

\$mart About Money:

CARS

EXCEPT FOR HOUSING, most families spend more on transportation than on any other expense category. Some North Dakotans could save thousands of dollars by taking the bus, sharing rides, biking or walking. But most are highly dependent on private transportation. This publication can help you make wise decisions and learn ways to trim the cost of owning a car.

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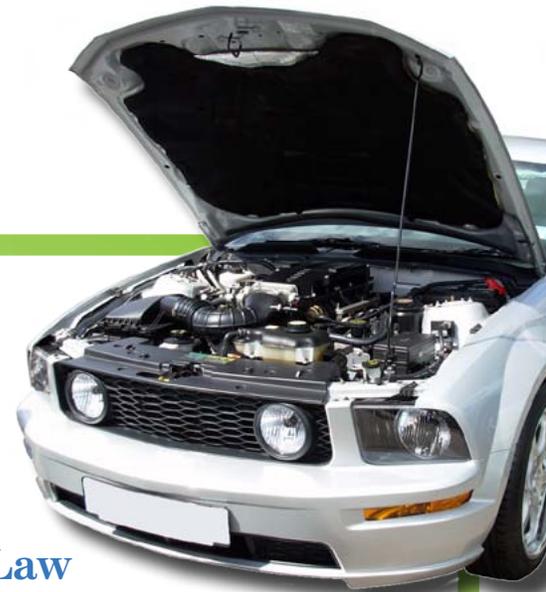
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New, Used or Leased?

New cars offer the latest technologies and multiyear warranties, but the vast majority of consumers do not buy new cars. The reason is simple. Used cars are considerably cheaper to own and operate than new ones. **Table 1** shows the cost of owning and operating a new vehicle over five years. The size and type of vehicle you choose, its safety features and fuel efficiency affect the cost of driving. Also, actual driving costs will vary based on individual driving habits and location, but these estimates can help you make a more informed decision. Despite rising gas prices, fuel bills are a relatively minor cost of driving a new vehicle. Used car buyers can avoid the high cost of depreciation that occurs in the first few years of owning a new vehicle. However, there are unknowns in buying a used vehicle. Check the repair histories of particular models and try to find out the ownership and maintenance history of a specific vehicle you are considering.

Also, have an independent mechanic check out a used car before making an offer. To determine what a used vehicle is worth, consult the *National Association of Auto Dealers (NADA) Official Used Car Guide* or other commercial guides on the newsstands, at libraries, at financial institutions or on the Internet. Identify a make and model with a good repair history, then shop for a low-mileage vehicle.

About one in five new car transactions is a lease arrangement rather than a purchase. Many consumers lease to drive a more expensive car than they could afford to buy or because they qualify to deduct all or part of the lease payments as a business expense. To make an accurate comparison between leasing and financing the purchase of a new vehicle, you must know the underlying price of the car if you were buying it. When looking for a lease, always comparison shop with several dealers. Under federal law, consumers have the right to information about the costs and terms of a vehicle lease. For more information, see *Keys to Vehicle Leasing*, a consumer guide published by the Federal Reserve Board, available at www.federalreserve.gov/pubs/leasing.



Lemon Law

If your new vehicle came with a problem that “substantially impairs the use and market value,” you are covered by North Dakota’s Lemon Law. The North Dakota Lemon Law gives owners of new vehicles the right to:

- Receive a comparable, reliable vehicle in exchange for the lemon or
- Return the “lemon” for a full refund of the purchase price, less a reasonable deduction for use

For more information, see the North Dakota Office of the Attorney General website at www.ag.nd.gov/Brochures/lemonlaw.PDF.

Financing

You can reduce the cost of owning a car by paying cash or saving for a larger down payment (and reducing the amount you must borrow). The easiest way to save is to have funds automatically taken from your paycheck and deposited monthly into savings. For example, if you save \$150 a month for five years, you will have \$9,000 available to buy or replace a vehicle. A larger down payment will qualify you for a lower interest rate. The less you borrow, the lower the interest rate, and the shorter the term of the loan, the less interest you pay. If you must borrow, check local financial institutions and compare terms with those offered by dealerships.

Insurance Tips

A close look at your auto insurance coverage may turn up ways to cut costs. Your premiums are based on your personal characteristics—your age, gender and driving record—and the type of vehicle you own.

Think about the cost of insurance before you buy a vehicle. Premiums will be much lower on an older, four-door sedan compared with a new, expensive sports car. Trim coverage that you don't need. If

you could cover the loss from savings, increasing the deductible amount will reduce premiums. Consider lowering or dropping the collision coverage (that pays for damages to your car) on an older car. Liability insurance, however, is important for cars of all ages. North Dakota law requires motorists to show proof of liability protection.

Compare coverage and cost for auto insurance sold by several companies. Premiums for the same

Table 1. Driving Costs¹

| | Small | Medium | Large | Average |
|---|--------------------|--------------------|--------------------|--------------------|
| Operating Costs | per mile | per mile | per mile | per mile |
| Gas ² | 11.46 cents | 15.08 cents | 16.80 cents | 14.45 cents |
| Maintenance | 4.60 cents | 4.92 cents | 5.40 cents | 4.97 cents |
| Tires | 0.64 cents | 1.09 cents | 1.28 cents | 1.00 cents |
| Cost per mile | 16.70 cents | 21.09 cents | 23.48 cents | 20.42 cents |
| Ownership Costs | per year | per year | per year | per year |
| Full-coverage insurance ³ | \$1,002 | \$1,020 | \$1,064 | \$1,029 |
| License, registration, taxes | \$452 | \$600 | \$780 | \$611 |
| Depreciation ⁴ | \$2,402 | \$3,536 | \$4,776 | \$3,571 |
| Finance charge ⁵ | \$606 | \$831 | \$1,106 | \$848 |
| Cost per year | \$4,642 | \$5,987 | \$7,726 | \$6,058 |
| Cost per day | \$12.22 | \$16.40 | \$21.17 | \$16.60 |
| Total Cost Per Mile (15,000 average) | per year | per year | per year | per year |
| Cost per mile x 15,000 miles | \$2,505 | \$3,164 | \$3,522 | \$3,064 |
| Cost per day (365 days) | \$4,462 | \$5,987 | \$7,726 | \$6,058 |
| Total cost per year | \$6,967 | \$9,151 | \$11,248 | \$9,122 |
| Total cost per mile | 46.4 cents | 61.0 cents | 75.0 cents | 60.8 cents |

¹Average costs for five top-selling vehicles in each size/type category.

Small Sedan - Chevrolet Cruze, Ford Focus, Honda Civic, Hyundai Elantra and Toyota Corolla.

Medium Sedan - Chevrolet Impala, Ford Fusion, Honda Accord, Nissan Altima and Toyota Camry.

Large Sedan - Buick LaCrosse, Chrysler 300, Ford Taurus, Nissan Maxima and Toyota Avalon.

²Fuel costs based on the late-2012 average price of \$3.486 per gallon

³Based on full-coverage policy for a married, 47-year-old male with a good driving record living in a small city.

⁴Depreciation is based on the difference between new-vehicle purchase price and trade-in value at the end of 5 years, assuming 15,000 miles annually.

⁵Based on a 5-year loan at 6% interest with 10% down payment.

coverage can vary widely. Ask about discounts for which you may be eligible, such as low mileage, good student or anti-theft devices. Some insurers offer discounts if you buy more than one insurance policy from the same company.

The only way to know if you are not paying too much is to shop around. In addition to cost, consider service, dependability and the financial

condition of the insurance company. The National Association of Insurance Commissioners (NAIC) has created the Insure U-Get Smart About Insurance program to help consumers make educated decisions. For more information about auto insurance, see its *Consumer Guide to Auto Insurance*, available at www.insureuonline.org/Consumer_Guide_Auto.pdf.



Other Information Sources

The April issue of *Consumer Reports* magazine provides ratings and estimates of invoice prices of new vehicle models as well as frequency-of-repair histories for older makes and models. You also can purchase a detailed report on prices for specific models and options for new or used cars for a small fee. For more information, call (800) 888-8275 or visit the website www.consumerreports.org. Because Consumers Union, publisher of *Consumer Reports*, accepts no advertising in its publications, it is a source of unbiased information for consumers.

The Car Book, by Jack Gillis, is published annually by the Center for Auto Safety and presents safety ratings, dealer prices, fuel economy, insurance premiums and maintenance costs on new cars, vans, trucks and SUVs. Many libraries have a copy, or visit the center's website, www.autosafety.org.

The National Highway Traffic Safety Administration (www.nhtsa.dot.gov) website contains extensive information on vehicle safety, including a history of consumer complaints, recalls and technical bulletins issued by the manufacturer.

If you dislike negotiating, CarBargains, a buying service from the nonprofit Consumers' Checkbook organization, will solicit firm bids from at least five dealerships in your area on the vehicle you specify. CarBargains has no ties to specific dealers. There is a fee for this service for purchases or leases. Call (800) 475-7283 or see www.checkbook.org.

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