



# Putting Yourself in the Driver's Seat



Buying a Car

## Knowing What You Can Afford

Before you get too excited about a new car, ask yourself, “do I need a car, or do I want a car?”

- Do you currently have a car that gets you where you need to go?
- Can you take public transportation?
- Can you share a car with your roommate, spouse, parents, etc.?

### Does a new car fit your budget?

Create a monthly budget and calculate the amount you can allocate toward a car.

- Keep your priorities straight.
- Put your savings before a car.
- Plan for the unexpected.
- Include all of the hidden costs.

### Consider buying used.

- A new car might be more exciting, but it typically comes with a heavier financial burden.
- A used car costs much less and still gets you where you need to go.

## Paying Cash Versus Financing

### Paying with cash

Buying a car with cash can be a good option as long as you have the available savings.

Advantages

- Simpler: eliminates the need to negotiate financing terms
- Cheaper: no interest required

Disadvantages

- Requires a large amount of available savings
- Reduces savings for other purchases

### Sometimes financing makes sense

Financing a car is a good option when you do not have the available cash and a car is a necessary purchase.

Advantages

- Payments are spread out over a period of time

Disadvantages

- Payments must be made regularly and on time (failure to pay will lower your credit score)
- Interest payments increase the total cost of the car

# Comparing Loans and Leases

## Loan

- The consumer purchases the vehicle with borrowed money and must repay the lender the total value of the car (principal), plus interest.
  - With each payment, the borrower builds ownership in the car.
  - After the final payment is made, the borrower owns 100 percent of the car.

## Lease

- The consumer borrows the vehicle for a period of time and must pay the leasing company a fee while the car is being borrowed.
- The consumer never owns the vehicle during the lease.
- The consumer can purchase the vehicle at the end of the lease; otherwise, the vehicle must be returned to the leasing company.

A lease might be cheaper in the short-run...

- Compared to a loan, a lease may provide monthly payments that are 30% to 60% lower.
  - The monthly payment pays for only the cost of borrowing the vehicle.
  - In exchange for lower payments, you give up the ability to build ownership (or equity).

...but a loan can be more economical in the long run

- With a loan, your monthly payment ends once the loan is paid off.
- If you continually lease a car, you will always make monthly payments.

## Watch out for the fees!

- Leases are made to discourage early termination.
  - A termination fee will be assessed if you end a lease early.
- Leases limit the number of miles you can drive.
  - If you exceed your limit, an “excess mileage” fee will be charged at the end of the lease.
- Leases only allow for “normal” wear-and-tear.
  - You will be charged for any damages that exceed “normal” wear-and-tear.

## Go to the dealership prepared.

Whether you decide to finance with a loan or a lease, there are several ways to make the process easier.

- Check your credit reports.
- Establish your terms before you negotiate.
- Look for special financing offers.
- Shop around.
- Don't forget that you're in charge!

## Notes

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