

Car Buying Guide – What To Consider When Buying A New Car

So, you're in the market for a new car. Buying brand new provides you with the latest advances in safety and technology, comfort, performance and fuel efficiency. Another significant benefit is the comprehensive manufacturer warranty, no MOT for the first three years, and option for special offers on servicing packages.

So, what should you consider in choosing which new car to buy? Here's a quick checklist to get you started:

- What is my budget?
- What are my essential requirements? e.g. fuel efficiency, a large boot space for sporting equipment, or enough seating for all the family?
- Do I need the car for anything specific? e.g. for towing a trailer, or for town driving and parking in small spaces?
- Do I drive long motorway journeys or just short local roads?
- Is petrol or diesel more suitable for my driving needs?

Now let's look at these points in more detail...

How much can you afford?

It sounds simple, but figure out how much you can afford, whether this be a monthly payment, or if you have a lump sum that you want to use for your new car. Also, consider future costs, such as costs for servicing, annual road fund licence and maintenance costs, some cars are more expensive than others so you may want to consider this.

Buying Options (should we not use pro and con lists as more accessible for each of these?)

Understanding the best way to buy a car is not as simple as the manufacturers and the clever adverts on TV would make it appear. Let's think about some of the options.

Remember, your new car will depreciate as much as 30% when you drive it out of the garage and then by as much as 50% over 3 years – think carefully about buying a nearly-new car! (think this should be just “new car”. And frankly beyond saying that cars depreciate 30 and 50% not necessary at all).

Cash – Let's say you had enough money in the bank to buy the car, should I use it?

Yes - If you can pay cash, it will be cheaper than any loan. But if 0% financing is available then this is an option to consider. If you do take out a financing agreement you will be entering into a consumer credit agreement and it is worth studying our module on this ([hyperlink](#)).

The use of cash alone however, it depends on your other goals, the new kitchen etc and you must think about if you need the new car and how you will pay for it. This is because the cash in your bank's buying power should be assumed to decrease at the rate of inflation – so on current estimates it will buy 2% less in 2017. If your car financing is going to be 2% (or more) over the next 12 months then, your interest on saving needs to exceed inflation to make monthly payments from income cost effective.

Also remember, inflation, tax, even VAT may change and this can't be forecast for the life time of the credit agreement which is likely to be over at least 24 months and may be up to 60 .

Personal Loans - Cars are sometimes promoted on 0% deals over fixed periods and this is often a very good deal as you can protect some of your cash/income for your goals and get a decent deal! Companies do this sort of deal to shift vehicles as they cannot afford to block new production and may have run out of parking space for unsold cars – quite literally! The downside is that a good deal is rarely on the car you aspire to own or is a ‘lower prestige’ brand.

Usually, a personal loan from a high-street bank will be cheaper than the manufacturer's deal but, the bank's credit rating and lifestyle criteria may well be more difficult to meet. Remember, a loan is provided to someone who is likely to pay it back, at a rate which reflects the impact of not paying back. Therefore, the loan will be cheaper but harder to get with the bank (they don't count the car as an asset) whereas the manufacturer counts the car as an asset so offsets the loan but increases the risk impact (?) of you crashing.

Hire Purchase (HP) finance is the traditional way of financing a vehicle, where you pay an initial fixed deposit followed by your agreed monthly payments. Once you have made all payments, you own the car outright. Terms are flexible, usually 12-60 months and you are not restricted on mileage. (Link to CC module?)

Leasing

Personal Contract Hire (PCH) is an alternative method of acquiring a car and has some benefits to both private individuals and those who are electing against company car scheme, desiring to instead use their company car allowance to lease a car. As with other forms of car leasing, there are advantages over buying a car outright:

How PCH works;

- Low initial payment – You make an initial payment, usually the equivalent of 3 or 6 monthly payments, payment profiles can be tailored to suit you and your financial situation.
- Fixed monthly rate – You pay the agreed fixed amount every month over the contract, of normally 24, 36 or 48 months, and so it's good for budgeting.
- Contracts often ‘all-in’ – Your contract will normally include road fund licence and a full manufacturer's warranty, with some contracts also including comprehensive breakdown cover or a maintenance package including servicing and tyres.
- After the contract – you give the car back to the leasing company and, if you wish, you can lease again, avoiding MOT's and allowing potential ‘upgrades’ in technology.

With PCH leasing, you literally hire the car for the term of your agreement, within which is a set annual mileage amount that you agree to stay under. While PCH can cost less than buying outright given an equal term, excess mileage can be a ‘killer’ and have an impact like going over your phone's data allowance! (Text Tip box warning)

However, if it's right for your circumstances then you can benefit from lower monthly payments than with other options and depreciation risk is ‘not your problem’.

Three big issues are that:

- You will never own the vehicle and if you write it off you can end up out of pocket as the contract runs regardless of whether you are benefiting from the car or not.
- There is no option to end the agreement earlier and you must make all payments until the end of the agreement.

- With both PCP and PCH it is important to set your mileage limits correctly, if you do go over the limits set you will be asked to pay the excess mileage charge.

Personal Contract Purchase (PCP) is another popular method to purchase a new car and is often suitable for private individuals who wish to take advantage of the aspects of PCH with a guaranteed optional purchase price at the end of the term. The finance of your payment is determined by the difference between the new and the guaranteed future purchase price.

Therefore, you generally pay a lower monthly fee than with HP and have the option, but not obligation, to buy the car at the end of the agreement for a pre-set amount (the **Guaranteed Future Value**, "GFV"). As with PCH, you will pre-set an annual mileage amount in the contract and exceeding this can be expensive. Otherwise, at the end of the agreement you have three options:

- Buy the car and own it,
- Trade the car for a new one, using the GFV as part of the payment,
- Give the car back and walk away.

Some additional things to be aware of with PCP and which might be important to you:

- You can return the vehicle at any point during your agreement but, this could result in some 'negative equity' (you might lose out on the difference between the GFV and the current value), so it's always best to select a term that will suit you.
- Towards the end of the agreement, it could be that the car is worth more than the GFV and so it's worth ending the contract early buy paying it off and buying the car (say 4-5 months earlier) and then selling the car. (Text Tip Box)

Now let's think about those must-haves, if you have a family, you'll want to ensure you have a vehicle that suits your family lifestyle and comfortably fits everyone (and the car seats) in. Maybe you take part in a lot of sporting activities that requires you to transport a lot of equipment, therefore a large boot space might be a key factor for you. Perhaps you need to be able to tow a trailer? There are many different possible requirements, make a list of your top priorities and research which models will accommodate these. (Too didactic?)

Which fuel?

Changes to emissions regulations and car design have made us think differently about the right fuel choice. These factors combined with personal driving habits, such as mileage and where your drive, will impact which fuel type will be most suitable for you.

Diesel: In the past, diesel engines were recommended for frequent short journeys as the engine would work more efficiently earlier in the journey. Now though, thanks to diesel particulate filters (DPF), they need more regular, longer runs, some at a higher engine speed (above 50mph) to regenerate the filter.

Diesel engines are overall more fuel efficient and produce less CO₂ (but more particulates), giving a, currently, lower annual road-tax bill than cars with an equivalent petrol engine. However, a vehicle with a diesel engine will cost £1000-£3000 more than a similarly powerful petrol, so you would need to weigh up the savings compared to the initial outlay.

Petrol: If you drive more around town or local roads on short journeys, then a normal, small petrol engine may be more suitable for you. You will find that smaller cars are only available with petrol

engines, for example the Citroen C1 and Toyota Aygo, making them a good choice (close to advice and unnecessary for this service) if you adopt this kind of driving most often.

What about **hybrids**? There are several hybrid engines on the market now, which have a small petrol engine, an electric motor, and a battery pack. Hybrids are idea for town driving, although if you do more motorway driving, a diesel car might be the better option for the best fuel economy.

Then there are **electric** cars with zero emissions. Electric vehicles are great for use in towns and cities, but have a limited range and need to be plugged in to recharge, so they will not be suitable for everyone.

Now that you've considered all of this, what should you do now?

The Internet allows you to research any number of vehicles from the comfort of your own home, without setting foot in a traditional dealership; taking away the pressure from hungry sales people, giving more control to you as the buyer. You can download brochures, explore many different specification levels and will allow you to build your own shortlist of vehicles. You may then wish to arrange a test drive of your shortlisted vehicles.

Whilst online, it is worth looking at prices with online brokers who can offer savings over the dealerships, but are less likely to take your existing car in part-exchange.

Don't Forget about insurance

Vehicle Insurance – don't forget to get the right cover for your new vehicle and remember, it is illegal to drive without insurance!

Gap Insurance - When you buy a new car it begins to depreciate and lose value from the minute you drive it off the forecourt. If you are unfortunate enough to be involved in an accident, crash, or have your vehicle stolen, and your vehicle is written-off by the insurer, you may only receive the price the vehicle was worth at the time of the incident, not the amount you need to get an equivalent replacement. With more than 50,000 vehicles written-off annually, and more than 100,000 stolen, many people protect themselves financially with GAP Insurance on their new vehicle. GAP is designed to bridge the gap between the amount you receive from your motor insurance and the original amount you paid for the vehicle.

Congratulations, you've decided on your new car!

Equals is a supporter of one unique broker– [Forces Cars Direct](#) – and please note neither of us earns commission or fees from the other.

Why feature them? because we believe that they provide, and have provided over years, a valuable service and good deals to the Services Family and their staff always try to go 'above and beyond' for their customers. Their employees are predominantly ex-Forces personnel so understand your position and the unique nature of the work and challenges. We shall, in the coming months, be able to offer you financing options and vehicle insurance. Even then you will not be tied in to buying from us.

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