

Ad claims that emphasize APR or monthly payment alone are misleading. Remember to weigh the total cost of a loan. The people at your credit union can help you calculate how much loan you can afford and preapprove your loan.

Now you're ready to research vehicles. Many credit unions maintain consumer libraries, so you can study the latest models and features to narrow your selection. Your credit union can even help you find out how much your old car is worth, in a trade or private sale.

If you negotiate the cost of the car, don't give up your price advantage by automatically taking dealer financing. This chart helps compare financing alternatives.

| | Lender A | Lender B |
|------------------------|----------|----------|
| Amount financed | | |
| Down payment | | |
| Total finance charge | | |
| Total cost of car | | |
| Monthly payment | | |
| Loan length | | |
| Annual percentage rate | | |

In addition to evaluating initial cost, consider other things that will cost money and provide satisfaction—or frustration—during the time you own the car. This checklist puts some features in perspective.

| | Car A | Car B |
|---|-------|-------|
| Warranty (enter time/mileage limits) | | |
| Resale value | | |
| Crash-test performance | | |
| Fuel economy | | |
| Insurance rate | | |
| Maintenance costs | | |
| Frequency of repair history | | |
| Dealership | | |
| Convenience of location | | |
| Service reliability | | |
| Reputation | | |

Sample



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Decisions, decisions. When it comes to buying a car, you have so many choices it's almost a hardship. But the cost won't be a hardship once you decide how much you can afford.

If you need to borrow, your first step is to calculate what monthly payment you can handle. Evaluate your obligations: All monthly installment payments, plus rent or mortgage, shouldn't be more than 40% of your monthly take-home pay. Some credit unions extend that ceiling, depending on your income.

To find out how much car you can buy, combine your down payment, any rebate the manufacturer offers, the value of your present vehicle, and the money you can afford to borrow. Say your calculations show you can comfortably pay \$300 a month for four years for a loan. Call the credit union to find

out how much you can borrow at current loan rates.

Keep in mind that a low annual percentage rate (APR) doesn't always mean a cheap auto loan. And although a smaller payment is easier on your monthly budget, it may mean greater costs overall. You have to look at the whole cost of a purchase. This is the sum of all interest payments—the total finance charge—plus the purchase price. Total finance charges change with changes in other factors, as the graphs depict.

Loan length and total cost

Graph A assumes a \$1,000 loan at 10% APR. It shows how lowering payments by spreading them out over a longer period can cost you plenty in the end.

In this example, an increase in loan length from one year to five years cuts payment size by \$66.67 (\$87.92 to \$21.25). But total finance charge paid shoots up by \$219.83 (\$54.99 to \$274.82). You usually pay more per month and more overall by borrowing at a higher APR. Let's see when this is true and when it's not.

APR and total cost

Graph B assumes a \$1,000 three-year loan. It shows that a higher APR carries a slightly larger monthly payment and a much larger total finance charge.

Here, comparing APRs of 17.5% and 7.5% means a \$4.79-a-month difference (\$35.90 to \$31.11) in the loan payment. The difference in total finance charge, however, is \$172.65 (\$292.47 to \$119.82). These examples use \$1,000 loans to make comparison easy. Remember that the differences will be even more costly on a car loan for many thousands of dollars.

APRs and rebates

A low-APR auto loan from a car dealer seems attractive. But, in reality, the total cost of higher-APR loans can match or beat dealer financing if a rebate or cash discount is involved.

For example, a four-year dealer loan with a 5% APR buys a \$20,000 car for a total cost—purchase price plus all interest—of \$22,108. But with a rebate/discount of \$2,000, borrowing for the same car at 9% APR saves \$607.44 over the course of the loan. The rebate reduces your purchase-price loan. You pay more in total finance charge, but somewhat less overall.

Find lower APRs, common at credit unions, or negotiate larger discounts and you save more. As a bonus, any discount reduces your sales tax and monthly payments, too.

