



STEPS TO FINANCING YOUR FIRST CAR



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Well, you finally did it. After hours of research and a few exhilarating test drives, you managed to make it through every make and model on your new car wish list and narrow it down to just one. It's a machine of precision with perfectly sculpted features and a list of great technologies surpassed only by the engine's powerful performance.

Now, the only thing that stands between you and the wind whipping through your hair as you cruise down the expressway on a cross-country road trip is the small detail of how you'll pay for it. These days, most people choose to finance their vehicles since it allows them to pay off the car gradually instead of putting up all the money at once. However, before you do that, there are a few things you need to take care of prior to heading to the dealership.

BUYING VS LEASING

There's a huge difference between financing a vehicle and leasing one. When you decide to finance a car, part of your payments go toward the purchase price. At the end of the financing agreement, you own the car. With leasing, you're still required to make monthly payments. At the end of the agreement, you won't own the car and will need to return it to the dealership.

BEFORE YOU GO TO THE DEALERSHIP

While you were researching different vehicles, you probably spent some time deciding on your transportation needs. When it comes time to purchase, the sales consultant will explain any available upgrades or optional features the car can be equipped with.



While it's true that all-wheel drive can improve traction and a 500-horsepower engine would definitely impress your neighbors, these upgrades will increase the purchase price of the car. What you need to do is determine your budget; this will give you a real number to work with, so you can be sure you're getting the car you need before adding on the features you want.

MAKE A NEW CAR BUDGET

Start by writing down your sources of income and your expenses for one month. When you subtract your total expenses from your total income, you'll see how much extra money you have each month. This number is your maximum monthly payment amount. Don't forget to talk to your insurance company and find out how much it'll cost to insure your new car, so you can factor that in, as well.

If you have any additional money saved or if you plan on trading in your current vehicle, you can include those numbers in your new car budget. There are a variety of free appraisal tools online that can help you estimate how much your current vehicle is worth. Keep in mind that if you're still making payments on the vehicle, that'll reduce its overall value. If you owe more than the vehicle is worth, the negative equity won't bring down the purchase price of the new car. Try to pay down the debt before trading in the vehicle.

When you add the value of your trade-in to any money you've saved, you'll discover your down payment amount. The down payment and monthly payment amounts are two important numbers, but when we're talking about loans, there's one more number you need to consider.



KNOW YOUR CREDIT SCORE

Your credit score is a major factor in determining who will lend money to you and what the APR, or interest rate, will be for the loan. You can get a free copy of your credit report once a year by visiting AnnualCreditReport.com. This site is operated in part by three major credit reporting agencies—Equifax®, Experian™, and TransUnion®—and is endorsed by the U.S. government. You can use your credit score to negotiate the rate and terms of the finance agreement.

CHEAT SHEET: FINANCE KEY TERMS 101

Sound like a seasoned car buyer by using the same terms as the experts!

- ✔ **Annual percentage rate (APR):** *This is the cost of the loan expressed as a percentage. Try to get this rate as low as you can.*
- ✔ **Assignee:** *This is the financial institution that agrees to buy your contract from the dealer and to which you'll make monthly payments.*
- ✔ **Co-signer:** *A co-signer is another person who signs the contract with you. Some financial institutions may require a co-signer if you have poor or non-existent credit.*
- ✔ **Fixed-rate financing:** *Your APR won't change over time, which is good if you manage to get a low rate.*
- ✔ **Negative equity:** *You have negative equity when you still owe money on your current vehicle and it equals more than the car's market value.*



LET'S MAKE A DEAL

Now that you know your maximum monthly payment amount, down payment amount, credit score, and a few key finance terms, you're ready to buy your first car. This is the time to decide what additional features or upgrades you can afford. Keep in mind that changing the purchase price could affect your monthly payment amount. The dealership is responsible for telling you about these features or any extended warranties that are available, but only you know your absolute price range, so make sure you stay within your budget.

Using your down payment amount and credit score, work out the terms of your finance agreement with the finance department at the dealership. They may have you fill out a finance application that'll be sent to potential lenders, or assignees, to secure a loan for you. The assignee, which can be a bank, a finance company, or a credit union, agrees to purchase your contract from the dealer because you'll repay the assignee.

Since this is your first car, some lenders may require you to have a co-signer on the contract. The co-signer assumes the same amount of legal responsibility for the contract and any credit given will appear on their credit report. They're also legally obligated, as are you, to make sure payments are made on time.

Continue working with the finance department until you find an assignee that'll purchase the contract. You may need to adjust the contract slightly to make it more attractive to the lenders. Depending on your particular situation, this process can take some time. Be patient and work closely with the dealership's finance department to secure a loan that fits within your budget.



LENGTH OF LOAN: WHY IT MATTERS

You're about to finalize the contract when you learn that by extending the length of the loan, you can decrease the amount of your monthly payments. Since you've already budgeted for your maximum monthly limit, this seems like a good deal.

However, unnecessarily long loan terms should be avoided. In the end, you'll pay more for the car than you would with a shorter loan term. Ideally, you should aim for a shortest loan term that you can reasonably afford.

AFTER YOU SIGN

Before you head home to celebrate, make sure you receive a copy of your credit contract with all the terms filled in and the proper signatures. Only accept a physical copy and don't agree to have it mailed to you. Note that the assignee may hold onto the vehicle title until you're fully satisfied with the loan agreement. Late or missed payments could result in fees and have a negative impact on your credit report, which could affect your ability to purchase your next car.

If, down the road, you find that you're having trouble making payments, contact your lender as soon as possible and discuss your situation with them. Most agencies are willing to work with you if they feel you'll repay them soon, even if it's slightly past the due date. You may be able to work out a delay in payment or a revised payment schedule.

If you reach an agreement that changes the terms of the original contract, make sure to get it in writing so you have an updated copy for your records. If you have a co-signer on the contract, be sure they're aware of your situation and supply them with the updated contract, if applicable.



PRO TIP: START NOW!

The sooner you decide how you'll finance your car, the better. Defining your budget and spending limits early will help determine what you can afford, and subsequently, keep you out of debt. Most dealerships provide free research tools on their websites to help you budget for a new vehicle.

Experiment with trade-in appraisal tools, monthly payment calculators, or any other resources they have available. You can also visit the dealership to speak with a sales consultant or a member of the finance department directly. They have years of experience and training to help drivers like you purchase a new car, and they can help you define a more realistic budget.

Congratulations, and good luck with your very first car!

