

Car Buying for Beginners

Haggle over the price of the car and the terms of the loan to keep your monthly payments in check.



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Over the course of 2021, a global microchip shortage triggered supply shocks affecting a wide array of products, from smartphones to home appliances. But no industry has taken a bigger hit than the auto industry: In August 2021, for example, reduced inventory at Ford dealerships led to a 33% decline in U.S. sales compared with the previous year.

With increased demand amid the shortages, many car buyers are paying top dollar for their new or used vehicle—and sometimes for the car loan, too. If you're looking to purchase and finance a car before supplies return to normal, do some comparison shopping to be sure you're not overpaying for your vehicle or the loan.

Stick to a budget. “Car buying is emotional,” says Matt Degen, an editor at automotive website Kelley Blue Book. Many first-time buyers are eager to go for flashy models or slick features, at prices that may not fit their budget.

You'll save money buying a used car, even though loan rates are a little higher for used vehicles. Recently, rates averaged 4.2% for a four-year new-car loan and 4.8% for a four-year used-car loan, according to Bankrate.com.

However, when you buy a used car, you run the risk that the vehicle will need major repairs or have maintenance issues. For more peace of mind, Degen encourages buyers to consider certified pre-owned (CPO) vehicles, which come with a manufacturer's warranty.

If you're choosing a new car, decide whether you want to buy or lease the vehicle. Buying is smart if you plan to hold on to the car until the loan is paid off and beyond (or if you plan to pay cash). Leasing often makes sense if you tend to trade in a car before you've paid off the loan. With a lease, you are paying mainly for the car's depreciation over the term of the lease (typically three years). Monthly payments are usually lower than they are for a car loan, and repairs (but not maintenance) are covered as long as the warranty lasts. Be sure to negotiate just as hard for the price of a leased car (called the capitalized cost in leasing jargon) as you would for a purchase.

Even if the loan or lease payments fit your budget, be sure you understand how much interest you're paying overall and for how long. The dealer's finance and insurance office can extend a loan or manipulate a lease to lower your monthly payments, but that may not be best for your overall financial prospects.

Budget for costs beyond the monthly payments, such as repairs, maintenance, fuel and insurance. You can find a 5-Year Cost to Own tool at www.kbb.com that estimates those costs, depreciation and more.

Dealer or bank? One of the main decisions car buyers make is whether to get financing at the dealership or from a bank or credit union.

Borrowing through the dealership allows you to take advantage of any manufacturer incentives, such as low- or no-interest financing or cash-back offers. Especially at the end of the model year, manufacturers sometimes sweeten the deal with incentives on less-popular vehicles. But Degen warns that you may not be eligible for the same deal a friend got on the same car. And manufacturers haven't needed incentives recently to move cars off their lots.

Major used-car sellers, such as CarMax and Carvana, also offer loans. CarMax, for example, aggregates multiple financing sources on its website so that buyers can compare deals. Carvana includes a tool on its website that lets you pre-qualify for a loan so that you can explore various vehicle financing options.

You may get a better deal on a loan from your bank or credit union. And borrowing from your bank or credit union can alleviate the pressure of purchasing and financing a car from the same place.

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