



Haggle Free Autos E-Newsletter

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How Much is My Trade Worth?

How much is my trade worth? The most frequently asked question, and the hardest one to answer! The most disappointing situation that an auto buyer may find himself/herself in is when their trade is worth less than what they still owe on it. This situation is not uncommon, as that a vehicle depreciates the most within the first couple years of ownership. With the price of new vehicles on the rise, the length of new car loans has also increased. Consumers are now financing new vehicles for up to six years. The term for this situation in the auto industry is “negative equity” or being “upside down.” On the average, a consumer will purchase a new car about every three years. If they are upside down in their trade, one solution would be to roll the negative equity into the new car loan. Thus, the customer drives their new vehicle off the lot, already “upside down” in their new car loan. Financing the negative equity takes on a life of it’s own, like a snow ball rolling down hill. So, what is the solution? The best thing to do is to put money down. Your goal is to cover the negative equity. It is not in your best interest to refinance a portion of the car you are trading in...

Part 2: next e-

Remembering When...

I enjoyed my years as an automobile sales associate. Naturally, I had to educate myself about every make and model that the dealership sold. And, I enjoyed test driving new models and high end vehicles. It gave me an occasional chuckle when I found myself endorsing what ever I found myself selling. It seemed to me that with each new model year the cars got more compact, satisfying the consumer demand for affordable cars that get better gas mileage. Not too long ago, I was in a nostalgic mood, thinking about all the cars that I’ve owned. Wow, the list is long! I’ve owned many cute little, energy efficient compacts, but have always been drawn to those big, beautiful, amazingly equipped, gas guzzling, full size cars! My addiction began when we started a family and outgrew our cute little compact. As soon as we walked into the showroom, I fell in love with what turned out to be the car that got me hooked! There it was, a full size Pontiac Grand Safari Station Wagon, fully equipped, and it was going to be mine! Never again would I be satisfied with anything less. After this trip down memory lane, I’ve come to the realization that the connection between an owner and their car is more than cost and fuel economy!

To Lease Or Not To Lease

Many of our clients come to us dead set on leasing their next vehicle. In many cases this is a great idea, but it is important to note that this decision can and should wait until later in the buying process. The first and most important step is to negotiate the lowest possible price for the vehicle that you want to own. After you have negotiated the best sale price then you can address any other factors that will effect your monthly payment, and whether a lease is the best financing option for you. To determine whether a lease will fit your needs, you must carefully evaluate your driving habits, especially how many miles you will average annually over the term of the lease. If you find that you will average more than 15,000 miles per year, a lease is almost never a good idea. In fact, the low lease payments advertised nowadays are for low (10,000-12,000 miles per year) mileage leases. You do have the option of purchasing extra miles at the beginning of some leases, and you will be responsible for payment of excess miles driven at the end of the lease. Neither of these are good options. Also, sales associates may tell you that they can absorb or hide the excess miles when you come back to trade your leased vehicle. In reality, this is no different than rolling negative equity from a trade



*To Lease Or Not
To Lease,
Continued...*

into your new auto loan. One way or another you will pay for the excess miles. Okay, you are certain that your driving habits make you a good lease candidate. What other factors effect your payment other than mileage? For the most part they are the same as those in a conventional auto loan, with a few exceptions. Your payment will be determined by mileage, money factor (interest rate) and term. One other factor that has a strong influence on your lease payment is the residual or lease end value. This is the value that the leasing company places on your vehicle at lease end with no excess mileage. This number is very important because, if the actual market value of your vehicle is less than they projected, you are not responsible for the deficit. However, if your vehicle is worth more at lease end, you have the option of selling your vehicle and pocketing the difference, Notwithstanding, the lenders are quite accurate in their projections, and therefore there is little variance in the residual at lease end. You will also hear about "Cap (Capitalized) Cost Reduction." This, simply stated, is the amount of money down or trade equity applied to the lease. You want to put as little money down as possible. If you are considering putting a large down payment then

you should probably consider a purchase, rather than a lease. Simply said, a large down payment would place you in an equity position in a conventional loan. Whereas, in a lease, that down is absorbed into the financing and is gone forever. In closing, it bares repeating that a lease is an excellent way to purchase more vehicle for your money. If, upon careful evaluation of your driving habits, you determine that you are a good lease candidate, you should seriously consider this alternative form of financing for your new vehicle. Leases are not to be feared. They are not tricks, and they are a legitimate form of financing. As with any phase of a vehicle purchase, **take your time, think carefully**, and seek advice when you don't understand something. **Ask questions!**

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