

First Time Car Buyer's Guide

5 Steps For A First-Time Buyer

Purchasing your first vehicle is an exciting milestone, but it is easy to spend more than necessary without careful planning. Below are some key tips to help you stay within your budget and make informed decisions.

Step 1

Determine What Car Payment You Can Afford

If you are not paying with cash, you will likely need a car loan. Before shopping for a vehicle, assess how much you can realistically afford to pay each month.

Auto loans come in various term lengths, typically 24, 36, 48, 60, 72, or 84 months. While longer loan terms can reduce your lower monthly payment, they often result in paying significantly more in interest over the life of the loan.

As a general guideline, try to keep your car payment below 10% of your take-home pay, and total vehicle expenses between 15% to 20%. It is important to remember that financial commitment continues long after the excitement of the purchase fades.

Step 2

Know What Influences Auto Loan Approvals

First-time car buyers often question whether they will qualify for financing. While limited credit history can make approval more challenging, many lenders are still willing to work with new borrowers.

Lenders will evaluate your credit report to assess your payment history. Even if you have little or no credit, it is wise to obtain a free copy of your credit report from AnnualCreditReport.com to understand what lenders will see. If you spot any inaccuracies, such as accounts that do not belong to you, dispute them with the credit bureau.

Your credit score will also play a significant role. Generally, a score of 690 or above is considered good by both FICO and VantageScore models. However, those with lower to no credit scores may still be eligible for financing, though with the possibility of higher interest rates.



To improve your chances of approval:

- Provide proof of a steady employment and income.
- Make a larger down payment to reduce the loan amount.
- Consider asking someone with strong credit to co-sign the loan.

Step 3

Get Preapproved for a Loan and Compare Rates

Before beginning your car search, secure a loan preapproval from a lender.

There are two key benefits to preapproval:

- **Budget clarity** - You will know your spending limit, helping you to stay within budget and avoid overextending yourself.
- **Leverage in negotiations** - Having a preapproval offer allows you to compare dealership financing and potentially negotiate better terms.

To find the best rate, seek pre-approval from multiple lenders, ideally within a two-week period.

Loan applications within a two-week window are treated as a single credit inquiry, minimizing any temporary impact on your credit score. Keep in mind that dealership financing is just one option, and it may not be the best. Credit unions are a great place to start, as they often offer competitive rates and favorable terms.

Step 4

Identify What You Want and Where to Buy

Before committing to a specific vehicle, invest time in researching your needs and preferences. Consider the following questions to help narrow your options:

- **Usage:** Will you be driving long distances or primarily commuting locally?
- **Size:** Do you feel more comfortable in a compact vehicle or larger SUV? Will you need room for family members, pets, or equipment?
- **New vs. used:** Are you looking for a new car with a warranty or the initial savings costs of a used one?
- **Fuel type:** Are you interested in an electric or hybrid vehicle?

Once you have narrowed down a list of vehicles that you are interested in, conduct thorough research.

- Review fuel economy ratings at fuelconomy.gov.
- Examine safety ratings from the Insurance Institute for Highway Safety at iihs.org.
- Compare insurance costs for each model.
- Check current market pricing via online listings.
- Look up reliability ratings through Consumer Reports. These reports are normally available via subscription or through your local library.

When you are ready to shop, consider your buying options. In addition to traditional dealerships, explore online car retailers. You may also find competitive deals through private-party sales, which may offer more room for negotiation.

Step 5

Prepare for the Dealership Visit

If you plan to purchase a vehicle from a dealership, go in prepared. A lack of experience can make you an easy target for sales tactics. Instead of focusing on the monthly payments, focus on the out-the-door price. Understanding this price ensures you know the total amount you will be financing, and not just the sticker price. The out-the-door price is a comprehensive figure that will include the vehicle's purchase price along with all application fees, such as:

- Sales tax
- Documentation and title fees
- Delivery and preparation charges
- Registration
- Loan interest
- Any add-on products or services

Negotiations around price and financing will typically occur in the dealership's finance office. This is the time to present any preapproved loan offers. If you choose to finance through the dealership, carefully review the contract before signing. By law, you are entitled to receive a copy of the contract, including all Truth in Lending Act (TILA) disclosures. You can take a copy home and review the terms without pressure.

Some dealerships practice "spot delivery" or "yo-yo financing" where they allow you to take a car home before the loan is officially approved. This often happens on weekends or during busy sales periods. If financing falls through, the dealer may call you back to sign a new contract with less favorable terms. Know that you are not required to accept the new offer and can return the vehicle instead. To avoid this situation, secure preapproval before visiting the dealership and never sign a contract that is incomplete or inaccurate.

The Bottom Line

Preparation is the best tool for a confident and informed car-buying experience. If you are worried about navigating the dealership on your own, consider bringing along someone with experience.

APCI Federal Credit Union offers members **flexible terms** that keep payments affordable and automatic payment options to save you time. You can manage your loan easily online with **APCI eBanking** or the APCI eBanking Mobile App. Visit our **auto calculators** to crunch the numbers and hit your goals!