

Car Buying Basics

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Plan to today:

- Discuss the importance of car purchases
- Steps to take before buying a car
- Steps to take during the car buying process
- Steps to take after purchasing a car





Let's talk cars!

What's the most expensive car you can think of?

What's the cheapest car you can think of?

Cars affect finances for many years

- Car loans can be 3, 5, 7, or even more than 7 year loans
- Many people trade in cars while they still owe money on the loan
- Right now, cars are EXPENSIVE
- Average monthly payment for a used car is now \$532 per month (new cars are averaging \$738 / month)
- In June of 2020, it was \$147



A large, bright yellow arrow graphic pointing to the right, positioned on the left side of the slide.

**What should
you do before
buying a car?**

Build Up Your Down Payment

- This is the amount you pay initially when purchasing
- It can help reduce your overall cost
- Requires planning ahead and saving



Know Your Budget!

- Knowing what you can afford is critical to planning
- Experts say no more than 10% of your take-home pay on a car loan payment
- However, you should review your spending habits. Depending on your situation, the actual number may be lower!
- What can you save for a down payment?



Know your credit picture

- Interest rates change your overall cost
- Credit history and score can significantly affect your interest rate
- Improving credit takes time, start working on it before you are ready to borrow

Average interest rates by credit score type for new and used car purchases

Credit score category	Average loan APR for new car	Average loan APR for used car
Deep Subprime (300 to 500)	14.76%	20.99%
Subprime (501 to 600)	10.87%	17.29%
Non-prime (601 to 660)	6.70%	10.48%
Prime (661 to 780)	3.56%	5.58%
Super Prime (781 to 850)	2.40%	3.71%



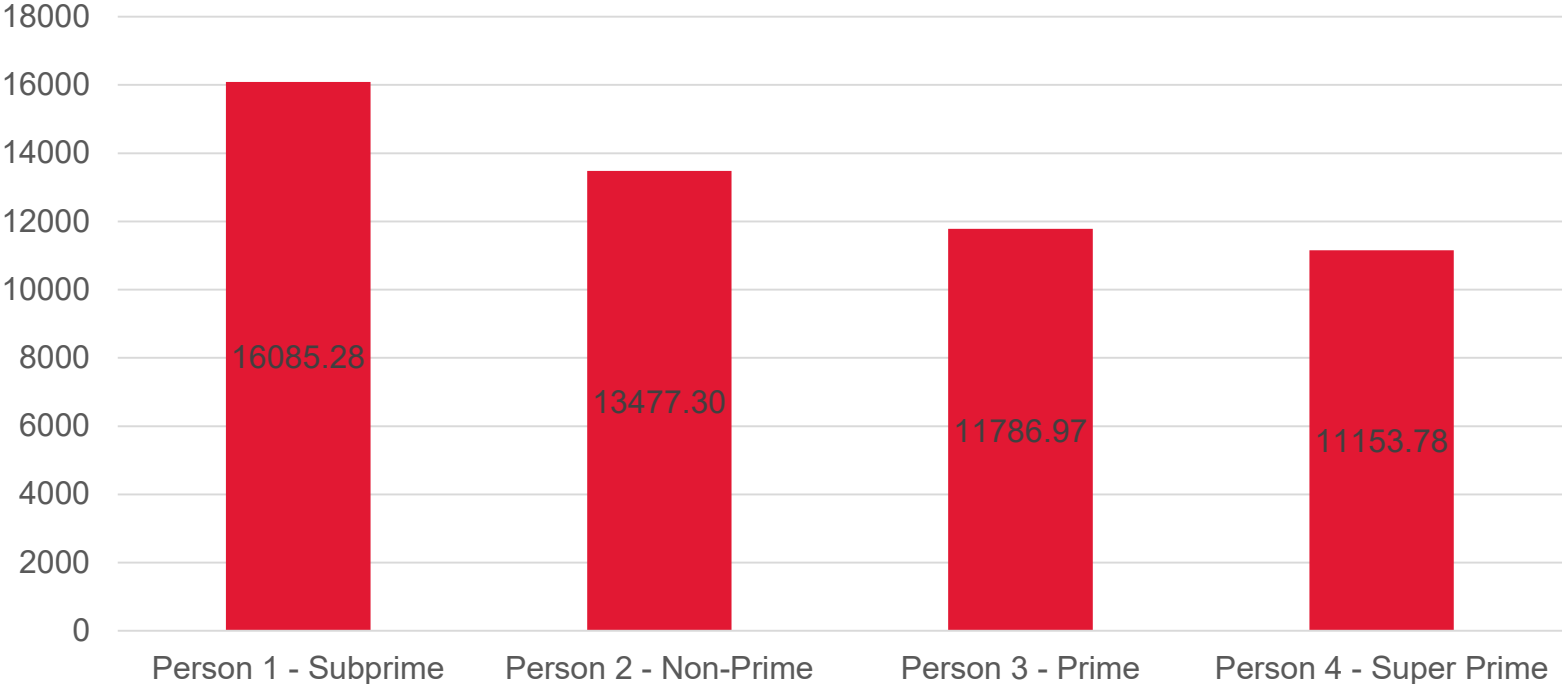
Visualizing the Effect of Interest

4 people buy used cars for \$10,000 with 6 year terms

- Person 1 - Sub-prime Credit: \$225/month, 17.290%
- Person 2 – Non-prime Credit: \$189/month, 10.48%
- Person 3 – Prime Credit: \$164/month, 5.58%
- Person 4 – Super prime Credit: \$157/month, 3.71%



Overall Amount Paid



Research before you buy

- Consider car factors like: reliability, gas mileage, safety, cost to repair, insurance cost, and other user comfort features.
- Consumer Reports can be a great resource
- Use calculators online to help estimate taxes, fees, tag and title costs, and other things that increase the price shown





**You're ready to
buy, what
now?**

Be ready for a (potentially) long search

- If you can, wait for what you really want
- Being able to travel to purchase can open your options
- Write down exactly what you are looking for and how much you can spend (it's a great way to help you stick to your budget)



Shop around for a loan

- Applying for credit can lower your credit score for a bit
- Not each time, you get 2 weeks to shop around (take advantage of this time!)
- Review the interest rate and loan terms



Be prepared for the buying process

- Dealerships can be fairly aggressive in their sales tactics
- Be prepared to say no (a lot) and stick to your guns on your budget
- Beware of add ons (like maintenance packages and other costs being incorporated into your loan amount)





**What about
after you buy?**

Keep up on Maintenance

- Routine maintenance keeps your car running as long as possible
- It also helps keep trade in value higher (just in case)



Consider Power Paying your Debt!

- Cars can decrease in value more quickly than the loan balance
- This is called being “under water” on your car loan
- You can pay your loan more quickly than planned (be careful of pre-payment penalties)
- Helps you take advantage of amortization!
- <https://extension.usu.edu/powerpay/>



References

- <https://www.nerdwallet.com/article/loans/auto-loans/average-monthly-car-payment>
- <https://cnn.com/2023/04/15/cars/car-loan-interest-rates-2023-dg/index.html>



Other resources

- <https://www.consumerfinance.gov/consumer-tools/auto-loans/>
- <https://www.npr.org/2020/02/14/806073375/how-to-buy-a-car-without-being-taken-for-a-ride>
- <https://www.nerdwallet.com/l/first-time-car-buyer>



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Thank you! Questions?

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