

Car-buying tips for the New Year

Many car buyers delayed their car purchases to have a car registered in the new year, but it does have its drawbacks, cautions Rudolf Mahoney, head of brand and communication at WesBank.

Often a car purchased in January would have been subject to a price increase and it may require careful budgeting to ensure you can keep up with the monthly instalments.

“Buying a car is not just a new year’s resolution, it’s a five- or six-year-long commitment,” says Mahoney. “Plan correctly from the outset, and not only will your first year of car ownership go smoothly, but your personal finances will benefit in the years to follow.”

In the view of Debt Rescue CEO Neil Roets, it is better to save and buy cash and vitally important to live within your means.

"Loans should not be used for day-to-day living. They should only be utilised for buying expensive assets like properties and vehicles," said Roets.

“When buying a vehicle, don’t fall into the trap of buying something beyond your means. Rather buy an economy class vehicle than an expensive luxury car.”

Roets said it is vital to make financial provision for unforeseen circumstances, for example car repairs or a health crisis that might not be covered by medical aid.

“Distinguish between what you need and what you want – do not try and keep up with the Joneses,” he warned.

The most important part of the car-buying journey is compiling a list of all current expenses and income. It is important to shop around and compare car prices to find a sensible and affordable car that fits within your budget.

On average, a young professional that buys a first car at around the age of 25 and replaces the car every five or so years would have financed around eight cars in his or her car-buying lifespan. As a first-time car buyer, you need to decide wisely. The first car you buy and the way you manage your funds shape your financial future and determine whether you will be stuck in cycle of debt till you retire.

Buyers should take note of every amount they have to pay - no matter how small - and subtract those costs from your total income.

The amount that’s left over is your disposable income. But you can’t use that entire amount to pay for the car loan. Budget for fuel, insurance, tyres, service costs and more – and remember that those costs can change throughout the year.

Vehicle running costs need to be accommodated in a buyer’s budget. It is also advisable to have leeway in a budget to accommodate for rising fuel prices and unexpected service costs.

Don’t break your budget

Once disposable income has been calculated, and all running costs budgeted for, buyers should easily be able to arrive at an amount that they can comfortably afford to pay on a car loan, each month. However, the temptation to spend just R100 or R200 more might exist, especially if it could get them into a slightly better car.

Be realistic about what you can afford and don't stray from that budget – it might not end up being worth it. Rather buy a car that you can pay off easily and quickly. Three or four years down the line you'll be able to trade that car in and really afford the model with all the bells and whistles.

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Structure your contract

Once you've decided on a car and have done all your budgeting homework, look at how you'd like to structure your contract. A shorter finance term will mean higher monthly repayments, but you'll end up paying far less in interest fees. Additionally, you will be able to trade your vehicle in sooner and while it's worth is more on the second-hand market.

A longer finance term can help buyers who want lower payments and less pressure on their monthly budgets. The maximum contract term is 72 months, so think ahead of what your needs will be in six years, and whether you want a financial commitment for that long.

Paying a large deposit will also assist in reducing the monthly payments. A deposit is essentially a large initial payment, and lowers the amount of money you will need to borrow from the bank. Borrowing less money also means paying less overall interest.

If absolutely necessary, buyers can also consider using a balloon payment. This is a large amount, like a deposit, but only paid at the end of the contract. This means that after 60 or 72 months of paying instalments you will still need to make a large payment.

If you remember to save up every month, you'll avoid the shock of a balloon payment. A balloon can be used to help lower monthly instalments, but they should be considered as a last resort and used wisely.

Adding some value

There are many value-added products that buyers can make use of to get the best value for their money. These include insurance products that let you claim to repair paint chips and minor dents, or even your tyres and wheels. Value-added products such as these do not replace comprehensive insurance policies, but rather supplement them, and avoid buyers having to claim from their insurance provider for minor issues.

Other value-added products include financial insurance. One example is the deposit protectors, which will refund a deposit amount in the event that the vehicle is stolen or written off in an accident; top-up cover, which will cover any financial shortfalls if an insurance provider's payout does not cover the entire loan amount; retrenchment cover, which can cover your budget if you get retrenched, by paying for up to nine vehicle instalments; and a personal health policy, which can take care of your finances when the unforeseen happens.

Value-added products can bring some peace-of-mind to a car purchase. Cars are expensive, so you can invest in a few safety nets to ensure that you don't become financially constrained in tough times.

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