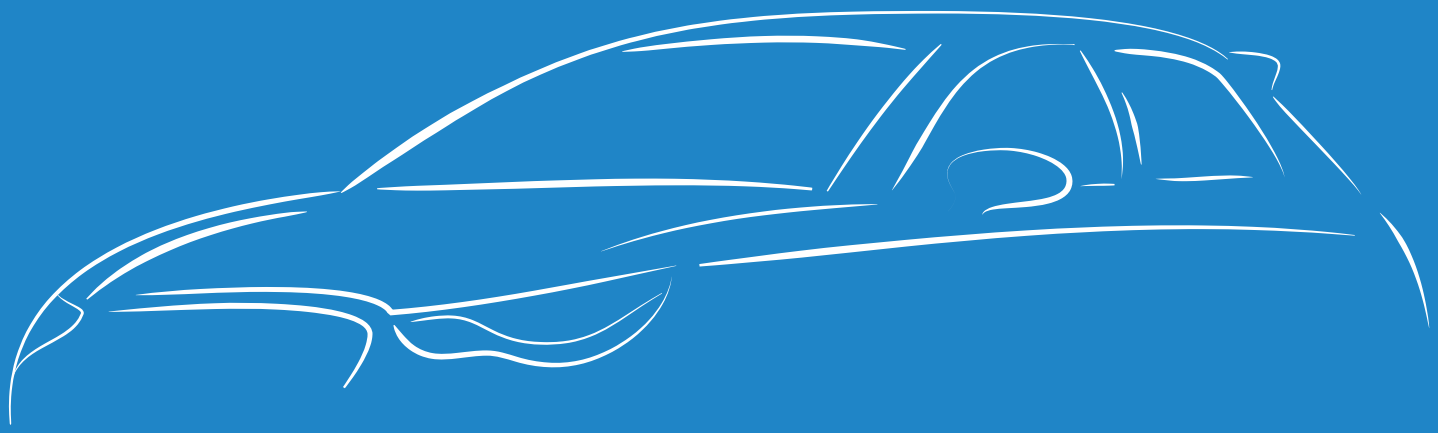
PattyPeck Honda

Car Buying 101: **Financing & Leasing**



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Intro

We're glad you've come to Patty Peck Honda to shop for your next new or new-to-you vehicle. It can be an overwhelming process, but we're here every step of the way, including providing you with this handy buying guide! Let us give you a run-down on what you need to know to be an informed consumer during your next shopping experience.

Financing

When you take out a loan to pay off a purchased car over time.

Leasing

When you only have the car for a few years, and then must return it to the dealership or purchase it.

Financing

There's no experience quite like buying your first car. It's freeing to know that this necessity is yours, but unless you pay for the vehicle up-front and in cash, you'll need to take out a loan. There are two routes to securing an auto loan, which we'll discuss here.

Applying for a car loan directly from a financial institution is called **direct lending**. You use loan money from a bank, finance company, or credit union to pay off your vehicle over an agreed-upon time frame. There may also be a finance charge associated with this method. Direct lending, however, allows you to do a little more window-shopping: you can compare terms from various institutions, pick which one has the most reasonable rates and terms, and go with that one. An added perk is that securing financing before you buy your car helps you lock in rates so you can keep this in mind while you shop.

When you finance your car, truck, van, or SUV through a dealership, that's referred to as **dealership financing**. This method is common and convenient, as finance departments are frequently right on the dealership premises. Dealerships also tend to be a little more flexible with financing options, as they have connections with multiple financial institutions, which gives them a little more leeway to work within your budget. Dealership financing is also the way to access manufacturer incentives, such as interest rate deals on eligible models.

Benefits to Financing Your Vehicle

- Once you've paid off your loan, your vehicle is yours.
- Without the restrictions frequently found on lease terms, you can hit the road to your heart's content.
- Car loan payments build your credit.
- You can keep your vehicle as long as you'd like.
- Since you're not returning the car to anyone, you can make modifications and add accessories.

Leasing

Depending on the type of driving you plan on doing, a lease may be a better arrangement for you. It does have some stipulations, such as mileage caps and time limits, but if you're on a tight budget and have good credit, a lease is a great idea. So how can a lease work for you?

When you lease a vehicle, you are the lessee. You're also probably the driver of a stylish and agile brand new car, because those are the models you can lease! It entails a substantially smaller down and monthly payment to the dealership than if you were purchasing the vehicle. You make monthly payments on the vehicle, and then after a previously agreed-upon time frame, you give the car back.

However, be sure to read the terms of your lease and make sure you can meet the stipulations to avoid penalties. These usually include keeping the vehicle's exterior and interior in great condition, driving under a mileage limit (typical numbers are 12,000 and 15,000 miles a year), and driving the car normally--meaning without significant wear and tear.

Like financing, you'll frequently find deals on certain models through the dealership. It's possible the model you have your heart set on is at a discount, so be sure to check with area dealerships and do some legwork before you go shopping. It may save you a lot of money in the long run!

Benefits to Leasing Your Vehicle

- With a new car every few years, you can enjoy the latest amenities and technology available on the market.
- Pay a lower down payment, or none at all.
- Monthly lease payments are usually lower than a financed vehicle.
- If your car needs repairs, it's most likely covered by a warranty.

Credit Scores & Finance Applications

As you make your way through the car shopping process, you'll find that your credit score is necessary information for the final transaction. You'll also need to fill out a finance application to confirm to the financial institutions in question that you can, in fact, pay for the vehicle you have your heart set on.

Here are a few tips about credit scores that may help you in your car search:

A **credit score** is a three-digit number that's figured out based on an algorithm that combs through your various credit files (such as credit card payments, loans, etc) and determines the statistical likelihood of your ability to pay back the loan you're currently applying for. It's used as an indicator of risk for financial institutions considering lending you money for a house, a car, or something else. The most common type of credit score is the FICO score.

And what if you don't have any credit at all? In the eyes of many dealerships and lenders, this is akin to having a poor credit score. However, one way to prepare to get a reasonable rate on an auto loan despite your unique circumstances is to take out a secured credit card with a small credit line around six months before you go car shopping, if you can plan that far ahead. Then, make timely payments every time, which will build credit. You should also shop around for the best rate you can find. Consider things like depreciation, which should give you an idea of the length of the loan you'll want for your vehicle, as well as whether the dealership is accommodating for shoppers with subprime credit.

Once you secure an auto loan, making your payments on time are absolutely essential, and will help you build up your credit score, too! Think about it: as you're hitting the open road, heading out for your next adventure, the payment you just made is adding to your credit and helping to shape your financial future. It's a win-win!

If you've never filled out a credit application, check out what you'll need by looking at ours:

https://www.pattypeckhonda.com/car-loans-in-jackson-ms

Down Payments

When it's time to buy or lease your next car, a **down payment** is in order. This is money that you put towards your car, truck, van, or SUV when you sign the paperwork for your auto loan. When you lease a vehicle, the down payment is referred to as **money due at signing**. A good down payment will assist your financing noticeably!

The logic behind a down payment is that if you pay more at the beginning, your loan or lease rates and term (length of the loan) will be more agreeable, and this is true. However, sometimes a large down payment isn't possible due to budgetary constraints, and that's okay too. Though a down payment of 20% of the car's cost used to be recommended, it's now more commonplace for a down payment to balance out to about half of that, with a little more expected for new vehicles to offset depreciation (that being said, the more you can put on your down payment, the better). It's simply a matter of talking to the finance team and making it clear what you can afford and what you can't.

A possible substitute for a down payment is a trade-in of a used car. After a discussion with the dealership, you can usually put the value of your trade-in towards the purchase of your next vehicle, deducting its value from the total price of the car. That's one more reason that it's essential to make sure that you're getting a fair deal for your current vehicle. Do the legwork and research to determine your used car's value; you can frequently do this through dealership websites.

When you're leasing a vehicle, the rules are a little bit different. There is a required cash amount due that's predetermined based on the lease rates and other factors. Rather than putting down more than required, stick to the number given, since a lease exists so that the driver spends less money.

The purpose of financing your vehicle is so you don't have to save up for years to afford a comfortable, well-appointed car to get you from point A to point B. The down payment is the first step and will keep your payments manageable. Just make sure to figure out the percentage you plan on giving, ensuring that it's at least 10%. The finance team at the dealership will work with you from there!

Documents To Bring

Whether you're still in the shopping phase or ready to make a deal, here's what you should bring with you to the dealership to expedite the car buying process:

For the Test Drive

Driver's License
Proof of Insurance

For the Finance Application

Proof of Income
Proof of Residence

For a Trade-In

Title for your Trade-In
Current Vehicle Registration

For the Final Transaction

Payment
Temporary Proof of Insurance

Once you've completed all of the paperwork, there's a handful of documents you should walk out of the dealership with as well. Those include the **Title Application, Loan or Lease contract if applicable, and Bill of Sale.**

Later on, you will receive the registration card, Title or duplicate Title if there is a lien on the vehicle and insurance card.

Glossary

APR: Short for annual percentage rate, this is the cost of credit expressed as a yearly rate. This may be negotiable. Some factors that influence your APR include your credit history, current finance rates, dealers' compensation, competition, market conditions, and special offers.

Cosigner: A person who will sign your loan application with you. This is to help the applicant obtain financing. If the main applicant fails to meet the loan terms and agreements, the co-signer must pay the debt and fulfill the agreement.

Destination fee: Also called a transportation fee, this covers the cost of trucking your vehicle to the dealership.

Down payment: The money you put up-front towards a car loan.

Early termination fee: If you decide to cancel your lease before you've met the terms, you will be hit with an early termination fee, typically between $200 - $400.

Excess Wear and Tear: Varies from Bank to Bank. Lessees are charged for any wear and tear that their vehicle has that is outside the limits that the bank they are leasing through allows, such as excessively worn tires, large dents, long scratches, etc.

FICO: A type of credit score issued by the Fair Isaac Corporation. This is frequently used as the credit score that determines whether or not you are able to secure a car loan.

Finance term: The length of time you have to pay off your car loan.

Gap insurance: The coverage that will help pay the difference, or "gap," between what you still owe the auto dealer for your lease and what your insurer would pay out if the car is totaled.

Interest: A monthly fee charged by the lending institution (a bank or a dealership). The interest rate is a percent of the amount that was loaned to you to purchase the car.

Lease term: The length of your lease (usually 36, 48, or 60 months)

Glossary

Lienholder: The financial institution that loaned you the money to purchase your vehicle. Your lienholder owns your vehicle until you pay off the car loan in full.

Mileage allowance: Lease terms have a cap on how many miles you're allowed to drive without excess fees and charges due to "excess wear and tear."

MSRP: Manufacturer's suggested retail price. The price of a new vehicle without any discount applied.

Principal: The amount of the loan you still owe, minus interest charges and other fees.

Security deposit: Refundable charge paid when you sign a lease. If there's extensive damage to your vehicle when you hand it in at the end of the lease, you won't get the security deposit back.

"Sticker price": Advertised retail price of the vehicle, called such because it's a number frequently affixed to the window of a new car. It is higher than MSRP because it includes destination charges, prep costs and options.

Title, Taxes, and Fees: Refers to the odds-and-ends costs of buying a car, such as the registration and title fees and sales tax.

Trade-in allowance: The amount of money from your trade-in that's applied towards your new car, truck, van, or SUV

Variable and Fixed interest rates:

Variable interest rate: Changes over time based on the current rate index

Fixed interest rate: You are charged a flat, unchanging interest throughout the term of your loan.

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