



First Time Auto Buyer

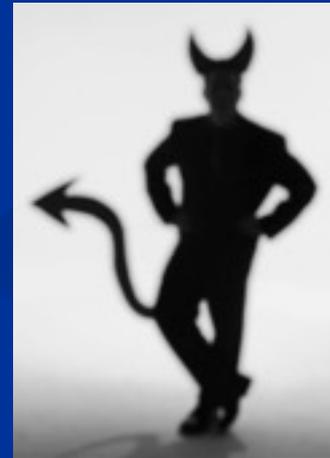
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What do you need to get a loan?

- Credit is the most influential factor in a lender's decision to grant a loan.

What is Credit?

- Credit is your financial reputation.



FICO Score

- FICO – Named for the score's developer, Fair Isaac Corporation.
- FICO score ranges from 350 to 850.
- Scores between 675 – 850 are considered good credit.
- Scores less than 600 are considered poor credit.



FICO Score

- You can buy your score from one of the three major credit reporting companies:
 - Equifax
 - Experian
 - TransUnion



How To Improve Your Score

- Establish credit by obtaining some form of loan.
- Be punctual and CONSISTANT!
- Check credit report often.
- Keep debt in check.
- Avoid excessive inquiries.
- Keep accounts open.
- Keep a healthy mix (mortgage, credit card, a car loan, and perhaps a retail card)

How Mistakes Affect Your Score

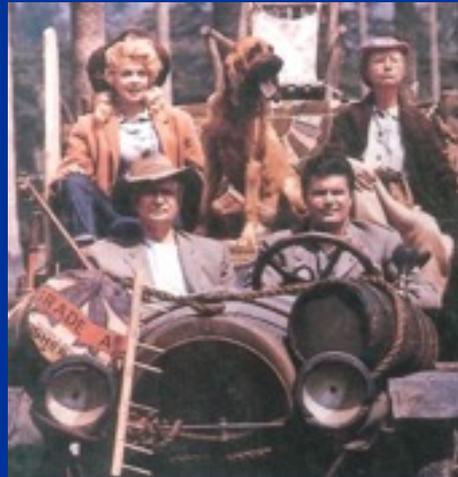
DAMAGE POINTS: HOW MISTAKES AFFECT FICO SCORES

Credit mistake	If your score is 680	If your score is 780
Maxed-out card	Down 10 to 30 pts.	Down 25 to 45 pts.
30-day late payment	Down 60 to 80 pts.	Down 90 to 110 pts.
Debt settlement	Down 45 to 65 pts.	Down 105 to 125 pts.
Foreclosure	Down 85 to 105 pts.	Down 140 to 160 pts.
Bankruptcy	Down 130 to 150 pts.	Down 220 to 240 pts.

Source: FICO

Four C's of Credit

- Capacity – annual income?
- Character – will you repay the loan?
- Collateral – do you have assets?
- Capital – what are you worth?



Debt-to-Income Ratio

- Debt-to-income ratio measures the amount of debt you have compared to how much money you make.

30% or less: This is the ideal level of debt.

30% to 40%: Still credit worthy.

41% to 49%: Hard to get credit at this level.

50% or more: **GET HELP!!!**



Calculate Debt-to-Income Ratio

Debt:

Monthly mortgage or rent \$850

Minimum monthly credit card payments \$60

Monthly car loan payment \$190

Other obligations \$75

Total monthly debt payments: ~~\$1,175~~

Calculate Debt-to-Income Ratio

Income:

Monthly gross salary \$2,950

Other monthly income \$90

Total monthly income \$3,040

Debt-to-Income Ratio:

Total debt \$1,175 divided by total income \$3,040

= 38.65%

Get Pre-Approved

- The best time to arrange financing is before you go to the dealership.



Advantages of Pre-Approval

- Gives you confidence and the upper-hand when negotiating a price at the dealership.
- Ensures that you don't buy more than you can afford.
- Provides an opportunity to find the best interest rate available – rather than relying on dealers who have may have a hidden agenda.

Buying a Car

Things to avoid while shopping for a car:

1. Do not show enthusiasm! Dealers take advantage.
2. Never buy a car in a hurry!
3. Do not give the salesman collateral.
4. Avoid being switched to a lease without doing your homework.
5. Do not trade in your car without knowing its value in advance.
6. Avoid financing automatically at a dealership.

Consider Buying a Used Car

Benefits of Used Cars

- Used cars do not depreciate as rapidly compared to new cars.
- One year old vehicles are about 20-30% cheaper than new ones.
- Used vehicles are sometimes still covered by extended warranties.
- You can trace the history of the car using the Vehicle Identification Number (VIN).
- Some CU's offer new car rates on used vehicles.

Buying Used



- Have an independent mechanic check out a used car before you buy it.
- Ask questions – pay attention to road noise, handling, brakes, seating comfort, etc.
- Order report on used vehicle from carfax.com

Using the Web



- Web sites make car shopping a little easier. Do your homework on sites such as KellyBlueBook.com.
- Check online customer satisfaction and safety ratings.
- Web sites are good for researching, but not necessarily for car buying. Be careful, and only deal with people you can trust.

Auto Dealer Extras

- Extended Warranties
- Fabric and Paint Protection
- Rustproofing
- Maintenance Plans
- Ding Protection
- GAP Insurance



Everything is Negotiable

Consider asking for all these “Extras” for free...



You Can Always Buy “Extras” Somewhere Else

- Extras at a car dealership are like extras at a movie theater...they are WAY OVERPRICED!

Remember: You can always purchase extras from your bank, credit union, or insurance agent at about half the cost!



Beware of “Bait and Switch” Tactics

It's not unusual for dealerships to use “bait and switch” tactics to get consumers in the door, only to find that what they thought was true, isn't.

Things to watch for:

- 0% Financing
- Manufacturer Rebate
- Outstanding prices

If it sounds too good to be true, it most likely is...

Insurance

First time auto buyers usually overlook the cost of insurance when purchasing a vehicle. It can be very expensive. Sometimes your monthly insurance payment can equal your car payment.



Does not equal



Remember the following coverages when shopping for a new car...

Insurance Coverages

- **Liability** (Required) – covers bodily injury, and damage to property of others that you are found liable for in an accident. Make sure you carry adequate limits. The minimum coverage required by the state is often too low. **You are responsible for whatever your insurance company does not pay.**
- **Collision** (may be required by your lender) – covers damage to your vehicle, minus your deductible.
- **Comprehensive** (may be required by your lender) – covers miscellaneous damage to your vehicle, minus your deductible. For example, if you hit a deer or if your car is stolen.



Cost of Insurance

Here are a few factors that affect the cost of insurance:

- Gender (males cost more to insure)
- Residence (some cities have more accidents)
- Grades (you can get a good student discount)
- Type of vehicle (sporty models cost a lot more)
- Insurance coverage and limits
- Driving record

Male Car Accidents



Female Car Accidents



How to Decrease the Cost

- Shop around.
- Consider a higher deductible.
- Drop collision and/or comprehensive coverage on vehicles worth \$1,000 or less (check with your lender first).
- Buy a low profile car.
- Take advantage of discounts (low mileage, auto seat belts, airbags, multi-vehicle, no accidents, driver training, good student, anti-lock brakes).

Monthly Car Budget

You should consider the following factors when planning a monthly budget for your vehicle:

- Gas
- Oil changes
- Maintenance
- Insurance
- Car payment



Depreciation

Depreciation is the invisible cost of ownership. In the first year of ownership, your vehicle may lose 20% of its original value due to depreciation. By the end of the fifth year, your vehicle's value drops by an average of 35%.

