

Radio Glencoe Podcasting

The Money Roundtable

Episode 4 – Buying a Car

Glenn and McGraw interview an automotive reporter who provides advice on the pros and cons of buying a new vs. a used car, how to finance a car loan, and what to look for when buying a car.

Glenn Good day, listeners. Welcome to Radio Glencoe Podcasting. I'm your host Glenn Coe.

McGraw And I'm your host McGraw Hill.

Glenn And this is *The Money Roundtable*, where we talk about financial topics of importance in today's world.

McGraw Our show today is devoted to the topic of cars. Glenn and I know that many of you in high school are eager to start driving—and perhaps you're thinking about buying your first set of wheels.

Glenn And one of the first questions you have is, "Is it better to buy a *new* car or a *used* car?"

McGraw Our guest today is Sally Bishop, car reporter for the *City Chronicle* newspaper here in town. Sally, what do you think about this debate: new or used?

Sally You know, I have to say that there are pros and cons to both sides. But before I talk about that, let me say that the best way to decide is to figure out your budget first. You need to calculate how much car you can afford to buy.

Glenn And how do you determine that?

Sally You begin by deciding two things: one, how much you can put down as a deposit; and two, how much you can afford each month in car loan payments. Then you can decide whether a new or a used car is your best choice.

Glenn That's a good point. If you don't have enough cash to just buy whatever car you want, you need a car loan, right? So how can you find out how much of a car loan you can get?

Sally It's easy these days. You just use these special auto loan calculators on the Internet that a lot of banking and car Web sites offer. For example, let's say a family knows they have \$5,000 to put down as a deposit on a car. And they also know they can afford \$250 per month for car loan

payments.

Glenn Oh, I think I get it. There's a calculator where you type in \$250 per month and then the calculator tells you exactly how much of loan you can get.

Sally Exactly. For example, let's say you can pay \$250 per month for 3 years. The calculator will show you that you can borrow about \$8,000. Or let's say you can pay \$250 for 4 years. Now you can borrow almost \$11,000. Five years gives you \$13,000. Those are just ballpark amounts, because it depends on the interest rate and of course a bank has to approve you, too.

McGraw Okay, let's say that this family you mentioned wanted a four-year loan and got approved. So they'd get about \$11,000, you said. Then they have \$5,000 to put down, so they can buy a car for \$16,000, right?

Sally That's right. Now, since they know they have \$16,000, they can decide if they want to buy a new or a used car in that price range, remembering that they also have to pay taxes and fees.

McGraw What's the answer, then? With \$16,000, should you buy new or used?

Sally Like I said, there are pros and cons on both sides.

Glenn I love the new car smell, but other than that, what are the advantages of buying a new car?

Sally New cars have two advantages. First, they're brand new, so they don't usually need repairs for several years. That saves money in reduced annual maintenance fees. Second, today's new cars usually come with a warranty for one to three years, so in case they do break down, the repairs are covered by the car manufacturer—and that saves money too.

McGraw And what are the disadvantages of buying a new car?

Sally One disadvantage is that insurance is more expensive. People often forget to take into consideration how much their insurance and gas are going to add to their monthly car budget.

Glenn That's a good point. My car insurance is nearly \$70 a month and I spend about \$50 a month on gas. That adds up on top of my car loan payment.

Sally Yes, we all have to budget for these expenses too. But let me add that the biggest disadvantage of a new car has to do with how much you pay to be the *first* owner of the car.

Glenn What do you mean by that?

- Sally** You see, new cars lose their value very quickly. It's called *depreciation*, which is a financial term that refers to the decline in a car's value that begins as soon as you drive it off the lot.
- McGraw** So why is depreciation a bad thing if you still get a new car?
- Sally** It turns out that cars depreciate about 20% after their first year, and another 15 to 20% each year after that. So some people think it's not financially smart to buy a brand new car when you can buy almost the same car two years later for 35 to 40 percent less.
- Glenn** So that's the advantage of buying a used car, right? You're not paying for those years of depreciation.
- Sally** Exactly. For example, take our hypothetical family with \$16,000. They could save three or four thousand by NOT purchasing a new car but instead looking for a two-year old used model.
- McGraw** Or they could spend the entire \$16,000 on a nicer used car that would have cost \$20,000 new. That way, they'd get a better deal.
- Sally** That's also possible. These are the trade-offs people need to weigh. Do you spend your money on a new car with lower repair bills? Or do you buy a better car that is used instead of new? Or do you save your money and buy a less expensive used car and still get the model you want? No matter which choice though, it all starts by planning your budget.
- Glenn** Sally, we have a caller on the line who has a question for you about buying a used car.
- Lamar (18 years old)** Hi. My name is Lamar Johnson and my dad is going to buy me a used car. We just decided tonight and I really want to buy it tomorrow. What should I tell him?
- Sally** First of all, Lamar, don't rush out and buy a car tomorrow if you just decided tonight. You can learn something and help your dad out by doing some research first. Do you know the magazine *Consumer Reports*?
- Lamar** Yes, I've seen it in my library.
- Sally** *Consumer Reports* is a very good place to check out used cars—like which ones have good repair records, which ones have good safety records and so on. You should also look on the Internet where there are a lot of Web sites that rate used cars and compare prices, because you know, the price of a used car depends on its age, its mileage, and its condition.
- Lamar** What Web sites are you talking about?

Sally One of them is called www.edmunds.com. Another one is called www.kbb.com. The “kbb” stands for Kelley Blue Book. Both of these companies have lots of pricing information on used cars.

Lamar Do you think I should buy a used car from a dealer or a private person?

Sally That’s hard to say, Lamar. If you know a lot about cars and can size up a good one, you can save money by buying it from a private person. But get the car inspected by your mechanic before you agree to buy it. And also, get the VIN number and look it up.

Lamar What’s the VIN number?

Sally That means the vehicle identification number. Every car has one. If you get that number from the private party selling you the car, you can go on a Web site called www.carfax.com, where you can buy a report that tells you if the car has ever been in an accident or had lots of owners, which often means it has had repair problems.

Lamar I don’t know a lot about cars, so maybe buying from a dealer is better for us.

Sally You will pay more money because the dealer has to make a profit, but you usually get at least a 30-day warranty on a used car in case of any problems. But never buy a used car if it has a sticker that says AS IS. That’s trouble.

Lamar One last question Sally. Can we trust a car dealer to give us a good price? My dad hates negotiating.

Sally Lamar, that’s a tough one. Buying a car is a complicated financial transaction. It’s not like grocery shopping. While most car dealers are honest and want happy customers, selling cars is their business and they have a lot of ways to get you to spend extra money, like extended warranties, options, and so on. That’s why it’s best to do lots of homework first, so you and your dad know what to expect.

Lamar Thanks. My dad will be really happy with what I’ve learned.

Glenn Sally, that’s the time we have today. This is Glenn Coe saying goodbye for *The Money Roundtable*.

McGraw And I’m McGraw Hill. Remember, it’s going to be your car, so spend your money wisely.