Buying a Car

Mary Rowland Personal Finance Column – February 2008

Isn't every month suited for some financial task? Saving on holiday shopping? Making a New Year's resolution to clean up your financial house? Tax planning?

So what's the point of February?

Not only is it cold and blustery, but it seems to have no financial purpose. Valentine's Day is a nice touch but not a big financial event. So how about dedicating February as the month to research buying a car? If you don't need a car, you can just jump ahead to filing your taxes!

February makes sense as car buying month for a couple of reasons. First, everybody else is staying home, trying to keep warm. Second, the new model year, in this case 2008, has been available long enough to garner some feedback on the pros and cons of various makes and models. And, better yet, many dealers still have last year's models from 2007 in stock.

That's important because buying a car breaks some hard and fast rules of personal finance. A car is not an investment. When you buy a new car, it loses value, or depreciates, immediately. Just as you're putting your new keys in the ignition and backing out of the lot, you turn your new car into a used car. So buying a new car of last year's model saves you money because it already has depreciated in value.

It's not easy to take the stress out of car buying. But researching what you want, what you need, and what's available can make the process less demanding. Some sources that might be helpful include Edmunds.com, which offers reviews, ratings and advice as well as suggested retail values for used cars. Kelley Blue Book at kbb.com also provides information on used car values. Both of these sources are objective and independent.

Unless you love to go car shopping, don't set foot on a lot until you've done your research, read reviews, determined a price range and decided how you will pay for your purchase.

For Younger Members Starting Out

If you are just starting out in your career or professional life, perhaps a new car, which might cost $20,000 plus interest on the loan, is not right for you just yet. You have at least two other options: buying a used car or leasing a car.

You can lease a car with very little money upfront. You can also negotiate monthly payments that you can afford. Most elements of a lease agreement are negotiable. Pay attention to the mileage limits. You must pay for miles above the number specified in the lease, but mileage is negotiable, too. Further, leasing is not the same long-term commitment as buying a car. So if you expect your lifestyle to change in the next couple of years, leasing can be a good option.

Or consider a used car. Cars made today last longer than they used to. Be sure to have the car checked out by a mechanic and do some independent research, perhaps online, about a fair price for the model you are considering. Another option is to buy a used car from a company, like a car rental company, that maintains a large fleet of cars. These companies generally sell cars when they have around 15,000 miles on them. They are typically the current model and have been well maintained. For example, Enterprise Car Rental sells used fleet cars directly to the public at www.enterprisecarsale.com.

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For Mid-Career Members

Suppose you are mid-career, with a family and the need to haul around kids and sports or music equipment. You're not looking for a sports car, right? If you want a no-nonsense, utilitarian family car, consider the new cars at a dealership that happen to be last year's—2007—model. It might not be as spiffy and doesn't have equal bragging rights to the latest model. If your ego can handle it, this could be for you.

How should you finance this car? Bankrate.com provides advice on car buying and interest rates. You can also check out interest rates for auto loans online. Don't mention your trade-in to the dealer until the price is set. And then watch out for the dealer's business office, which is probably your last stop. This is a big profit center for dealerships. The salesperson will try to sell you insurance, financing, extended warranties and the like. Just say no.

For Pre-Retired and Retired Members

If you're nearing retirement or already retired, it doesn't mean you won't need another car. You need a safe car of the proper size. Consider your driving patterns. Do you use your car for travel? Or do you just drive to the airport? If you plan to do considerable highway driving, consider a slightly larger car with some amenities to make you more comfortable.

Some financial planners insist that retired clients get out of debt, paying off the mortgage as well as car and credit card loans. Financially, it makes good sense. You save money on interest and keep your finances simple.

However, some people weigh the psychological aspects of keeping money in the bank much more heavily than staying out of debt. If you believe that taking $20,000 out of your bank account to buy a car would make you *feel* poor, consider using a home equity loan. Interest on a home equity loan is deductible for tax purposes while interest on an auto or credit card loan is not.

Still, don't stretch the payments out for too long. Car dealerships now offer loans of 6 or 7 years. Don't buy it. If you stretch out the payment that long, you will owe more on your car than what it is worth because the car's value is depreciating faster than you are paying it down.

Whatever your age and stage of life, don't let car buying become an emotional decision. You can just see yourself—or imagine others seeing you—as one of the beautiful people in a fancy sports car. Forget it. You already are one of the beautiful people. Buy a car based on your needs and what you can afford.

Mary Rowland is a nationally known business and finance writer. The former personal finance columnist for The New York Times and former co-host of a nationally syndicated radio show, Ms. Rowland is the author of several investment books and speaks regularly to consumers and financial planners about investing and personal finance.