

## Keeping Car Costs Under Control

By Stacy Ranta

With the economy slowing, many car owners are thinking of how to lower the cost of their vehicles. Next to the rent or mortgage, the car is often the most expensive drain on the average household's finances. If you're thinking about how to lower the cost of owning a car, there are a few points to remember.

The first thing you should do is create a budget on the cost of your current vehicle. This will give you insight on how much your vehicle is costing you. Gas and insurance are usually the largest part of the budget, but remember to factor in the cost of maintenance. Try to set aside a little each month for a vehicle emergency fund so a sudden necessary repair doesn't sink your budget.

Remember that insurance is a large part of the cost of owning a vehicle. Check the details of your policy carefully. Many insurers will give reductions for certain safety or security equipment such as anti-lock brakes or an alarm. If you are driving less than a certain number of miles per year, you may also qualify for a reduction. Make sure to exclude any drivers that do not need to be on your policy. If you owe money on your car, check with your lending institution to find out what their minimum requirements for insurance are. Don't hesitate to shop around for a cheaper rate with a different insurance company, either.

The next step would be to talk to your financial institution about refinancing your existing car loan. The lender may be able to give you a lower payment, but remember that this often comes at a cost of higher interest rates and/or a longer term.

As a final resort, you may consider trading your old car in for a less expensive vehicle. However, there is one major consideration that you need to take into account. The biggest pitfall of trading in comes when you owe more on your current car than the equity you have in it. In financial industry terms, this is referred to as being "upside down" on your loan.

In simple terms, say you own a vehicle that you borrowed \$20,000 for two years ago. In the meantime, you have paid down \$5,000, leaving you with \$15,000 left on the loan. Now you want to trade in the vehicle for another car that is selling for \$7,000. But, surprise! When you visit the dealership to trade it in, you find that the car has depreciated faster than you have been paying on it, and the most that any dealer will give you is the wholesale cost of \$13,000. You are upside down for \$2,000.

That means that you will have to finance \$9,000 for your cheaper car. Not only will you be paying for your new vehicle, but you will still be paying on a car you don't even own anymore. When buying a car under these circumstances, you must be especially vigilant. Dealers have many ways to hide this extra cost from the buyer until it's too late. Arranging your own financing beforehand will give the dealer fewer opportunities to roll the difference into the cost of the new car.

If you really must sell and you have a second vehicle, then consider selling the car yourself. While selling the car yourself may be more of a hassle, you will usually get more for the car than if you traded it to a dealer. Say that you sell the same vehicle privately for \$16,000. Instead of being upside down, you can roll that extra \$1,000 into your new car payment, or use it to pay off higher interest debt like credit cards.

But what if you can't sell the vehicle for more than you owe? If the current car is worth much less than the cost of paying off the loan, you may not have much choice other than to take a loss if you decide to sell it. In this situation, it is advisable to wait to sell the vehicle until the price you can get for the car will at least let you break even on the loan.

A car is a huge drain on the average household, but now you have the tools and information you need to make informed decisions and keep those costs under control. Keeping a budget and accounting for the cost of repairs, updating your insurance policy, and deciding when the right time comes for a cheaper vehicle will help you minimize the effect of keeping a car on your finances.