



Banking for your family and your future.



**CAR BUYING GUIDE**  **Easy Steps To Find:**

- Right car.
- Right rate.
- Right lender.
- Right protection.
- Right now.

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# WE ARE DRIVEN TO HELP.

Preparing to purchase a car today can be exciting and stressful. In the post Covid-19 world, it's also more difficult and much more expensive. Inflation, higher wages and parts shortages have resulted in low vehicle inventory and high consumer demand. These factors have driven the average purchase price of a new vehicle to \$47,000 as of June 2022. Your next vehicle will likely be your second most-valuable asset, behind your home. So getting it right – the right car, the right rate, the right lender and the right protection for you and your family – is vital. With this guide and a little bit of homework, your next car will be your best purchase yet. We can help.

# Best Time To Buy A Car

## Normal Market Conditions

**Best Months:** December, November and October

**Best Time of the Month:** 25<sup>th</sup>–28<sup>th</sup> of the month

**Best Days:** Monday – Wednesday

**Best Holidays:** Labor Day, Black Friday & New Year's Eve



Under normal market conditions, the best time to purchase a new car has been during December, November and October – in that order. Manufacturers and auto dealers save their biggest incentives for these months for two reasons.

1. They want to meet their year-end sales goals. As the end of the year rolls around, it's their last chance to ramp up sales and hit their targets.
2. Manufacturers and dealers need to clear their lots of the current model year vehicles.

With new model year vehicles on the lot, this has also been the best time to negotiate the price on the outgoing model year. If you're willing to drive the 2022 model instead of the 2023 model, you could save hundreds if not thousands on the purchase price.

## Best Time of the Month

Because dealerships also have monthly sales goals, the best time to negotiate a better purchase price is closer to the end of the month, but not necessarily on the last day of the month. If the dealership hasn't already met their sales goal for the month, shopping between the 25<sup>th</sup> – 28<sup>th</sup> should work in your favor. However, if you wait until the last day of the month, the sales goal for the month may already be met. In that case, you're less likely to receive price discounts and incentives.

## Best Days of the Week

Believe it or not, the day of the week also affects the price you pay for a vehicle. Most people shop for and purchase vehicles on the weekend. When the dealership is full of shoppers and potential buyers, you're much less likely to get a lower price. Instead, shop and purchase early in the week – Monday to Wednesday – when the dealership is empty and the salespeople are anxious to jump start their sales for the week.

## Best Holidays

Holidays can also be a great time to negotiate a better purchase price on a new vehicle. The best holidays to make a purchase are New Year's Eve, Labor Day and Black Friday.

**New Year's Eve** – As the year begins to wind down manufacturers and dealerships will begin to offer price cuts and incentives to meet their sales goals. The best deals to be had will be on this day, but keep in mind that the inventory of current year models will be slim. You may get a great price, but you may also have to compromise on your preferred color and trim packages.

**Labor Day** – This day marks the beginning of significant price decreases and incentives. While the best deals won't be on this holiday, there will be a good mix of current model year and new model year inventory. If you want a specific color and trim package, especially if your preferences aren't common, then a Labor Day purchase may be best.

**Black Friday** – The day after Thanksgiving brings steep price discounts and incentives.



## Post COVID-19 Market Conditions

COVID-19 has significantly impacted the car market. Plant shutdowns, chip shortages, the great resignation, higher wages to fill open positions and inflation have resulted in lower vehicle production and inventory. Add this to higher consumer demand and the average price of a new vehicle purchase hit a record high of \$47,000 in June 2022.

Today, you are far more likely to have to place an order for your new vehicle and wait for it to be produced. You may also be placed on a dealership's waiting list for a specific model. Either way, this lack of available inventory means that there may be no best time of the week, month or year to purchase a new car. The only exception may be for unpopular models that are less in demand. The end of the year may still hold price decreases and incentives for these vehicles.





# What Is MSRP?

## Manufacturer's Suggested Retail Price

It is the price you see on the window sticker for a new vehicle. It is the suggested price that the manufacturer gives to the dealer to sell the vehicle. Traditionally, the MSRP has been the starting point for price negotiations between you and the salesperson.

### What it's not:

MSRP is not the cost the manufacturer paid to produce the car. It's also not the cost the dealership paid for the car. Lastly, it is not necessarily what you will pay for the vehicle.

### Items not included in the MSRP:

The MSRP may not include other expenses related to the vehicle including:

**Destination Charge** – This is the cost the dealership must pay the manufacturer for the delivery of the vehicle to the lot.

**Dealer-Installed Options** – Any options installed after the vehicle arrived at the dealership will not be reflected in the MSRP. In these cases, you will see an additional window sticker noting what these options are, the cost and the final cost of the vehicle.

**Taxes, Fees and Registration** – Sales tax, registration and title fees are also not included in the MSRP. These fees are mandated by the state, so there is no negotiating these costs down. These are typically added to the vehicle cost and are financed in the loan.

**Dealership Fees** – Dealerships may include other charges like document preparation fees, dealer preparation fees and advertising fees. These fees may be negotiated down.

## Is Paying Above MSRP the New Normal?

Traditionally, MSRP has been the starting point for price negotiations between you and the salesperson. With vehicle shortages and low inventory, this is no longer the case. If a vehicle is in high demand or you are seeking a vehicle with a rare trim package, you may have to pay MSRP to get the vehicle you want. In these cases, it may be your best option to place an order for the vehicle. We also highly encourage you to find a reputable dealership that doesn't charge more than MSRP, especially if you are ordering the vehicle.

One COPFCU member who sought to buy a high-demand vehicle in a rare color found it at local dealership, but was quoted \$12,000 over MSRP for the vehicle. The dealership refused to negotiate the price. The member walked away, deciding that he would wait to purchase the car until the vehicle market had stabilized.

Another member could not find the vehicle she wanted and placed an order for it at a dealer for MSRP. A few weeks later, the dealership called back to say that someone else had changed their mind on a vehicle they had ordered and it was now available if she was interested. She visited the dealership to look at the vehicle and was quoted \$10,000 over MSRP. She was able to negotiate the price down to \$5,000 over MSRP and purchased the vehicle.

## The Future of Car Manufacturing and Buying?

Some industry experts speculate that manufacturers and dealerships may transition to “order-only production” – meaning that you must place an order for the vehicle you want and wait for it to be produced. The supply chain and production disruptions caused by COVID-19 have demonstrated to auto manufacturers that they can produce fewer vehicles and sell them for a higher price, resulting in increased profits. This production model lessens your ability to negotiate and receive incentives from the manufacturer.

## What is a Fair Price for a New Car?

A fair price will be different for each person moving forward. What purchase price makes sense for your situation, your family needs and your budget? Are you willing to pay MSRP or above MSRP?





# How To Find The Best Car And Loan For You

**Before you set foot on a dealer lot, it's important to do some homework. Careful consideration of your needs and wants will pinpoint the best vehicle type for you. Here is a Step-By-Step guide to finding the right car.**

## Step 1 – What are your needs?

The first step is to pinpoint your needs and wants. Do you need a fuel-efficient car to drive 50 miles each way to and from work? Does the car need to accommodate 4 kids and your spouse? Will you be towing a boat? Is technology, like a navigation system and back-up camera, important to you? Make a list of your must-have features and then make a list of the extras you might want.

## Step 2 – How much can you afford?

Next, determine your all-in purchase price and the maximum monthly payment you can afford. Typically speaking, your car payment should be no more than 15% of your monthly take-home pay. Use a car loan payment calculator to help you determine your monthly payment range, then review the cars that meet your needs and wants for this price.

## Step 3 – Consider costs of ownership

Your monthly loan payment isn't the only expense you'll have with a new car. Be sure to consider the following items before making your decision:

- **Length of manufacturer's warranty**
- **Costs for an oil change**
- **Cost for major repairs**
- **Annual fuel costs (consumption in miles per gallon (mpg))**
- **Insurance coverage**

These items will vary from one car to another. If you're considering a few similar vehicles, comparing these costs can help you make your final decision.



## Step 4 – Take some test drives

Before making your final decision, it's important to test drive the vehicles on your short list. A vehicle that looks great after research and analysis could be the most uncomfortable and least satisfying to drive. The test drive will allow you to feel how the vehicle performs, responds to your driving style and if it's comfortable and fun to drive. If possible, drive the car on roads that are similar to your normal routines. Make sure to pay attention to how the vehicle accelerates and brakes, and if the controls for the radio, windshield wipers and heat/AC are intuitive and easy to use.

## Step 5 – Find a loan

Shopping for a car loan is just as important as shopping for the car. Keep in mind, the best deal may not always be just about the rate. Most lenders also offer GAP insurance and Mechanical Breakdown insurance which may make sense for you in some situations. Costs for these coverages are usually included in the loan amount.

## In general, you have 3 choices for car loans:

- **Get a loan at the dealer**
- **Get a loan from a local credit union or bank**
- **Get a loan from a non-traditional lender like an online car loan provider**

Getting a loan through the dealer is often convenient since you're already there to purchase the vehicle. However, make sure that the dealer is doing what is best for you instead of what's best for them. Dealers make a significant amount of income from the lenders they work with when you elect a dealer loan. The best rate that they offer you may not necessarily be the best rate available in the marketplace.

In addition, dealers will offer you GAP insurance and Extended Warranties for your car. There are situations where it's in your best interest to purchase these coverages, but bear in mind that the dealership cost for these may be double or triple the cost over your local credit union. Learn more about GAP and Mechanical Breakdown insurance on page 10.

Until then, consider applying for a loan at COPFCU. Apply for the loan before you begin shopping to be pre-approved. A pre-approval lets you know the maximum amount you can borrow and the rate you'll receive for the loan, which helps you stay within your budget when you visit the dealer.



# GAP And Mechanical Breakdown Protection

## GAP (Guaranteed Auto Protection)

### What is it? Why do you need it?

If your car is totaled or stolen, your insurance will only pay the estimated insurance value for the car. That could be a problem if you owe more on your car loan than your insurance will pay.

GAP (Guaranteed Auto Protection) pays the difference between the insurance value and the outstanding balance of your loan.

### GAP is recommended when:

- You purchase a new vehicle with less than 20% down
- You finance a vehicle for a term greater than 48 months
- You expect to drive your vehicle 15,000+ miles per year

These situations will likely result in your car's value being less than your outstanding loan amount.

### GAP benefits:

- Pays off any remaining car loan balance not covered by insurance
- Pays your insurance deductible up to \$1,000
- Saves you from paying thousands out of pocket
- Protects your credit rating.



# Mechanical Breakdown Protection

**Even the most reliable cars can have a mechanical issue. With the average purchase price of a new car now at \$47,000 most cars will be financed for an extended term – 60, 72 or even 84 months. Most manufacturer’s warranties provide coverage from 36 – 48 months or through a maximum mileage of 36,000 or 48,000 miles.**

**Should you purchase an extended warranty? That depends on your personal situation. Consider the following to help you decide.**

## **How long do you plan to keep the car?**

If you purchase a new car every 3-4 years, the standard manufacturer’s warranty will likely be enough. However, if you plan to keep the vehicle for 8 years or more AND you will finance the vehicle for an extended term (60, 72 or 84 months), an extended warranty could provide financial protection for you. Nothing stresses your checking account more than making a car payment AND paying for costly repairs.

## **What type of reliability history does the car have?**

Do you know if the car you’re planning to purchase is considered reliable or unreliable? Doing a bit of homework to check the reliability ratings will help you decide if an extended warranty makes sense. If a vehicle has below-average reliability, an extended warranty could save you a great deal.

## **Is the car a new model or a complete redesign of a model?**

Conventional car wisdom has always noted that it’s best to avoid a newly introduced model or a completely redesigned model in its first year of production. Why? Because first-year models are known for their glitches, technology bugs and engineering flaws. If you’re looking to purchase a first-year model, an extended warranty may make sense.

## **What type of car are you purchasing?**

If you are planning to purchase a luxury vehicle or a vehicle with a wide range of technology options, a warranty may make sense. Most luxury vehicles come with a higher price tag for replacement parts and labor.

## **What type of technology package does the car have?**

Car technology has changed significantly in the past 10 years. With lane keeping assist, pedestrian avoidance, backup cameras and blind spot monitors now commonplace, repairing or replacing these systems if they’re on the fritz can cost hundreds or thousands.





# How To Choose A Used Car And Used Car Loan

A used car can be a great value, but there are a few more things to consider in addition to estimating your needs, researching the vehicle and taking some test drives. A used car may look clean and beautiful on the outside but could hide any number of issues under the hood. Follow these steps to protect yourself and purchase a quality used car.

## Get a vehicle history report.

When researching different vehicles, make sure to check the vehicle history report. While the report won't tell you the current mechanical condition, it will give you detailed information on the car's past including if the vehicle has a "Salvage title," meaning that it has been declared a total loss by an insurance company. The report will also show any accidents and repairs made through insurance companies, how many different owners the vehicle has had, if it was used for personal or fleet use and maintenance records.



## Don't Discover By Accident Your Car Had Been Damaged.

Just because a vehicle doesn't show an accident on its report doesn't mean that it hasn't been in an accident. Car owners may opt to pay for repairs personally as opposed to filing an insurance claim. This is sometimes done to prevent an increase in their car insurance cost.

## Ask a trusted mechanic to check it out.

This is especially important if purchasing the car from a private seller, but it's also a good practice when purchasing any used vehicle. A mechanic you trust can help you determine if the car is in good condition or not. If the seller or dealer won't allow your mechanic to take a look at the car, chances are there is something wrong with the vehicle.

# Used Car Loans

Just as with new car loans, you have the same 3 options for lenders for used car loans:

- Dealership
- Local credit union or bank
- Online loan car loan company



## Considerations For Used Car Loans

### No special financing incentives.

Unlike new car loans, manufacturers rarely offer special financing options for used car loans. You can still finance the car through a dealer loan partner, but as with new car loans, be careful that the finance person is offering you the best loan for your needs instead of the loan that provides more income for the dealership.

### Rates are higher than new car loans.

Because of the car's older age, lower value and higher potential for mechanical problems, rates for used car loans are higher than loan rates for new car loans. All of these factors mean that used car loans are a higher risk for a lender. Local credit unions and banks offer some of the most competitive used car rates. Make sure to shop around for the best rate.

### Limited financing terms.

Because of the same factors noted above, financing terms for used cars may be limited as well. While new car loans may be financed for up to 72 or 84 months based on the purchase price, these extended terms may only be available for more expensive used cars.





# Should You Refinance Your Car Loan?

## The Benefits of Refinancing:

Most people don't realize that you can refinance your car loan just like you refinance your mortgage. Under the right circumstances, benefits of refinancing include:

- **Getting a better interest rate and saving significantly on interest**
- **Lowering your monthly payment**
- **Decreasing the loan to a shorter term**

## Consider Refinancing Your Car Loan When:

### **Pre-payment penalty is minimal.**

Check your current loan closing documents to see if there is a pre-payment penalty and what it is. Some loans have pre-payment penalties and some don't. Knowing what your pre-payment penalty is should be considered with all the other factors below. If the penalty is significant, it may not be worth it to refinance your car.

### **Interest rates have decreased.**

If the market has changed and you can lower your interest rate by a significant amount, this could save you hundreds or even thousands on the remaining term of your vehicle. Use a loan calculator to help determine exactly how much your interest savings will be.

### **Your credit score has improved.**

If your credit score has improved significantly since you took the original loan, you can usually receive a lower rate on your car loan. Check your credit score and shop around to see what rate may now be available to you.

### **You didn't shop for the best rates and terms the first time.**

If you now have the time to shop around, you may find that there are better interest rates and loan terms to be had.

### **Your loan payment is too expensive.**

If your budget has changed and your monthly car payment no longer works for your needs, refinancing to a longer term can decrease the payment. Understand that a longer term will mean you'll pay more interest over the life of the loan.



# When Refinancing Doesn't Make Sense

**Sometimes refinancing your car loan just doesn't make financial sense. Avoid refinancing when:**

**Pre-payment penalty is high.**

If your current loan has a high pre-payment penalty that will outweigh any savings you achieve, stay with your current loan.

**You'll apply for a home loan soon.**

If you're getting ready to purchase a new home or take out another significant loan, wait to refinance your car. Refinancing will lower your credit score by just a few points, but that could impact your ability to get a home loan or other loan.

**Your car isn't in good condition.**

Lenders will verify the value of the vehicle before agreeing to refinance it. If the car is upside down (meaning you owe more than the car is now worth), has excessive mileage, or physical damage, you may not be able to refinance the car loan.

**The car loan is almost paid off.**

If the car loan is almost paid off, it won't make sense to refinance the loan even if the rate is significantly lower. Stick with your current loan.

## How To Find the Best Refinance Loan.

It's best to shop around for the best refinance loan. Local credit unions and banks are more likely to offer you the most favorable rates and terms. Before you contact any lenders, make sure to have the following:

- **Current loan payoff amount**
- **Current loan rate**
- **Your current credit score, especially if it's increased significantly**
- **Your desired term**

With this information, the lenders will be able to provide you with a quote for a refinance loan.





## Thank you!

Thank you for downloading our Vehicle Loan Guide.  
We hope you found the information useful.

If you have any questions or need additional  
information, please contact us.



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