

First Timer's Guide Vehicle Financing

Time to put rubber to road.



“**Maybe you’re looking to buy your first car. Or your first real car. Either way, there are a lot of choices to make when it comes to buying your first vehicle.**”

Do you want heated seats for those cold Canadian winters? Or do you need cruise control to counter your lead foot? Do you live in a city where only a micro-car can squeeze into your driveway? Or do you need something that makes for a comfortable commute? New or used? Lease or own? Fixed or variable interest rate on a loan?

These are just some of the questions you’ll have to ask yourself when you start thinking about purchasing your first vehicle.

Our First Timer’s Guide to purchasing a vehicle has all the information you need to make an informed decision.

Are you ready for a new set of wheels?

HOW MUCH CAN YOU AFFORD?

Buying your first vehicle is a significant purchase and figuring out how much you can afford is the first step toward hitting the road. That way you’ll know if you’re in the market for a beater, a Beamer, or something in between.

Not sure what your budget can handle? Our **First Timer’s Guide to Budgeting** can help you figure out what you can afford.

OTHER COSTS TO CONSIDER

The purchase price isn’t the only cost to consider. For example, where you live and how much you drive might mean increased fuel costs, the difference between all-season and winter tires, and increased maintenance. And then of course there’s insurance to factor in. These types of additional costs are a significant part of owning a vehicle. You should take them into account when you’re trying to calculate how high of a monthly payment you can afford.

IMPORTANT COSTS TO CONSIDER:

COST OF VEHICLE

- Purchase price
- Additional dealership fees

UPFRONT COSTS

- Down payment
- Vehicle insurance
- Vehicle registration
- Vehicle permit
- License plate

ONGOING COSTS

- Loan payment
- Loan protection insurance (recommended)
- Auto insurance payment
- Service and maintenance
- Tires
- Fuel costs
- Permit renewals
- Safety inspection

Auto insurance vs loan protection insurance: What's the difference?

When it comes to insurance, auto insurance is probably what comes to mind. This type of insurance will help protect you by covering costs and liability if you get into a car accident or if something bad happens to your new ride. You'll need auto insurance in order to secure financing for your new vehicle and to get it on the road. A licensed insurance agent can help you understand your coverage needs.

Chances are if you're buying a vehicle, you'll need a vehicle loan to purchase it. This is where loan protection insurance comes in. Unlike auto insurance, which covers your new vehicle, loan protection insurance protects your vehicle loan itself by covering loan payments or paying out the balance, in case something happens to you. While this type of insurance is optional, it's a good idea to talk with your credit union financial expert about this to see if this is right for you.

Minivan or monster truck: Which vehicle is right for you?

Choosing the right vehicle should be fun. A sports car might be a blast in the summer, but what about when there's 40cm of snow on the ground? And it might be nice to have oversized tires, but will you really need them if you live in the city? You should carefully consider what you're going to use your vehicle for and what features are most important to you.

Start by asking yourself these questions:

WHAT WILL YOU BE USING YOUR VEHICLE FOR?



Work (sales, travel, trade work, etc.)?



Daily or weekend driving?



Long trips or short trips?



City, highway, or rugged terrain driving?



Travelling with children or pets?



Will you be travelling with sports equipment?



Will it just be you or all your friends?

WHAT FEATURES ARE IMPORTANT TO YOU?

- Cruise control?
- Hybrid vs gasoline vs diesel?
- Power seats, windows, locks?
- Sunroof?
- Do you need extra storage room?
- Heated seats?
- GPS and Bluetooth compatibility?

GOOD TO KNOW

There can be more advantages than just being green when choosing an environmentally-friendly vehicle—like lower interest rates or flexible repayment options on your loan. Be sure to ask about green advantages when discussing financing options.



DIFFERENT VEHICLE TYPES

TYPE	DESCRIPTION
Micro-car	Micro-cars are the smallest automobile on the market and are best suited for city driving and light loads.
Sub-compact car	Sub-compact cars are best suited for short distances and lighter loads.
Compact car	Compact cars are economical multi-purpose vehicles.
Mid-size car	Mid-size cars are generally more expensive to purchase and maintain than lower class categories.
Full-size car	Full-size cars are great for long distances, typically have more powerful engines, and are built for comfort.
Sports car	Sports cars offer performance and luxury but may not be practical in every season.
Luxury car	Luxury vehicles are generally the most expensive to purchase and have premium features, but can also be costly to maintain.
Minivan	Minivans are ideal for large families looking for safety and convenience.
SUV	SUVs offer the best performance for rural or off-road conditions.
Pickup truck	Pickup trucks are best suited for those who require hauling capability. The type of materials to be hauled, distances travelled, and frequency of use would determine whether a mini mid-, full-, or heavy-duty sized pickup truck is appropriate.

New vs used: What's right for you?

Once you've decided what type of vehicle you need, the question becomes new or used? There are pros and cons for both.



BUYING NEW

There are several advantages to buying new. You don't have to worry about whether the vehicle has been in an accident or where that stain in the backseat came from. New vehicles also come with a manufacturer's warranty that won't cost you extra.

The newer the vehicle, the more you can customize it to reflect your personal style and the features that are important to you. Often, new cars come with regular scheduled maintenance for a period of time—something worth factoring into your budget. And finally, buying new means less legwork—once you choose the right vehicle, you can go straight to the dealer. No online hunting or visiting private sellers, which can save you time.



BUYING USED

One of the biggest advantages to buying used is the value you get. Why? Because a new car depreciates around 30% the first year you own it. Buying used also means you're paying less, so you might be able to spring for a nicer model without blowing your budget.

As an added bonus, a used car can cost you less in insurance. And while buying used may require more time on your part, you may be able to find a model you prefer that may not be available new.



PROS AND CONS OF BUYING NEW VS SECOND HAND

BUYING NEW	
PROS	CONS
<ul style="list-style-type: none"> • Car hasn't been in any accidents • Comes with manufacturer's warranty • Can be customized • Can come with regular scheduled maintenance for a period of time 	<ul style="list-style-type: none"> • Depreciates approximately 30% in the first year • Can cost more in insurance
BUYING USED	
PROS	CONS
<ul style="list-style-type: none"> • Better value for money • Upgrading to a nicer model may cost less 	<ul style="list-style-type: none"> • Less ability to customize • More legwork/research • Vehicle comes with a history

GOOD TO KNOW

It's always a good idea to get a sense of the insurance costs for the type of vehicle you're interested in before you buy.



LEASING VS BUYING

Leasing can sound great. Low monthly payments and the ability to change cars frequently. But borrowing to purchase a car may be more practical and less expensive in the long-term.

When you lease, the leasing company still owns the vehicle—while you're on the hook for maintenance and repairs during the lease period. Conditions can also apply like charges for wear and tear, mileage limits, and penalties if you break your lease early.

The bottom line? Understanding the fine print that comes with leasing is crucial to being able to make an informed decision.

PROS AND CONS OF LEASING VS BUYING

LEASING	
PROS	CONS
<ul style="list-style-type: none">• Low monthly payments• Ability to change cars frequently	<ul style="list-style-type: none">• You don't own the vehicle• Maintenance/repairs/costs are your responsibility• Mileage limits• Possible penalties for breaking the lease early
BUYING	
PROS	CONS
<ul style="list-style-type: none">• May be less expensive long-term• More practical• Car loan can help build credit score• Vehicle belongs to you	<ul style="list-style-type: none">• Less ability to change cars frequently

Now that you know what kind of vehicle you want—how do you pay for it?

PRE-APPROVAL

Before you start shopping, it's a good idea to meet with your local credit union to get a pre-approval. A pre-approval takes a look at your individual financial situation to give you a sense of how much you can afford.

During a pre-approval meeting, your credit union financial expert will take the time to understand your needs and walk you through the vehicle-buying process to help you understand the costs and how they'll impact your bottom line.

Once you receive a pre-approval, you're not obligated to use it. But you'll be in a better position to negotiate once you know what you can afford. That way you can enjoy the experience knowing you don't have to wait for financing approval. It also means you can make a deal to help get you into the driver's seat of your new ride sooner.

WHAT TO BRING TO YOUR VEHICLE PRE-APPROVAL MEETING

- Identification and personal information
- Employment and income verification
- Asset/liability information (what you own and what you owe)

READY TO SIGN A FINANCING OFFER? HERE'S WHAT YOU NEED AFTER PRE-APPROVAL MEETING

- Description of the vehicle
- Insurance confirmation



FIXED VS VARIABLE INTEREST RATES

First off, here's the difference between the two. With a fixed interest rate, your interest is locked in for the term of the loan and doesn't fluctuate. This fixed amount means you'll know exactly how much interest you'll be paying over the term.

With a variable interest rate, your interest rate can fluctuate depending on market conditions. If interest rates fall, more of your payments go toward the principal of your loan, which means you can pay it off faster. But if interest rates rise, more of your payments go towards interest, meaning it may take you longer to pay off your loan.

VEHICLE FINANCING Q&A

Q: What do 'term' and 'amortization' mean?

A: Amortization is the amount of time you choose to pay off your loan.

Term refers to the period of time until your loan becomes due and payable or must be renewed.

Q: How much interest will I end up paying?

A: How much interest you pay over the course of your loan depends on the interest rate, term, payment schedule, and amortization period.

Q: Can I make extra payments without penalties?

A: Absolutely! Members can make extra payments at any time, in any amount, as often as they want, with no penalty.

Q: How can a vehicle loan help build good credit?

A: Used responsibly, a vehicle loan can help you build a positive credit history, as it shows your ability to make payments on time.

Tips to get on the road with the most savings in tow.

USE AMORTIZATION TO YOUR ADVANTAGE

Amortization is the length of time you choose to pay off your loan completely. By choosing a shorter amortization period, you'll pay less in interest.

CHOOSE A PAYMENT SCHEDULE THAT RESULTS IN SAVINGS

Because interest is compounded each payment period, scheduling weekly or even bi-weekly payments can save you on the total interest paid. And if you come into some cash, making an extra payment will help reduce the amount of interest over time on your loan.

NEGOTIATE A BETTER PRICE FOR YOUR NEW VEHICLE

DETERMINE AFFORDABILITY

- Get insurance quotes for the makes and models you're interested in. This will give you a sense of how affordable these makes/models are long-term.
- Consider the size of the fuel tank and how much it will cost to fill.
- Get pre-approval for a vehicle loan so you can know how much you can spend.

DO YOUR RESEARCH

- Get a sense of the manufacturer's suggested retail price (MSRP) for the makes and models you're interested in.
- See if there are any available incentives or rebates being offered.
- Shop around—get written quotes from several different dealerships with the added features you want.
- Ask about vehicle warranties, undercoating, rust proofing, rebates, and incentives. These are the add-ons that are typically left to the final signing meeting so it's best to get a sense of these costs up front if possible.

UNDERSTAND ADDED COSTS

- Always review the invoice and make sure you understand all the charges. If you don't understand something, ask! This is a big purchase, so make sure you're informed.
- Some charges can be removed/negotiated down like additional dealer mark-up, admin fees, dealer prep, etc. Don't be shy—come prepared to negotiate.
- If you're buying used, always take the car for a full motor vehicle inspection before purchasing.

Vroom vroom.

You only purchase your first vehicle once—make sure it's a positive experience. If you've read through the guide and still have questions, connect with your local credit union. This is a big decision, so make sure you have all the information you need to do it right.

