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Jennifer Mulrean

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The Basics

How to save \$10,000 on your next car

Buying used is

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only the

beginning. You'll save thousands on depreciation, finance charges and insurance -- and thousands more by putting what would have been monthly payments to work.

By [Jennifer Mulrean](#)

If you're like most people who set out to buy a car, you wander onto a dealer's lot and before you know it you're driving away in a shiny new car with an equally shiny new car loan for an amount somewhere north of \$10,000.

But before you plunk down thousands of dollars to buy your next car, ask yourself this question: Would you rather have a brand-new car or a late-model used car and \$25,000 in cash?

That's how much you can save by buying a used car instead of the latest model and then investing the money you'd otherwise be paying on a new car loan.

The hidden factor here is depreciation, the steady decline in the resale value of any vehicle that you buy. Take a look at the chart below, and you can see what happens to the value of a typical new

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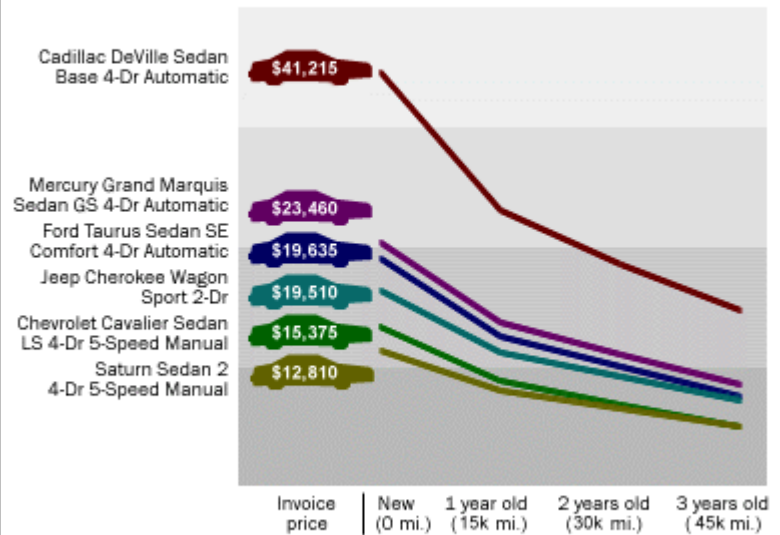
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car.

The Shrinking Value of Automobiles

A new car drops sharply in value once you buy it and drive it off the lot. This chart shows the price of six 2001 models and how they depreciate over time.



Source: Runzheimer International, Edmunds Automobile Buyer's Guide

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As a rule of thumb, figure that a car's value drops by half every four years. For new cars, the bulk of that depreciation occurs in the first year of ownership. A new \$30,000 car is worth only \$22,500 after just the first year -- a full 25% less. Over the next three years, its value will fall by another 25% off the original price to \$15,000.

The longer you own the car beyond this, the smaller the bite taken each year by depreciation. If you bought the same car when it was four years old for \$15,000 and resold it when it was eight, it would be worth about \$7,800, according to CarPrice.com's Depreciation Calculator. So you save almost \$8,000 over four years just on depreciation by buying used, to say nothing of added savings from insuring an older vehicle.

(To compare the costs of insuring two different cars, you can get

Carprice.com's [depreciation calculator](#)

Edmund's.com [True Market Value tools](#)

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free insurance quotes online from sites such as MSN Money and Progressive. Both sites offer quotes from multiple insurance companies. Also, Esurance allows you to compare insurance costs for up to four cars at once.)

But that's just part of the story. Let's take a look at the difference between buying a 2003 Lincoln Town Car and a similar 1999 model. The invoice price of the 2003 model, according to Edmund's.com, is \$40,661; the cost of a 1999 Lincoln Town Car is about \$16,000. The table below shows you the net cost of buying new versus paying cash for a used car and investing the difference. Overall, you come out almost \$25,000 ahead!

New vs. used		
Lincoln Town Car	New 2003	Used 1999
Purchase price	\$40,661	\$16,000
Tax & license (8%)	\$3,253	\$1,280
Total initial cash outlay	\$17,280	\$17,280
Amount financed	\$26,634	\$0
Total finance charges*	\$3,980	\$0
Maintenance**	\$610	\$5,651
Total 4-year cost	\$48,504	\$22,931
Resale value after 4 yrs.	\$20,310	\$8,352
Net cost after resale	\$28,194	\$14,579
\$638 monthly payments invested over four years at 10%	\$0	\$37,132
Cash available for on next car purchase	\$20,310	\$45,484

*48-month loan of \$26,634 at 7% with monthly payments of \$638 for a total of \$30,614. Despite the proliferation of 0% financing, many buyers simply don't qualify.

**Maintenance costs driving 15,000 miles per year, based on Runzheimer estimates for 2001 and 1997 4-door sedans. First three years of new-car maintenance covered under warranty.

Your total net cost after four years is more than \$10,000 less for the used car. And by investing your monthly payment instead of repaying a car loan, you've saved enough to pay cash for a brand-new Lincoln, if you want. The caveat, of course, is that you could be unlucky enough to suffer the early demise of your transmission or need some other major repair that blows a hole in your estimated \$1,400 annual maintenance budget, though certified used-car programs are a great way to combat this (see below). Also, the 10% return on your investment is a historical average, and can be hard to come by in bear market like we've had for the last few years. But even cutting the annual return to 3%, you still come out with

\$32,468 in savings after four years of investing your \$638 monthly payments. Add the \$8,352 you get from selling your used car and you end up with \$40,820 for your next car purchase -- roughly \$20,000 more than you'd have after selling the newer model car.

Not all cars age equally

Keep in mind that depreciation is a function of supply and demand. Some cars lose value faster than others, which can create bargains for used-car buyers. A 1998 Saturn SL2, which had an invoice cost of \$11,480 new, will cost you close to \$8,600 even with the 40,000 miles on it. But a 1998 Cadillac Sedan DeVille, which had a dealer invoice cost of \$34,646 new, can now be bought in good condition with 40,000 miles on the odometer for about \$20,000, according to Edmunds.com.

You can check IntelliChoice.com for a list of "best values" for new and used cars and trucks. J.D. Power also does an annual study on the most dependable older vehicles. For 2002, Lexus won for the eighth-straight year. Infiniti, Acura, Honda and Toyota rounded out the Top 5. You can also look up reliability ratings on MSN Autos. These will give overall ratings and itemize the types of problems that different makes and models experience.

Used-car shopping in the 21st century

Now that you're convinced that used cars are the way to go, where can you look for the best deals? You can search by price, specific car make and model, or by category, such as "passenger cars" or "sport utilities," on sites such as MSN Autos, AutoTrader.com, Autobytel, AutoWeb and CarsDirect. Most offer detailed vehicle write-ups and classified listings you can search by geographic area. And Edmunds.com's "True Market Value" calculator will give you an idea of what people are really paying for a specific car in your area.

The advent of "certified used cars" has changed the used-car landscape dramatically. Because these cars must pass inspections, they are usually in excellent condition. According to the J.D. Power study on dependability, the differences between certified and non-certified vehicles are especially apparent among non-luxury car makes. Twenty-five percent of non-luxury buyers of certified used cars rated their vehicle outstanding, compared with 16% of those who bought non-certified cars, the study said. Even better, certified cars come with warranties, thereby eliminating one of the major worries many people have when buying used.

You can check specific program requirements at IntelliChoice.com. It rated Honda as having the best pre-owned certification program for non-luxury makes in 2002. Jaguar was the top-scoring luxury program.

Even when not buying a certified used vehicle, there are some ways to eliminate unnecessary risk. One is to run a "lemon check," which is offered for free by Carfax on most auto sites. Autopedia also has a good table of the specific state-by-state requirements for what qualifies as a lemon (use the link at left).

A more extensive Carfax report costs \$15 (or \$20 for an unlimited amount of reports), for which you'll need the vehicle identification

number (VIN). Among other things, this will reveal whether the car was salvaged, had a history of odometer fraud or had multiple owners, allowing you to debunk any 'grandma from Pasadena' hard sells.

Fuel economy

Given current fuel costs, it doesn't hurt to research this before making your final decision. You can look up individual cars' annual gas costs and make side-by-side comparisons with other makes on the U.S. Department of Energy and the Environmental Protection Agency's Fuel Economy site. The site also lists the amount of carbon dioxide emitted annually in addition to a car's miles per gallon -- for the city, on highways and a combined rate. (These calculations are based on 45% highway driving, 55% city driving, 15,000 annual miles and a fuel cost of \$1.70 per gallon, though you can also customize these values.)

It also has a list of least and most energy-efficient cars, including diesel, electric and electric-hybrid vehicles, and a fuel-cost calculator. Using the site's example of a car that gets 20 mpg versus one that gets 40 mpg, both burning \$1.70 gas, driving the 40 mpg car would save you \$2,550 over four years (based on 15,000 miles per year).

So next time you're in the market for a new car, stop for a second and consider just how much you're really willing to pay for that new-car smell.

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