbished cars to low-income workers in Maryland, DC, and Virginia. Cars are donated from MD/DC/VA residents and, if in good condition, are repaired and sold inexpensively to drivers in need. Recipients are identified through social service agencies, and are screened to meet income and employment requirements. The average cost for one of these vehicles is about \$650 with a Vehicles for Change guaranteed loan that allows buyers to establish credit. Clients can call 1-800-835-3821 for more information on this program, and to see if they qualify.

Ways to Work (W2W)

W2W is an asset-building, economic self-sufficiency, community development financial institution (CDFI) that offers short-term, low-interest loans to working families with challenging credit histories. Most of the loans help workers purchase modestly priced used cars. W2W has helped to improve borrowers' earnings by increasing them 41%, and almost all participants who received a car loan have been able to improve their employment situation. Low-income families with dependent children and continuous employment over six months that have exhausted conventional loan resources and have funds to repay a W2W vehicle loan may be eligible. Maryland has one W2W loan office located in Baltimore City; check out www.waystwowork.org or call (410) 534-1388 for more information.



Vehicles for change refurbishes cars and provides them to low-income workers in Maryland.