

Transcript

Getting A Car After The Military

Getting a car could be your first big financial goal after you leave the military.

In this video we'll take a look at the process of buying a car and highlight how to take advantage of special deals offered to military veterans--and when to look out for some common scams.

How much can you afford?

If you'd like a benchmark for what you can afford to spend on a car, a good target is to spend less than 16 percent of your yearly gross income (that is – income before taxes) on your total annual transportation costs. That's not just auto payments- that includes everything: insurance, registration, gas, maintenance, repairs... Everything.

To get an idea of the total cost of the car you want, research different prices for the car and the going rate for similar vehicles. Whether you're looking at new or used cars, the more you know upfront, the better prepared you will be to negotiate the deal.

What vehicle you choose to get will ultimately depend on your own needs and circumstances. And you may not have enough saved to cover the cost of the car up front. If you want a vehicle that costs more than you have, just consider the total cost of the vehicle and the terms of the loan you're offered before you sign the papers. The less money you have tied up in making car payments, the easier it will be to handle other expenses. Now, leasing might

be another option, but for now, we're just going to focus on financing or purchasing a car.

If someone offers you a deal that sounds too good to be true- it might be. It's healthy to maintain a certain degree of skepticism and do your due diligence in researching anyone who might be selling you a car.

Financing a purchase

If you're not buying your vehicle outright, you'll likely need an auto loan, which you'll repay in monthly installments, that will include payments toward your principal and interest charged on the loan.

One way you might be able to afford a car that's out of your price range is to lower your monthly payments so they'll fit your budget, but extend the term of the loan- that is, the length of time you'll have to pay back the loan. But opting for a car that's in your price range might be a better option. While extending the term might make your loan easier to pay month to month, it could cost you more in the long run because you could end up paying more in interest.

Here's how auto loans work:

A typical auto loan has a term of about five years, or 60 months—that's the length of time you have to pay off the loan.

So let's say you're buying a car for \$15,000 and you're offered one auto loan at 4% interest and one at 6% interest. Now, obviously, if all other things are

equal the 6% loan is going to cost more, but how much more might that extra 2% cost you?

Well, in this situation, if you take the full five years to pay back the loan- you'll pay about \$825 more on the 6% loan.

Likewise, with all other things being equal- if the interest rate and term are the same- the more money you borrow, the more you will likely pay in interest over the life of the loan.

Similarly, with all other things being equal, the longer you take to pay back the loan, the more you'll pay in interest as well.

So you'll end up paying less in interest the less you borrow, the faster you pay off the loan, and the lower your interest rate is.

So it can be worth it to shop around for the lowest interest rate you can find—and put as much money down on the car upfront as you can comfortably afford.

Some banks, credit unions and automobile manufacturers offer excellent, legitimate deals on car loans for veterans. But there are a lot of scams out there as well and they often target active duty service members and veterans.

If a lender offers you a loan with no down payment and without checking your credit score—beware. Chances are the loan may contain high hidden fees.

Know your credit score

The interest rate you're offered on a loan will depend on a lot of different factors, but one of the most important is your credit score. A high credit score is the best way to get a lower interest rate loan.

While you can get a free copy of your credit report once a year, you might have to pay to get your credit score

You can get your credit score for a fee from any of the three major credit reporting agencies: Experian, Trans Union and Equifax.

If you don't have a good credit score right now, and you don't need a car right away, it could be worth holding off on your purchase so you can improve your score. You can do this by paying off old debts and by making regular, on-time payments on your bills.

If you've already purchased a car and have a loan with a high interest rate, you might consider refinancing your existing loan. If your credit score has improved since you bought your car or if you received a high interest rate initially, you may be able to talk to different lenders about getting a new loan with better terms.

There are also some specific benefits for veterans you could take advantage of. For instance, if you plan on applying for a VA home loan, you might be able to add your car loan to your mortgage. There are pros and cons to this approach - on one hand, this might end up saving you money since VA home loans tend to have lower interest rates, but it could also end up costing cost you more in the long run. For example, if you only make the minimum

payments on this loan, you might be repaying this loan over a much longer term.

When you're looking for a car, you'll likely find a lot of great deals, discounts and special loans for active and former service members, but remember to be skeptical.

Understanding up front what you can afford, and how much the car you choose will cost you in the long run, can help you save money and keep your budget on track.