

HOW
TO
BUY
A
CAR

Kovo, a public benefit company

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How to Buy Your First Car

A car is one of the first major purchases of many Americans' lives. This step is not something that should be done on a whim, but thoroughly researched and planned long before stepping foot onto the lot. Approaching this process haphazardly could result in serious financial problems that could stick with you for several years. The importance of ample forethought and preparation cannot be understated. To make sure your car buying experience goes as smoothly as possible, here is an overview of what you need to do to fully prepare for the purchase of your first car.

1. Determine What You Need

Firstly, you must consider your reasoning for buying a car. Are you using it for commuting to work or school? Or for off-roading on vacation? Think about where you are located and where you will be driving. Depending on whether you will be driving locally or making trips out of state, the make and model of the car must be conducive to your needs and habits. What environmental conditions will you be facing while operating your vehicle? These factors will clue you into the type of car and features you're looking for, and therefore, the price range you should be budgeting for.

2. Research Before You Visit

Numerous details must be considered when making this purchase – after all, this is not a typical transaction. This purchase will stick with you for several years into the future, so you must be careful about how you approach it.

Visit manufacturer's websites and apps such as Kelley Blue Book to look at the specs of the vehicle, reviews of its performance, and related details. Know the general capabilities and build of the vehicle before committing to one or a few primary preferences. You

should also gain a solid idea of what to expect in a monthly payment. As of this year, the average American's car payment is between [\\$393-550 monthly](#), so plan to work this number into your monthly budget. Look up the following details during your research:

- Size of the car
- Safety specs and testing
- Cargo space Gas efficiency

3. Secure Financing

Securing financing will likely be part of the car buying process that takes place at the dealership, but you need to have started this process long before your visit. This step starts with strengthening your credit score, which has a direct impact on the loan options and interest rates that will be available to you. (As of this year, FICO scores of 700 or higher can get [rates between 5.01%-5.93%](#), while scores in the 600s will yield interest rates between 7.42%-11.08%.)

Determine the type of purchase you'll be making:

- **New Vehicle:** This option is best for someone who will continue driving the vehicle for several years, even after the loan is paid off. They might also plan driving more than 15,000 miles annually, making full use of their vehicle throughout the year. The only drawback here is that new cars depreciate in value relatively quickly.
- **Used Vehicle:** If you were to buy a used vehicle, you would get an equally functional car at a significantly lower price. If you ever decided to sell or trade-in your vehicle in the future, you have a greater chance of getting a better deal, since used cars also depreciate slower.
- **Leasing:** This option is best for someone who does not intend to keep their vehicle for more than a minimum of 3 years and doesn't drive very often. (Too much mileage can result in extra fees being added onto the agreement.)

4. Visit the Dealership

Now that you're armed with knowledge, you can visit the dealership and negotiate the best price that works for you. The importance of having done your research thus far is that you will not be taken advantage of as you shop and ultimately close on the deal. Unfortunately, not all dealers are looking for what's in your best interest, but more concerned with their commission. Keep your financial defenses up by walking in with:

- **Your credit score in hand.** Whether on your phone or a printed report, know your score ahead of time. At some point, they will have to pull a hard inquiry if you do close on a deal, but you will be less vulnerable to tactics of offering unsuitable rates or requests for credit pulls.
- **Knowledge of the estimated value of the vehicle.** This will be key to negotiations. Not every dealership prices their vehicles in the same way, as they are not required to follow the same Kelley Blue Book pricing calculations. If you feel the asking price is too high, stand your ground and talk it down.

When you find a vehicle that meets your qualifications, go for a test drive. You don't want to test drive too many vehicles, as you may become distracted by the thrill and relax your standards. Try to only test the vehicle you are seriously considering for purchase.

5. Close the Deal

All the preparation has been leading up to this moment. As you close on your first vehicle purchase, review all the costs involved in this agreement. In addition to the asking price, you will be responsible for covering:

- Maintenance and repairs
- Gas
- Insurance

- License plate and registration fees

When you are ready to move forward, take your time reviewing the paperwork. [Sixty-one percent of first-time car buyers](#) agree that this is the most frustrating portion of the car buying experience – one that has not improved in several years. Since the dealer is not always looking out for your best interest, you must be wary of the content of the documents and what they mean for your agreement. Be aware of extended warranties and other last-minute offers the dealer will try to pitch at during the closing process.

For used vehicles, especially, make sure to check the CARFAX as you review all the necessary paperwork. Know the history of the vehicle you are buying before committing to several years of payments.

The first car buying experience is one of the most exciting yet intimidating milestones of adulthood. With this guide, you will be prepared to make a well-thought-out decision on a purchase that will stick with you for years to come.

Determine What Kind of Car You Need

Choosing the type of car you need is essential to a successful car buying experience. This decision will primarily influence your budget, since the make, model, features, and capabilities of your vehicle will play a role not only in the monthly loan payment but additional costs as well. Remember that the vehicle type plays a direct role in gas consumption, and can even result in higher insurance payments. Before you get too far into the car buying process, consider the type of car you need to get a handle on all of these payment factors early on.

1. Get Clear Perspectives on What Your Needs Are

The first step in this phase of your car buying process should be to ask yourself why you're getting a car. What do you need it for? Are you purchasing this vehicle in celebration of a special occasion, intending only to use it for a quick vacation cruise here and there? Or is this a crucial decision that will determine your ability to get to work on time? In all cases, you will have to clearly outline your vehicle needs to yourself, as this will help you to narrow down the makes and models to best suit your circumstances. (Remember to prioritize the functionality of the vehicle over flashy features like a loud stereo or excessively powerful engine.)

Some great questions to ask yourself during this step are:

- **What seating capacity do you need?** (Will it just be you in the vehicle, or do you have a family?)
- **How much space do you need for the storage of personal belongings?** (Will you be packing camping gear in your car or transporting goods often, for example?)
- **Will you be using this vehicle for commuting?** How important is fuel efficiency for you?
- **What type of driving will you be doing?** Commuting on highways or off-roading?
- **What types of safety features are most important to you?** (Hands-free device use, speed limit warnings, or vehicle proximity alerts, etc.)

2. Determine Whether You Will Be Buying New or Used

This will be directly influenced by your preferences and needs for vehicle make and model. This is especially the case when considering the types of features and convenience you need to be made available to you. For instance, you will be hard-pressed to find an older used vehicle with the vehicle proximity alerting capabilities as featured in models of recent years. Depending on your expectations for the vehicle, older, used models may not be able to meet those expectations simply because the technology was not developed at the time of manufacturing. (Keep in mind that,

according to CARFAX, [the average used car](#) on sale will be approximately 10 years old, and will likely have had about 2 owners before you.)

When making a choice between used and new, you'll need to identify the trade-offs you're willing to make between the potential savings you can experience when purchasing a used vehicle vs. the potential fewer capabilities. Both have unique advantages, but make sure the give-and-take here is balanced so that you can get the best available price for the most value.

3. Compare Your Choice Vehicle to Others in Its Class

Now you can start getting a bit more specific on the type of vehicle you want. Browse through makes and models and choose the features and capabilities most relevant to your needs. Once you have gained clarity on the type of vehicle that would best suit your circumstances, it is time to start comparing benefits and drawbacks. Choose a few vehicles that are in the same class and look at their features in comparison to one another. Don't get too overwhelmed during this step. New vehicle models [arise quite often](#) – so it is incredibly easy to get lost in fear of purchasing too early before a vehicle with better features was made available. Consider what you need right now and don't get too caught up in the what-ifs of upcoming cars.

As you compare the different vehicles, make sure to keep the features most important to you at the forefront of your list of criteria. Though heated seating and the ability to remove the doors and roof of your vehicle are some pretty enticing attributes, they are not core, functional vehicle assets, and should be considered secondary in your decision-making process. Compare the pricing between the vehicles that made it onto the refined, narrowed-down version of your shopping list, and finalize your decision with the final consideration of price. With all details considered, including depreciation, insurance, mileage, etc., which make and model best meets your standards?

Once you've made this decision and all your research and financial and credit preparation is done, head on over to the dealership and close the deal!

Buying a New vs. Used Car

There are so many details that must fall in line when purchasing a vehicle. Whether it is your first or millionth time buying a new car, you must always perform extensive research beforehand. This will ensure that you enter the dealership as prepared as possible, so no charismatic salesman can take advantage of your naivety. Part of your research and decision process will be determining the unique benefits you can experience when purchasing a new versus used vehicle. Whether either of these is an advantageous or negative option depends on your primary needs and preferences. So, here are some of the most prominent details to consider when deciding whether you should buy a new or used vehicle.

Advantages of Buying a New Car

Each option between the new vs. used car debate has its own set of benefits. Your capacity to make use of these advantages is dependent on the purpose of your vehicle and preferences for make and model. If you're leaning more toward purchasing a new car, here are a few advantages you might expect:

- **It is much easier to shop for a new car.** Dealerships will always be geared toward you buying a new vehicle. Of course, the asking price is much higher (better for the dealership), but they are also more customizable and can more easily meet your exact requests and expectations. You also don't have to worry about repairs and maintenance as much as you would for a used car.
- **Newer vehicles have more advanced technological features.** As vehicles have evolved over the years, technology has improved significantly to make the driver's

experience much safer and more convenient. Purchasing a used vehicle may mean you have to make some compromises on such perks.

- **You have a wider range of financing options available to choose from.**

Manufacturers and dealerships know that not only are newer vehicles better in terms of the money they can earn in commission, but they tend to be car buyers' main preference when shopping around. This said, they are not shy to offer incentives like rebates to make the decision to purchase a little easier. Even though this is a marketing tactic, it can truly save you thousands of dollars for a brand new vehicle that could have easily been more expensive.

Keep in mind that the primary drawback, no matter how many incentives are offered, is that you will almost always be [paying more for a new car](#) than a used one. If it is within your budget and you prefer the peace of mind that no one has driven your vehicle before you, a new vehicle may be the right choice for you.

Advantages of Purchasing a Used Car

Used cars are great options, too, not to be overshadowed by the shiny new paint and rims of brand-new cars. First, you must realize that the stigmas of poor reliability and performance of older vehicles are unfounded, although you will have to consider the possibility of paying for more maintenance than you would with a newer car. The primary advantages of purchasing a used car include:

- **Cheaper insurance rates.** The cost of insuring a vehicle is almost always positively correlated with its price. This means that, since a used vehicle often costs less than a brand-new one, it will be significantly cheaper to insure, helping you to keep more money in your pocket.
- **More vehicle types available to you.** Since you'll be cutting back on the asking price, you have a greater range of vehicle types to choose from. You can even

buy a luxury car since it'll likely be a few thousand dollars cheaper due to depreciation.

- **Cheaper to register.** Registration fees for pre-owned or used vehicles tend to drop annually.

Consider the Possible Rate of Depreciation

For any vehicle you buy, as soon as you drive off the lot, the clock starts ticking. You may have been told at some point in your car buying experience thus far that, as soon as you purchase a vehicle, 20% of its value is immediately dropped, and [60% within the first five years](#). Unfortunately, this is often true – the vehicle that you just purchased for \$30,000, now that you've signed on the deal, is now \$6,000 cheaper than it was a few seconds ago before that ink hit the paper.

Even only a year after you've owned and driven the car, the minimal wear and tear inflicted will drop this value even further – yes, even if you've only driven it to work and back! Mileage plays a significant role in depreciation as well, so even using your car for just one purpose can seriously put a hole in your pocket. With the previously described example, that could mean that you would be out \$9,000, or 30%, just within the first year. Still, most people hardly even notice this effect, simply because it won't become a problem until they decide to trade in or sell their vehicle down the line.

Now, the key difference between new and used cars in this scenario is that used vehicles experience depreciation much slower than new cars do. Take the following example: If you were to purchase a new vehicle for \$40,000 and later decided to sell it several years later, you could only sell it for about \$18,000. This means your vehicle has cost you \$22,000 in depreciation. Buying a used car, on the other hand, one that is already several years old and so costs only \$11,000, will cost you significantly less in depreciation, as the fastest rate of depreciation in this car's life has passed.

This is a difference that deserves a considerable amount of thought since it can play a direct role in whether you wind up upside down on your vehicle loan. Those cars that will depreciate quickly will be much more difficult to trade-in or sell – you could even owe money even after selling it – should you decide you don't want to stick with your original purchase later on.

It is impossible to say objectively whether buying a new or used vehicle is the right choice. The best option for you depends primarily on your budget, and the likelihood of you selling or trading in your vehicle in the near future. Look closely at your finances and future plans to make the best decision for your circumstances.

How to Research Your Car

Purchasing a vehicle for the first time is a significant milestone for many people. This is not an occasion to take lightly, as there are many complex decisions to make, all of which must be thoroughly researched and informed ahead of time. Visiting the car dealership for the first time can be either a positive and exciting or overwhelming experience, so you must do all you can to ensure that visit goes as smoothly as possible. Researching your car ahead of time will allow you to have all the necessary information early in the car buying process, so you are not caught off guard at the dealership. Here are some crucial steps on how to research your vehicle before heading to the lot.

1. Develop a Budget

This should always be the first step you take in the research phase of buying a car. You never want to jump straight into browsing through the available vehicles, since you may become attached to a model that is well outside of your buying capacity. Determine your

limits ahead of time to narrow down the options available to you. (This will always be necessary, no matter what the buying method: leasing, paying in cash, or financing.)

Here are some micro-steps you can take to determine the best budget for you:

1. **Get an idea of what you would want your payment to be:** Realistically, what payment amount would you be comfortable with on a monthly basis? Remember to consider all of the monthly payments you make, and note that your car budget will not consist only of a loan payment, gas, insurance, etc. Make room in your budget for everything your car will need. You should also give some thought to the fact that your credit will influence your payment amount as well. Worse credit will lead to a higher interest rate, which ultimately is more money out of your pocket.
2. **Consider any additional fees:** Specifically, when you're buying a used vehicle, it is a good idea to research any additional costs and fees that may pop up when closing the deal. Examples of such surprise fees include title and registration fees, state-specific taxes, and destination charges.
3. **Research possible warranties and determine whether you need this additional coverage:** Adding further protection to your purchase is a double-edged sword. On the one hand, it is great to have as much protection as possible for your vehicle to avoid any instances in which you would have to cover a loss or repair for your vehicle without support. Possible coverage to be added would include gap insurance, prepaid maintenance programs, and more.

2. (Optional) Determine Your Vehicle's Trade-in Value

For those that are trading in their vehicles rather than buying completely new, [researching the current market value](#) of your vehicle will help you to be further prepared on what vehicles are within your price range. You can go about this type in the following ways:

- **Have your trade-in vehicle evaluated by a dealership** (get an appraisal).
- **Use value tools available online or as an app to determine the value.** Such applications include Kelley Blue Book, NADA, or Black Book. (You may get several different prices to compare and set a range of what you should expect to see at dealerships.)

3. Create a List of Your Preferred Vehicles

Now that you have the price range you'll be working with, you can start to get more specific in your preferences. Browse through the inventory of your local dealership and choose a few of your favorite models. You don't have to get too specific on this step since you're not quite ready for a final decision. With this step, you'll mainly be looking at make and model, and possibly color, and determining what the primary purpose of your vehicle will be (commuter vehicle, off-road trips, etc.). To determine your preferred vehicles:

- **Decide which type of vehicle you most prefer.** This is where you will have to determine what the purpose of your vehicle will be. If you're planning to use this car for vacations and road trips, for example, you may want an SUV. Choose the vehicle that can best fulfill your primary need for transportation.
- **Compare general specs and features of different makes and models.** A great method to determine your preferred vehicle is looking up the quality of manufacturers. You can easily find documented recalls, manufacturing mistakes, and such things online. Determine which manufacturer (Toyota, Ford, etc.) you trust the most and then narrow down the types of models that will be best for you.

4. Check the Pricing of Your Chosen Vehicles

Now that you've narrowed your options down even further, it's time to get more specific. Recall the price range you put together with your earlier research. Comparing between

your preferred vehicles, which of the options fall most closely to the payments you're comfortable with?

Remember all the different elements of budgeting for a vehicle. Will you be comfortable making this payment on a monthly basis, in addition to paying for the gas, registration, insurance, and any maintenance or repairs? Some cars may look good at first glance, but upon further inspection, turn out not to be the right choice after all. (Note: Pricing may slightly differ based on the dealership, and even based on [buyer-dealer interactions](#). Check around your local shops to find the best asking price for your budget.)

5. Secure a Vehicle History Report

This is especially important for those purchasing a used vehicle – you never want to get blindsided by a dealer who was just trying to get a car off the lot without your best interests in mind. Additionally, you may find a car that looks perfect for you all-around, but learn that it is not necessarily the safest option, since it was once in an accident and is now a salvaged vehicle. Always get the history of the vehicle before committing to what seems to be the perfect option.

Now that you're armed with all the necessary information, you're ready to hit the lot! Schedule a test drive of your vehicle to seal the deal on whether this is truly the right choice for you. While you shop around, make sure to ask your dealer critical questions on the primary features of the vehicle, recalls, and confirm your research on warranties and fees. With extensive preparation, you can be sure that you'll leave the lot with the best car for you.

How to Finance Your Car Purchase

One of the major milestones in the car buying process is the point at which you determine how you'll be paying for your vehicle. You are likely in a similar situation to most individuals looking for a new vehicle: You don't have the money to pay in cash, so you must seek out other methods of funding your new purchase. Preparing for automobile financing can be tough and involves a great deal of saving and consistent monitoring of your credit score. If you're at this point in your car buying process, review the guide below on how to finance the purchase of your new vehicle.

What to Know About Applying for an Auto Loan

There are a few crucial factors to consider before you apply for an auto loan. Though securing funding for your purchase is a top priority, it is certainly not the first thing you should do, as haphazardly applying for auto loans can do some serious damage to your credit if done improperly. For example, auto loan applications will most likely require a hard inquiry (do keep in mind that there are "soft" credit pulls as well – these will not affect your credit in the way that hard inquiries will). Allowing hard inquiries without a clear plan can severely weaken your buying capacity in the future.

Be aware that applying for an auto loan application, whether you have a hard or soft inquiry pulled, is not a guarantee that you will get the rate that was offered at the time of your credit check. The final rate could differ greatly from the preapproval quote, so don't put all your eggs into that basket. Other details to consider before you jump into loan applications include:

- **Loan terms.** There may be a wide variety of loan terms available to you. Your options will differ based on the lender you are working with. While the [average duration of a car loan](#) is 63 months, some lenders offer agreements for as long as 85 months, while others prefer payments to be made within only a few years.
 - Note: When identifying the loan terms that you can realistically accept, remember the element of depreciation in the context of a

several-years-long loan agreement. Though your agreement may give you an abundance of time for paying off the vehicle, it is best that you make every effort to pay off your vehicle as quickly as possible. This is due to the rate of depreciation of the vehicle (how quickly your vehicle loses value since the time of purchase).

- **Interest rates you're eligible for.** Again, your credit score will play a significant role in the interest rates you're offered. Those car buyers who are shopping with a lower credit score will, unfortunately, be facing higher interest rates, and therefore more expensive monthly payments. Keep in mind that both the length of the loan and your income will influence this price as well. (For longer agreements, you will likely pay more interest over time, whereas shorter agreements will not accumulate as much interest in the shorter timeframe. A high debt-to-income ratio will also result in high interest rates.)
- **Avoid rate shopping.** Rate shopping does not always necessarily entail a hard inquiry. Though it is not explicitly bad, it is not always beneficial to your car buying process, either. Submitting your information to several different potential lenders may not be the wisest choice to streamlining your research efforts> Instead, you'll just end up receiving constant marketing calls and text messages, bombarding you with even more loan options to choose from. (Dealers may even contact you, too!)
- **Lender restrictions.** Not all lenders are large, commercial financing agencies such as Wells Fargo or Chase. Some are restricted to working within a specific dealership network. Research what financing options are available before you decide to purchase from a certain dealership, especially if you have a preference as to what agency offers you funding. Additionally, if you are buying from a private seller, your financing options will be much more restricted as well, as many lenders will refuse to finance purchases in private transactions. If you have a preferred lender, ask them about what they cover. It is possible that they may also

exclude certain makes and models as well (it is not uncommon for electric vehicles to be excluded, for example).

You must also be aware of what to expect in the future as your search for financing comes to a close. Once you have finalized a loan, you will be offered the maximum amount they are willing to offer for your agreement at a specified interest rate. Your lender might offer the funds in a variety of ways, depending on the manner in which you plan to purchase the vehicle. They might offer:

- **A no-obligation check**
- **Direct deposit**
- **A certificate that can be used at a car dealership**

Not everyone is purchasing a brand new vehicle, however, so this situation will not always look the same. For those that are refinancing their current vehicles: your new lender will typically pay your previous lender to close your account there and enable you to begin making payments to the new institution.

How to Secure Financing for a Vehicle Purchase

Now that you know what to consider as you prepare to finance your vehicle, you must understand the steps to get the point at which you're ready to apply for and accept a financing agreement. In the above section, the importance of your credit score in the context of available financing options is significant. Your report and score are the perfect information for your lender to know whether they can or cannot trust you to pay your loan back in full and do so in a timely manner.

As soon as you begin thinking about going car shopping, start monitoring your credit score. Understand that the credit score is a very volatile thing, changing frequently and dynamically with every financial action you take. (At times, it seems as if this score

changes even without any distinct action from you as the car buyer. However, a fluctuating debt-to-income ratio, high credit use, and other factors we so infrequently think about all play a significant role in constructing your credit report.) So, as you prepare to purchase your vehicle, start routinely checking your credit score through a free credit monitoring app (avoid those hard inquiries from having an agency check it!). Now that you've got the foundation of your financing efforts laid, progress into the next phase of financing.

1. **Continuously work on your credit score.** You've got an idea of what your credit score is. Now you must make it perfect for the deal you're getting ready to close. What is your ideal monthly payment? Are there certain financing options you prefer that are not available with your current credit score? Remind yourself of your priorities and needs in the car buying process to set clear goals for your credit improvement routine. (Note: Those with credit scores in the low 700s will [have access to great interest rates](#), although they may not get to choose from some of the dealer's or lender's best promotions. Aim high for a credit score of 750+ by paying down debt, minimizing hard inquiries, and having errors removed from your credit report.)
2. **Choose a short loan term.** Try to keep your loan agreements as short as possible. Although it may not seem as appealing due to the higher monthly payments, you are getting the best deal, since the interest rates will be lower. Be aware that lenders tend to hike up rates for longer loans as well, so not only will you be paying more in interest simply due to the accumulating interest rate, you will also be given a higher percentage to pay on the bottom line. With an excessively long loan, you've now lost on two fronts. Longer loan terms also lead to the possibility that you'll be upside down in the future. This is because the vehicle will inevitably depreciate from the value at which you originally bought it.
3. **Prepare for a 20% down payment.** Don't underestimate the power of a sizable down payment. A 20% down payment is best for reducing your monthly payments and cutting into the amount of interest you'll have to pay in the long run.

Expectations for down payments will change along with your credit as well. For example, those with lower credit scores will be expected to make bigger down payments to offset the negative impact of a bad score or poor debt-to-income ratio. Lenders are more likely to be more accommodating in agreements if you come prepared with a respectable deposit.

Remember that, when you've secured financing for the purchase of your vehicle, your expenses will not only include the asking price of the vehicle but:

- **Sales tax**
- **Documentation fees**
- **Registration fees**
- **Extras added onto the vehicle package**
- **Warranties**

You are under no obligation to accept add-ons like additional warranties or customizations to the vehicle package, but it is highly recommended that you add on protections such as GAP (guaranteed auto protection) insurance, as this will protect your finances in the future should your vehicle ever be totaled.

When you're ready to purchase a vehicle, make sure to review all the steps necessary to properly finance your vehicle. That way, you get exactly the car you want at a price that works best for you.

What to Expect at the Car Dealership

Before you ever reach the point at which you visit the car dealership, there is extensive research you must do concerning the type of vehicle that will best meet your needs and financing options, primarily. Though it is possible to get great deals that meet your unique needs when purchasing your vehicle at a car dealership, you must also realize that this step is full of risks. A salesman will always try to make the best sale at the

highest value, without necessarily considering the best financial options for your circumstances. It's up to you to make sure the transaction works in your favor, so here are a few things to keep in mind about what to expect when you visit the car dealership.

Preparation is Crucial

The importance of preparation in your car buying experience cannot be emphasized enough. Not only will salesmen try to entice you with flashy rebates and holiday discounts, but they will also attempt to add extras onto the sale, like warranties and coveted features in a vehicle package. Doing thorough research before you ever step foot into the dealership will prepare you for all the add-ons and attempts at hiking up the price so that you can walk out the door with exactly the agreement and vehicle you had planned. This will also assist you in being more mindful of yours and the dealer's time.

Typically, when you visit a car dealership, you can expect the salesman to ask:

- **What type of vehicle you're looking for.**
- **What price range you're comfortable with.**
- **What you want your monthly payments to be.**

Fortunately, you will have prepared for this information far before ever making this visit, and being able to answer these questions quickly and confidently will show your dealer that you are a knowledgeable, serious buyer. (This may reduce the chances of them trying to coerce you with sly sales tactics, as it is a sign you have fully prepared for this trip and have your "eyes on the prize," so to speak.)

Be aware that salesmen will always try to upsell you as well. However, if you're armed with the knowledge of the car's true value – as checked by Kelley Blue Book or other websites and applications specializing in automobile valuation – you will not be easily swayed. When you sit down with the dealer to finalize the purchase, you should already

have an idea of what your monthly budget will be for all aspects of owning and caring for the vehicle. Don't let the salesman pull the wool over your eyes in terms of hidden fees and surprise costs, especially when it comes to available trim packages and other such manufacturing customizations.

If you believe you will be interested in a trim package, once again, this is a perfect area to do research for. What type of trim package would you like and why? This is all information that you can gather beforehand by researching the available specs between makes and models. Of course, even if you have your eyes set on only one make and model, spend some time comparing the advantages and drawbacks of certain trim levels and packages. This way, you can allow a little bit of wiggle room into your budget for any extra money you may want to spend on the vehicle.

It can be exhausting to have to do all this research before buying a car, but it is worth it in the long run. You don't want to get into a situation where you blindly took the dealer's words at face value, only to wind up in an agreement where you are paying thousands more on a loan than you could have been with the proper preparation. Remember that, although they are highly charismatic and dependable upon your first meeting, a car dealership is still a business. Their job is to make a sale, not necessarily to look out for what's best for you. The only way to ensure you are not taken advantage of in such a transaction is to collect as much knowledge as possible before your in-person visit.

Gain an Understanding for Pricing

There are a lot of dynamic elements involved in the pricing of a vehicle. On the one hand, there is the MSRP – the manufacturer-suggested retail price. This is the price that the manufacturer has set themselves, but even though it seems that you should base your search on this information, since it came directly from the vehicle's source, this is a poor choice to make when planning your budget. Dealerships are just like shopping malls –

only they are not selling clothing and accessories, but vehicles instead. This means that each store, or dealership, has the agency to [determine the markup rate](#) with which they sell certain vehicles.

A car that costs \$18,000 at one auto shop may cost \$19,000-\$20,000 at another. For this reason, it is imperative that you do some research for dealerships in your surrounding area to find the one offering the best prices for your financial circumstances. Since you have access to the wealth of information on the internet, you cannot be as easily manipulated in retail transactions, especially for such complex pricing as that assigned to the automobile industry. Still, there are certain details that may remain shrouded in mystery: namely, that is the amount of profit the dealership is making from your purchase, and the commission earned by the salesman.

This profit is known as the [“holdback” amount](#), and though you won’t always be able to find out exactly how much it is, it is normally about 2-3% of the vehicle’s MSRP. Unfortunately, like other aspects of the purchase agreement, the vehicle’s holdback amount is non-negotiable. Underlying this factor are the deals made between the manufacturer and the dealership. After all, the manufacturer must have a venue through which to sell its vehicles. Due to this need, the manufacturer will present the dealer with incentives, often to offer a certain vehicle within a certain month, or a similar need. Occasionally, these incentives will inform the customer incentives, which your salesman will use to persuade you into a purchase.

Subjectivity in pricing is one of the reasons why you must consult several different sources in your research efforts in the car buying process. Get multiple perspectives on the valuation of your ideal vehicle so that you can advocate for yourself during your dealership visit. Of course, this will directly inform your efforts in price negotiation, allowing you to whittle down the price to your needs.

Lastly, in terms of financing: Never negotiate the purchase of an automobile based on the monthly payment. Be wary when asked the questions listed above, specifically the monthly payment, as this tactic is widely used by salesmen. They know that buyers are concerned with the here and now. In other words, they are primarily focused not on the big picture of how much money they'll be forking over throughout the duration of the loan agreement, but on how comfortable they will be with their payments, month to month. Although this is a legitimate thing to worry about, it is not the priority.

The primary reason that this should be avoided is that if you settle for a loan payment that is excessively low, you may get locked into an agreement that lasts for as long as eight years. This is not ideal, as it guarantees that you will be paying significantly more money in interest. Ultimately, you are likely to end up upside down on your loan, with very few options as to how to get out of the agreement. You'll end up paying far more than what the vehicle is worth, simply because you were lured by the sales tactic of a comfortably small monthly loan payment. Keep your eyes on the big picture when shopping for a vehicle so that the salesman doesn't trip you up in such a way.

Test Driving Your Vehicle

Test driving is easily one of the easiest phases of your dealership visit that is likely to entice and distract you from your limitations and core standards. It cannot be denied – this is an exciting moment! You're reminded of how close you are to owning this vehicle once you're comfortable in the seat, the steering wheel in your hands. However, it's important to keep in mind that this is just another step in determining whether this vehicle is right for you. Before you hop into the driver's seat for the test, consider asking the salesman the following questions to stay on track:

- **How do the technical features of the vehicle perform in varying environmental conditions?**
- **Are the controls and cabin features intuitive to use?**

- **Where are the blind spots on the vehicle?**

Remember that this vehicle is meant for you and your unique needs and comforts. Make sure all criteria are met before swooning over the car of your dreams.

Finally, be reminded that you are under no obligation to purchase the vehicle, even after you have test driven it. If you are not yet sure of this commitment, the vehicle has not met your needs, or simply want to take more time to consider this decision, give the dealership your contact information and plan to follow up later. Purchasing a vehicle takes extensive research and preparation before ever stepping into the dealership. Make sure that you remain in control of the sales process, so you get the best possible deal for your needs.

How to Negotiate for a Car

You've made it! You've done all the research, worked on your credit by paying off debts and responsibly maintaining credit cards, and looked into the exact specs and features you need on your choice make and model. Now you're ready to take that final step and purchase the car of your dreams. Every bit of preparation has led up to this moment, so you want to ensure that all your work was not in vain and that you do this right. To get the best deal for your finances, consult the guide below on how to negotiate the price of a vehicle.

1. Do Your Research

Research, research, research. This cannot be stressed enough. The only way you will not be vulnerable to popular marketing tactics is by giving yourself the knowledge to see through common incentives and appealing offers. Most importantly, salesmen will not be able to upsell you as easily once you've familiarized yourself with the current market

value of your vehicle. You are not obligated to settle on an agreement with an asking price that is outside of the recognized market value of your vehicle. If the dealership you're buying from marks up their prices too high, you are free to leave and choose to purchase your car elsewhere.

In addition to the market value of your vehicle, you'll also want to research the average price buyers pay when purchasing your preferred vehicle. When combined with the current valuation from appraisal tools like Edmunds or Kelley Blue Book, the [MSRP \(manufacturer-suggested retail price\)](#), and the average purchase price, you can set a solid range of what you will expect in your purchase agreement. (For those who are trading in a vehicle, it is especially important that you research appraisals beforehand to determine the market value of your vehicle. This will ensure that you don't get cheated in your deal by having to pay more out of pocket instead of applying the entire value of the car.)

2. Do Not Allow Your Emotions to Dictate the Price You Agree to Pay

Admittedly, the experience of researching your preferred car and visiting a car dealership is extremely exciting! After all, you're preparing yourself to make one of the biggest purchases of your lifetime. Whether your car will be used only for leisure or as a key tool in getting you to work and back, it will become an important asset that eases your daily life. This is a transaction for which you do not want to blindly settle, also because you will be paying the loan back for several years to come.

Your goal during negotiations is to get the best deal possible. For this, you must consider the finite details and the bigger picture, simultaneously. How much are you willing to pay over the years of your loan? How much in a car payment does your monthly budget allow? If you allow your emotions to take over during this critical step, you may wind up accepting a deal that is far outside of your price range, or one that is entirely

unsustainable going into the future. The salesman will be looking for a sale that profits their dealership and gets them a sizable commission. Your job is to look for a budget-friendly option to meet your needs.

3. Divide the Negotiation into Separate Components

The negotiation process differs when experiencing it from the perspective of the dealer versus that of the buyer. Buyers have become [increasingly frustrated](#) with this part of the car buying experience, resulting in easy distractions and oversights in agreements. For example, the salesman will likely prefer to carry out negotiations by focusing on the transaction as a whole. Instead of looking at each piece, they will lump together discussions of the financing along with the asking price, and even the trade-in value of your current vehicle if that applies to you. This is an easy way to get the buyer to not focus on the finer details, but rather, to accept a deal that sounds nice on the surface but may have serious drawbacks in terms of smaller, individual offers.

This tactic goes hand-in-hand with the attempts to divert attention away from the duration of the loan and rather on the monthly payment. Be wary of attempts to put a disproportionate amount of emphasis on the monthly payment as the selling point of the deal. This element of your vehicle transaction is not nearly as important as other factors, such as the length of the loan and the consequential compounding interest. All this tactic accomplishes is making you feel like you've gotten a cheaper deal when in reality, you've agreed to pay more money over an extended period.

To protect yourself from the illusion of "the big picture," break the negotiation down into separate components. Give each of the following details their own time for negotiation as you close on the deal with the salesman:

- **What are they offering for your trade-in vehicle?** Does this meet the current market value? Why or why not is this their offer? Are there other dealerships that would offer you a better price? If so, are they willing to match that?
- **Why is the asking price at its current value?** Does this price fall within your budgeting limitations? Is the dealership willing to drop the price at all? Why or why not? What incentives are available? Are there rebate options? How much does the rebate take off of the loan amount?
- **What are the prices of potential add-ons?** Do you have a need for add-ons, such as added warranties, GAP insurance, or better trim packages, or are these optional conveniences? How will certain add-ons affect vehicle performance or influence the frequency of payments for maintenance and repair?

Notice that each set of questions focuses on one topic only. Discuss each facet of your vehicle purchase on their own without getting lost in the convenience of a small monthly payment. Once all these details have been discussed thoroughly, you can negotiate the final, out-the-door price. Make sure this number is inclusive of all sales tax, fees, and any other costs that could possibly arise. Don't allow for any potential surprises – if the dealer tries to hit you with a different price as you close the deal, this should be a red flag. That is not a trustworthy sales tactic, and you should not entrust your finances to this dealership. Consider choosing another location from which to buy your vehicle.

Negotiating for a New Car vs. Negotiating for a Used Car

Depending on whether you will be purchasing a new or used car, your negotiation tactics may vary slightly. This is primarily because the pricing will differ significantly between the two, and there are certain elements of a loan agreement for a new car that you won't have to worry about for a used car (i.e., trim packages, rebates, etc.).

When you're purchasing a new car, you must be prepared to negotiate the following details:

- **Incentives:** Automakers are known to offer incentives and rebates to entice buyers to buy certain models. Research the available incentives ahead of time to determine whether they are necessary for your purchase or not, and how they will ultimately affect the performance and quality of your vehicle. Don't get caught up in the excitement of a possible "savings-" get all the information beforehand, so you're not caught off guard.
- **Financing options:** There may be more financing options available for new cars. You may have the opportunity to secure an agreement with a low interest rate directly from the dealer. This could prove to be much better for your finances than a traditional bank loan, so ask your salesman about such options before they run your credit through their network of lenders.

Above all, remember that a new car is a luxury. Dealerships know that no matter how much you truly need a vehicle, specifically pursuing a new car is a privilege that many car buyers seek, so they will be pushing harder to offer appealing deals. Make this work in your favor by collecting quotes from local dealers and confirming whether your preferred dealership would be willing to match the best quote.

When buying a used vehicle, stay focused on these aspects of pricing:

- **Imperfections on the vehicle:** Used cars are already a better value simply because they've already been through the steepest rate of depreciation, so you will be getting the best value for your money right off the bat. Still, you could be getting a better price if you're realistic about the vehicle's condition. Test drive the car and do a thorough examination of the body and cabin. If you notice that some things are not up to par, ask for the price to be knocked down.
- **Have the vehicle inspected by a mechanic.** You can never be too sure of a vehicle's history. After you've gotten documentation of previous ownership, have

the vehicle inspected to identify any necessary repairs. Once these faults have been identified, ask for the price to be adjusted in light of these flaws.

Negotiation is the final, perhaps most critical factor in the car buying process. You must be thoroughly prepared ahead of time to ensure you are not snagged by well-known sales tactics, and to drive off the lot with a car you can afford, both now and over the duration of the loan.