



7700 Leesburg Pike, Suite # 402-B
 Falls Church, VA 22043
 Tel: (703) 448-9121 Fax: (703) 893-6485
 Website: www.GillilandCPA.com



Client Update

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4 Worst Money Mistakes to Avoid When Buying a Car

Big Car Payments Can Lead to Credit Card Debt-Many young adults have such high car payments that they struggle to meet their other financial obligations. The shortage of cash forces them to use their credit cards for day-to-day expenses, getting deeper and deeper into debt. They may not even realize that their car payment is the root of the problem. Here are the top 4 mistakes to avoid to prevent excessive credit card debt caused by buying too much car.

- *Not Knowing How Much Car You Can Really Afford*- financial experts recommend spending no more than 12 to 15% of your after-tax monthly income for car payments. To calculate how much car you can afford, multiply your monthly net pay (take-home pay after taxes) times 15%. Your car payment should not exceed this general guideline.



- *Buying New vs. Used Cars*-New cars depreciate in value significantly during the first two years of ownership (30-40%). If money is an issue, let someone else pay for the depreciation on the first year or two of your car-buy used. If you're very concerned about warranties or determined to have particular options and specific features, and the rapid loss of value in the first few years of ownership is not a big concern, buying new may suit you, but go into it with your eyes open.

- *Choosing a Long-term Loan vs. a Short-term Loan*-Long-term loans are also the reason people get "upside down" on their loan, where they owe more than the car is worth. If they trade it in or sell it,, they have to pay the lender money out of their own pockets or add the old loan balance to their new car payment. If you still owed \$3000 on your old car and you rolled the balance into your new car loan of \$17,494 your new car payment for 60 months at 6.5% interest would be \$409 instead of \$292, an additional \$117

per month for 60 months, for an additional \$7,020. rather than stretch your payments out over 5 years or more, buy a cheaper car, or a one or two year old car, and pay it off over a shorter period.

<http://financialplan.about.com/od/mortgageandloans/a/CarMistakes.htm?p=1>

Why insurance costs so much

Why can insurance sometimes cost as much as the car? Why are insurers so tough on kids, or Corvettes? It boils down to one word: RISK. To an auto insurance company, you are a collection of risks. Your sex, your age, your martial status, driving record, type of car, and place of residence all contribute to an insurer's prediction of whether you'll file a claim. An insurance company can't know, for certain, what kind of driver you are. They can only guess, based on the accumulated statistics for drivers like you. Even if you're a stellar driver, if you happen to be young, single, male and own a sports car, the insurer is probably going to place you in a category with a high premium-or it may reject you entirely. The good news is that not all insurers price risks identically. While insurers are highly regulated in many states, they sill operate as competitive businesses, focusing on certain markets and avoiding others. What's more, some operate their businesses more efficiently than others, passing on the savings to consumers. That means you may be able to save hundreds of dollars a year by shopping regularly, even if your insurer rewards long-time customers. A great quote from a new carrier may trump the loyalty card.

<http://money.cnn.com/magazines/moneymag/money101/lesson22/index2.htm>

Maximizing your Savings

You can't change many of your risk factors. But you can save money by taking advantage of discounts that insurers offer for behavior that lowers your risk-from driving less than the average number of miles per year to taking a defensive driving class. Certain types of people-senior citizens-for instance-also are eligible for lower

rates. You'll also save if you have certain safety or protective equipment installed in your car, like anti-lock brakes or a security system; make sure you ask about these discounts. Your agent may not tell you about them.

Here are some other money-saving tactics:

- *Combine coverage.* As with any product, it's cheaper for insurance companies to sell more to one customer, so insurers often cut premiums up to 15% if you link auto and homeowners policies.
- *Sweat the small stuff.* Frequent claims are red flags for insurers; some won't renew policyholders with more than two claims in three years. So try to carry more of the risk yourself by paying for repairs costing under \$1000 out of your own pocket. Or, if the damage is purely cosmetic, you could just ignore it.
- *Raise your deductible.* The average driver files a collision claim once every three years and a comprehensive claim once every 10 years. Increasing a collision deductible on your auto policy from \$200 to \$500 can save up to 30% annually. Given the likelihood of filing a claim, you might come out ahead with the higher deductible.
- *Drive safely.* A clean driving record-for at least 36 months-keeps your premiums low. Completing a defensive driving course can also qualify you for a discount.
- *Pick the car carefully.* Cars that cost a lot to repair, or that are popular with thieves, can cost more to insure. The National Insurance Crime Bureau has a list of the most frequently stolen cars.
- *Park your teens in one car.* Name teenagers as the occasional drivers of your least expensive car, and make sure they only drive that car.
- *Get your records straight.* Insurers have access to all sorts of personal information, including your motor vehicle record, credit records, and your history of claims with other insurers. It makes no sense to lie about your background. Mistakes can happen, however, and a glitch on your report could make you look like a worse risk than you are, if you haven't done so in a few years, consider obtaining your credit report from all three credit reporting services-Equifax, Experian, and TransUnion.

<http://money.cnn.com/magazines/moneymag/money101/lesson22/index2.htm>

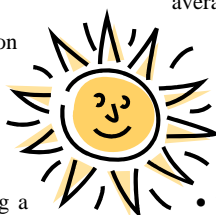
How to get the best price for your car

Here's how to get the most for your used vehicle.

- *First, shine it up.* Take your car to the car wash and wash it

outside, underneath, under the hood, and any other place you can use the high-pressure hose. If you see any signs of leaks from the engine or transmission, repair them and clean the oily places as best you can. Consider having your car inspected by a licensed mechanic. If the car runs well and looks good, you have a much better chance of getting a good price for it. That's what they do at the car lots.

- *Find out what your car is worth.* Scan the newspaper or online listings to see what others are asking for cars like yours. Then compare those prices to the listings on sites such as www.edmunds.com, NADAguides.com, or www.kbb.com. All of these sites suggest more than one price. NADA supplies an average trade-in value – what a dealer would pay for your car – and an average retail (dealer) price. Edmunds also offers a middle level: the amount private sellers are getting for cars like yours. You'll usually find a difference of \$1,000 or more between each of these prices.



- *Take your car to three local car dealers and ask what they would pay for it in a straight sale.* Considers the highest of these offers the wholesale value. We suggest setting your asking price at \$2,000 above wholesale value.
- *Run ads in your local paper, regional magazines and online classifieds.* Play up any special features, such as new tires or sun roof. And don't forget to put a "For Sale" sign in your car window.
- *Perfect your sales pitch.* Stress the vehicle's reliability and performance. Gather all your documents, including title and registration. A car with a meticulous maintenance record will often fetch a premium.
- *Prepare for negotiations.* Know the lowest price you are prepared to accept. Come down off your asking price slowly – in increments of \$50 or \$75, for instance, if you've marked up your car \$2,000.

When buyers want to test-drive your car, use common sense.

Confirm the identity on their driver's license. Go along on the test drive so you can answer questions. For safety reasons, drive with only one buyer at a time. Let buyers arrange their own financing.

Make sure you are paid in cash or with a cashier's check.

Once you've been paid, write up a bill of sale and transfer the title according to local laws. You'll probably need to turn in your old tags and registration to your local Department of Motor Vehicles. Don't forget to notify your insurance company.

<https://secure.lendingtree.com/smartborrower/Selling-your-car>