



The Cost of Cars — Borrow Smart

When you buy or lease a car, you pick the make, model and color. How much you put down and how long you take to pay off the car have a big influence on what the car actually costs. Let's clarify a few terms first:

MSRP – This is the car's base price. It does not include accessories and/or options and delivery or destination charges.

Sticker price – This total price is what the dealer would like you to pay. It includes the MSRP, accessories and/or options and delivery or destination charges. Keep in mind that the sticker price doesn't include tax, title or registration fees.

When buying a car, most consumers will make a down payment and then finance the balance by making monthly payments until the remainder of the loan is paid in full. Interest will be charged on your loan so it's wise to put down the highest payment you can afford.

Let's take a \$15,000 car. You put 20% or \$3,000 down, so the remaining cost is \$12,000. That's the amount that your monthly payments are based on. If you get a 6% interest rate, and you pay the car off in three years, you'll pay \$365 a month with total payments of \$13,140. With \$3,000 down, your \$15,000 car cost you \$16,140.

If you increase the time to four years, the monthly payment drops to \$282, but you're paying a total of \$16,536 for the car. The math is simple: the longer you take to pay off the balance, the more the car will end up costing.

If you decide to lease a car, you negotiate a price with the dealer and then agree to make regular payments to a leasing company over a specific amount of time. The leasing company can be a bank, credit union or a subsidiary of the car manufacturer. While buying a car makes you the owner, leasing is a way of obtaining a car for a set period of time without owning it. Your monthly payments will be significantly lower if you lease a car.