

How to Buy a Car:

YOUR STEP-BY-STEP GUIDE
TO BUYING THE BEST RIDE



Buying a Car

Making the decision to buy a new car is exciting. You can picture yourself driving it: The wind wrapping around your new ride as you drive down the highway on a sunny day. Your friends gasping and clapping when they see you pull up in your new car.

But then you think about the buying process. From taxes to pushy salespeople, buying a car is a lot of work.

Luckily, the risks and pitfalls that come with buying a car can be minimized if you know how to navigate the process. This guide walks you through the various phases of buying a car so you end up with the right one — and you have the best possible car buying experience in the process.

There's a lot to be said about buying a car, so the information in this guide is comprehensive. Use the links to navigate to the sections most relevant to you.

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What You Need in a Car — or If You Need One at All

While the idea of a new car is exciting, it's important to ask yourself: Is it worth getting a new car? Before you begin the process of buying a car, evaluate your motivation for the purchase and whether it is necessary right now.

Perhaps you think you need a new car because you just had family in town and didn't have room for them in your current vehicle. Instead of rushing to buy a bigger car, consider how often you have visitors. Would it be less expensive to pay for a rental car the next time they visit?

If your neighbor just bought the latest Tesla, are you tempted to buy a new car because you want to keep up with the latest trends?

Maybe you're simply bored with your current ride and are looking for a change of pace. But if getting a new car requires taking on debt, it likely isn't worth it.

So, how do you know when to get a new car? And how do you decide what car to buy if the timing is right? Reviewing your reasoning will help you understand how to choose a car that fits your needs, while also preventing you from making a purchase you'll regret.



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Ask yourself these questions to narrow in on what you want in a car, and to make sure you’re not buying a car for the wrong reasons.

- **Why do I want to get a new car?** Think about the limitations of your current ride. If it’s lacking safety features, reliability, four-wheel drive or other factors that are important to you or your lifestyle, it might be time for an upgrade.
- **Who usually rides in my car with me?** If you have a family, you’ll want to make sure you have room for them and storage for their items. Likewise, you may want extra room for trips with friends. Thinking about your passengers will give you insight into what type of vehicle you need.
- **How often and how far do I drive?** If you work from home and drive once a week to get groceries, it’s probably not necessary to spend tens of thousands of dollars on the latest model. However, if you drive several hours a day for work, spending a little more to buy a reliable model with good mileage will pay off.

SHOULD I BUY A NEW OR USED CAR?

Deciding whether you should buy a new or used car should be primarily driven by your budget and where you are on your financial journey. Someone with debt and little in savings is probably better off **buying used**, while someone with significant savings and room in their budget can probably afford to buy new.

This difference is due to the rapid depreciation of new cars. Data from **CARFAX** suggests that a new car can lose 10% of its value the moment it’s purchased. Over five years, that car can lose up to 60% of its value.

That’s why purchasing a new car that costs \$20,000 is much riskier if you have less savings and higher debt. This \$20,000 car would lose \$2,000 in value upon purchase, and then another \$10,000 in value over the next five years. This is a hard cost to accept if you’re in a vulnerable financial position.

Another option is to **buy a certified pre-owned car**. While a certified pre-owned vehicle is usually more expensive than buying a standard used vehicle, it comes with a warranty, multi-point inspection and often includes additional benefits like free maintenance for the first year. This option can be a happy medium that helps you avoid some of the initial depreciation of buying a new car while getting a higher quality car.



Budgeting for a Car Purchase

Once you figure out what you need in a new car, it’s time to figure out what you can afford. A good rule of thumb when buying a car is to spend no more than 25% of your pre-tax income.

However, this guideline doesn’t account for your personal financial situation — you need to know how much car *you* can afford. That’s why the best way to start budgeting for a car is to consider your savings and your overall budget for all of your expenses. If you don’t have one, **make a personal budget** before you start car shopping so you know how much money you can allocate toward a car payment each month (if you’re planning to take out a loan for your new car).

When deciding how much you should spend on a car, remember that a new car could come with new or greater expenses — even if you’re paying with cash. A newer car often costs more to insure, is more expensive to repair and, in some states, your registration fee will be more expensive. If you don’t currently have a car, plan for costs associated with gas, parking and regular maintenance.

The best way to understand the impact of these costs is to thoroughly research your options. For example, you may want an SUV that is less than 5 years old with no more than 50,000 miles. Identify which makes and models you’re interested in, and then work with your **insurance agent** to understand how this might impact insurance costs. You can also conduct research online to estimate the cost of repairs to help you understand how much to budget for car expenses on a monthly basis.

Finally, you’ll want to plan for the costs associated with buying a car, such as licensing fees, taxes and other miscellaneous fees. These additional costs will amount to roughly 10% of the value of the car.

Once you’ve worked through this exercise and have a handle on what you can afford, you may need to reconsider what you truly need in a car. This may not be the fun part of buying a car, but it’s the right move for protecting your finances.

*Make sure to **get in touch with an Farm Bureau insurance agent** to understand how you can best insure your new car.*

Selecting a Method for Buying a Car: Cash, Loan or Lease?



You have options when it comes to paying for your new car. The question is, which option is best for you? Here's our advice for selecting a method of payment.

PAYING CASH FOR A CAR

Ideally, you're able to pay for a car with cash that you have in savings. This eliminates interest costs and gives you a strong negotiating position when you are at the dealership, along with a multitude of other benefits. However, don't be tempted to dip into your **emergency fund** to make this purchase unless it is truly an emergency. Spending your entire emergency fund on a car if you don't need it means you won't be prepared for the next emergency.

If you don't have enough cash for a car — don't feel bad! It's not unusual to have insufficient savings for a car purchase. The next best route is to save for a car quickly.

To save for a car, examine your monthly budget to determine what you can cut or how you can reduce your expenses. If you still can't save enough money to buy a car, try finding ways to add to your income, like by selling old items you don't need, asking for a raise or finding extra work.

If you're close to affording a cash purchase, but not quite there, take advantage of **the best times to buy a car** — this may give you the extra edge you need to get the deal done.

FINANCING YOUR CAR PURCHASE

If paying cash for a car isn't feasible, your next best option is to get pre-approved for financing by an independent lender. Do not wait until you are at a dealership to get financing. Getting pre-approved ahead of time can give you a leg up when it comes time to negotiate. It also takes financing off the table during negotiations,

where dealers may give you the deal you think you want but make up for the difference by adjusting aspects of the financing.

LEASING A CAR VS. BUYING

Depending on your situation, leasing a car may not be the best financial option for you. The **average car lease in Q2 of 2019** was \$458 per month, and the **average length of a lease** is three years. This means a consumer spends \$16,488 over the course of an average car lease.

If this average lease consumer had elected to get a car loan, they would own the car and retain all of its value after making the final payment. They would also be free of debt and mandatory monthly payments.

By leasing a car, it goes back to the dealership, and the consumer has the option to buy the leased vehicle, buy a different car or start a new lease. Not only that, but they may have to pay extra on their leased car if it has unusual wear and tear or was driven too many miles. Finally, unlike a car that is purchased with a loan, dealerships are not required by the Federal Trade Commission to disclose the interest rate on leased cars (i.e., the money factor) so this option may have cost them more in interest than if they had just bought the car with a loan.

Leasing vs. buying varies based on individual situations. For some, leasing a car may not make the best financial sense. However, if you have a lot of financial freedom and enjoy having a new car every few years, this may be an option for you.



HOW TO NEGOTIATE THE PRICE OF A CAR

You’ve done a lot of work to figure out what to buy, what to spend and how you’ll pay for your car. Now, it’s time to start car hunting. Most people who are buying a new car will end up in a dealership lot. If you’re buying from a private seller online, you may get a better deal, but you’ll want to be extra cautious. Avoid anything that looks even vaguely suspicious.

Either way you go, there are a few tried-and-true negotiation tips for buying a car to keep in your back pocket:

- **Seek to get a fair price.** Don’t fight for a low-as-the-seller-will-go price. If you approach the transaction with the goal of shaving off every last cent, you’re unlikely to be successful and buying the car could become a miserable experience for everyone.
- **Make “I don’t need this car” your mantra.** There are always other cars and other sellers. You need to be willing to walk away if you’re not getting a fair price.
- **Get pre-approved.** We’ll say it again: Don’t get financing through a dealership. Get pre-approval from an independent lender.
- **Negotiate slowly.** Don’t be afraid to ask questions and get clarity when you need it. Car negotiation can make buyers tense, but it’s important to remember that you’re still a customer. If the seller isn’t willing to work at your pace, it might be a sign to walk away.
- **Ask for an explanation of all fees and taxes.** This way, you aren’t stuck paying unnecessary fees.
- **Don’t mention your trade-in early.** If you’re planning to trade your old car in for your new car, don’t discuss your trade-in until after you’ve negotiated the price of the car. This simplifies the negotiation, which benefits you more than the dealer.
- **Focus on the overall cost.** Finding a monthly payment you can afford helps you effectively manage your budget. But you need to think about the overall price of the car, as well. Make sure you’re not paying more than a car is worth, even if you can afford the monthly payments.

- **Consider the timing of your purchase.** Buying your car at the right time can save you money.
- **Become a car buying expert.** Conduct research to understand the market demand for the cars you’re considering and what a dealership might have paid for them. You should also research dealerships online and get recommendations from friends and family.
- **Consider rental car companies.** Rental car companies often ask a fair price for the cars they sell because they are more concerned with selling the car to create space for new rental inventory than they are with getting the best deal.
- **Ask for add-ons.** If the dealer won’t go lower on the price, ask them to throw in an extra at no additional cost (i.e., extended warranty, new tires, etc.).
- **Be nice.** You don’t want to negotiate with someone who is being difficult, and neither do sellers.

By following these tips, you’ll increase your odds of getting the car you want without overpaying.

ADDITIONAL CAR PURCHASING RESOURCES

Do more research before getting started with these helpful resources:

- 6 car buying mistakes you need to avoid
- The best time to buy your new car and why
- The pros and cons of buying a certified pre-owned car
- 6 types of people who should buy a used car
- Should you purchase an extended warranty for your car?
- 7 new car technologies: What to know when car shopping
- How to buy and sell your car on Craigslist

INSURE YOUR INVESTMENT

Before you buy a new car, get in contact with a Farm Bureau agent so you can start discussing your insurance needs.



Farm Bureau Property & Casualty Insurance Company,* Western Agricultural Insurance Company,* Farm Bureau Life Insurance Company*, West Des Moines, IA.
** Company providers of Farm Bureau Financial Services*