

**STOCKTON CENTER FOR
ECONOMIC & FINANCIAL LITERACY**
THE RICHARD STOCKTON COLLEGE OF NEW JERSEY



**Stockton Peer Financial Education Program
Buying a Car: New or Used**

Do you have a car? Do you want a new car? How does buying a car work? This handout will explain the different possibilities of purchasing a new or used car.

New vs. Used

Should you buy a new or used car? There are questions you need to ask yourself to decide.

- Can you afford a new car? Is your income stable enough?
- Is your credit score high enough to get a good loan?
- Will you be very dependent on the car? Although not all used cars are faulty, you are more likely to experience a problem with it than with a new car.

Think these questions through in order to make a decision. Remember, a car purchase is second only to the purchase of a home in financial impact.

Regardless of buying new or used, you must be aware of the value of the car you are buying. There are three values you need to know and they are: Invoice, MSRP, and TMV.

Invoice is the price the dealer paid for the car. They need to charge the buyer more than this so they can profit from the difference.

MSRP stands for Manufacturer's Suggested Retail Price, which is just that. The MSRP is higher than the invoice, and you always want to pay under it.

TMV is the True Market Value of the car, which is the mean of prices people in your area have paid for the car. Depending on the popularity of the car, this can be higher, but more likely lower than the MSRP.

Your goal is to pay a price between the Invoice and TMV. Arm yourself with knowledge before you set off for a dealership. If you don't already know what to pay or have an idea what you are going to offer, a car salesman might get away with charging you as much as they can get away with. This price information is publicly available from Edmunds.com or Kelly Blue Book. Individual car histories (for used cars) are available from Carfax. Dealers subscribe to Carfax but individual buyers may purchase reports (e.g., for 1 car, 5 cars, unlimited) from the website.

Watch out for Service Contracts!

All new cars and some used cars come with a manufacturer's warranty. This warranty costs nothing, but usually doesn't cover an extensive amount of circumstances. Some dealers will try and tack on a service contract for your car. Service contracts usually cover more circumstances and for a longer time period, so if you believe you need some kind of additional coverage be sure to read through the contract. They can be tricky.

- The service contract may cover many of the same things the manufacturer's warranty covers, so there would be no reason to pay for it.
- A third party is usually held accountable for the service contract, as opposed to the manufacturer.
- Sometimes a part can be covered by the warranty or contract, but not the labor involved in replacing it.
- A contract can impose maintenance responsibilities on your end and if they aren't met the contract is void.

Before saying yes to an offer of a service contract or extended warranty, make sure you really need it and that it's legitimate coverage for your vehicle.

Leasing vs. Buying

Whether you want to lease or buy is a question of two matters: your credit score and the max payment you can make toward a car monthly. If you cannot get a good loan for your car or can't meet the monthly payments for the loan you get, you can lease the car. Leases are cheaper, but are much different than buying a car. You have nothing that you own at the end of the lease.

- At the end of your lease payment contract you either have to renew that car's lease, lease a new car, or give the car back. You do not own the car, unlike if you bought it.
- Sometimes leases impose a max amount of miles you can drive in a month, and you get charged a penalty if you surpass it.
- If you're someone who wants to drive a new car every five years, you can lease and change cars at the end of your contract.

As with buying a car, you should still compare prices at other dealers.

Alternative Fuel Vehicles

Alternative Fuel Vehicle (AFV): A vehicle that runs on a fuel other than "traditional" petroleum fuels. Remember, this doesn't just mean electric hybrids, but also refers Methanol, Ethanol, Hydrogen, Biodiesel, Compressed natural gas, Propane (liquefied petroleum gas). It also refers to any technology of powering an engine that doesn't involve solely petroleum.

Consider the following when making a choice between an AFV and a traditional fuel automobile.

- How far will you be travelling daily to, say, a job? Although an AFV may cost more, it can save you money in the end on gas.
- What kind of climate do you live in? Electric cars tend to have trouble starting up in colder weather.
- Are you an eco conscience person? AFVs emit fewer pollutants than traditional cars.
- How many miles will the AFV travel on a full supply of fuel, you may find that some AFV won't travel as far as a gasoline powered vehicle would travel.
- What type of fuel does your vehicle take? And are there refueling/recharging stations in your area?
- Operating cost? They tend to vary between vehicles.
- Performance. Some powered by different fuels tend to have difficulty in some weather climates.
- Convenience. The amount of time it takes for the tank to be refueled and how it is refueled.

Sales Tactics

Car dealers' jobs are to sell you a car for as high a price as they can, and they can be experts. Know how much you want to pay beforehand or the dealer may catch you off guard. Watch out for these tactics.

- The dealer may try to befriend you and make you feel guilty for going to other dealers. Remember this is about you getting a car for the best price, not about feelings.
- Dealers will stall by losing the keys, or go talk to his manager, anything to keep you sitting there. They are trying to wear you out. Be patient.
- Dealers will sometimes create a sense of urgency in taking the deal.
- Dealers may throw in "free extras" for "no extra cost". This is usually to justify a higher base price.

Do all your research before buying a car. No one else will do it for you.

Suggested Further Resources:

Federal Trade Commission. <http://www.ftc.gov/bcp/menus/consumer/autos/buy.shtm>

Edmunds. <http://www.edmunds.com/>

Kelly Blue Book. <http://www.kbb.com/>

Carfax. <http://www.carfax.com>

For further information about Peer Financial Education, contact:

Dr. Deborah M. Figart, Professor of Education and Economics

Director, Stockton Center for Economic & Financial Literacy

Deb.Figart@stockton.edu