

The Cost of Buying a Car

Buying a car is usually the first major purchase for a young adult and it is often made using credit. Because the cost of credit varies considerably, consumers should know how to shop for a loan most suitable for them.

The annual percentage rate (APR), which can be as low as 2% or as much as 21% (depending on state law as well as a variety of other factors) and the length of the term for the payment are the most significant factors in the cost. Car dealers, banks, finance companies, and credit unions are all readily available resources.

Your teen may want to contact a car dealer, bank, credit union, and finance company to learn the following information for a car loan: annual percentage rate (APR), finance charge, length of loan, down payment, credit life insurance, and disability insurance cost. Compare the cost for each loan.

The cost of owning and operating a motor vehicle

Ownership (fixed) costs

- Depreciation (based on purchase price)
- Interest on loan (if buying on credit)
- Insurance
- Registration fee, license, taxes

Operating (variable) costs

- Gasoline
- Oil and other fluids
- Tires
- Maintenance and repairs
- Parking and tolls

Before you begin shopping:

- Determine if you want to own or lease you car; and if you want a new or used car
- Decide how much you can afford to spend
- Decide which car models and options interest you
- Research the reliability of the model of car you want
- Find out where the nearest repair facility is that works on the type of car you want
- Find out whether parts are readily available for the type of car you want. Find recent prices in used-car "blue books" in the library, on the Internet, in newspaper ads, consumer magazines, etc.
- Shop for financing

- Factor in the cost of the loan and the cost of maintenance.
- Know how to read a "Buyer's Guide" sticker.
- Find out the reputation of the dealer
- Find out what type of warranty comes with the car
- Find out what type of service contract comes with the car

Sources for used cars:

New-car dealers provide quality used vehicles; service department available; higher prices than other sources

Used-car dealers specialize in previously owned vehicles; limited warranty (if any); vehicles may be in poor condition.

Private parties may be a good buy if vehicle was well maintained; few consumer protection regulations apply to private party sales.

Other sources such as auctions or sales by government agencies, auto rental companies, and on the Internet; most of these vehicles have been driven many miles.