

Focus on Price – Not Payments

The time has come! You've saved for your down-payment. You've triple-checked your finances and know your available monthly budget. You even found the perfect car online. Excitement is in the air, along with that new-car smell. And...you're walking into a trap!

Salespeople at dealerships are listening for that one vital piece of information...you're MONTHLY BUDGET. Why? Because with a little creative math, making just about any vehicle fit into that budget is possible.

The Payment Trap

The number one mistake when buying a vehicle is letting the dealership know your monthly budget. In terms of payments, almost any finance expert can make that monthly payment happen. And they do it by extending the term, or length of the loan.

Let's use the following example to illustrate how this is possible.

Assume the car you want is \$30,000. You're approved rate is 3% APR.

<u>TERM</u>	<u>PAYMENT</u>	<u>INTEREST</u>
60 Months	\$ 539.06	\$ 2,343.64
72 Months	\$ 455.81	\$ 2,818.34
84 Months	\$ 396.40	\$ 3,297.52

Notice how the monthly payment goes down with the longer term, but the total interest you pay increases. The difference in this example between a 60 month and 84 month payment is **\$142.66!** While that is a big monthly savings, you'll notice you also **pay an extra \$953.88 in interest** over those extra 24 months.

It's very easy to see how dealerships are able to use 'funny numbers' to get just about any price to fit your monthly payment. And because we're excited about buying a new car, if the payment fits our monthly budget, we're happy. It's not until later that we realize our mistake in buying a vehicle we probably couldn't afford.

Make Price the Focus

One of the easiest and most effective ways to prevent falling into the payment trap is to get a pre-approval before you go car shopping. A pre-approval means you applied for your vehicle loan at your financial institution, they reviewed your finances with you and approved you to borrow a specific amount.

This approved amount is the maximum you're able to borrow and prevents a dealership from putting you into a vehicle you cannot truly afford. Instead of focusing on monthly payments, the focus becomes the total vehicle price; thus, eliminating the payment trap.

We're Here to Help!

When you're ready to begin looking for your next vehicle, stop by the Credit Union or give us a call at 410-687-5240. We're ready to help you get pre-approved and lock in a great, low rate.

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