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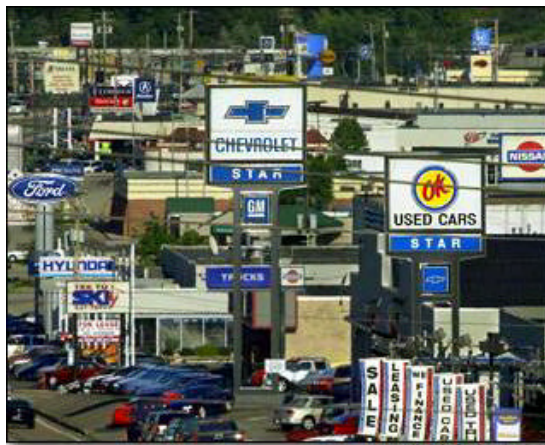
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AUTOMOTIVE NEWS

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How to save big on your next car

Buying used is only the beginning



Keith Srakotic / AP

The choices can be overwhelming, but opting for a late-model used car can save you thousands of dollars.

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By Jennifer Mulrean
CNBC ON MSN MONEY

Aug. 19 — 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 \$20,000 in cash?

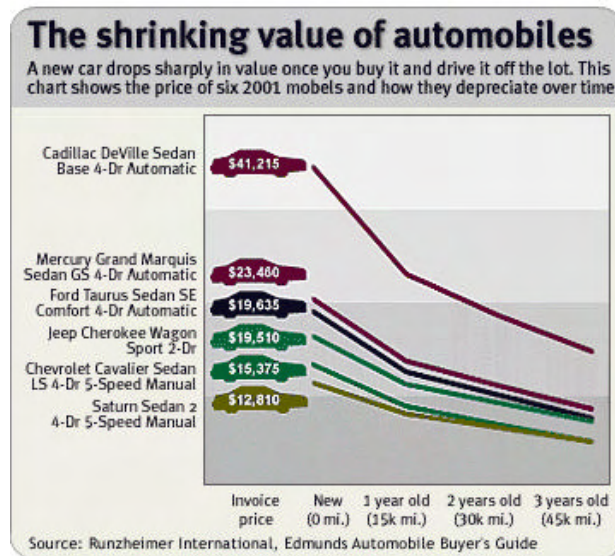
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Personal finance tools and resources

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 car.



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 percent less. Over the next three years, its value will fall by another 25 percent 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.

But that's just part of the story. Let's take a look at the difference between buying a 2002 Lincoln Continental and a similar 1998 model. The invoice price of the 2002 model, according to Edmund's.com, is \$35,720; the cost of a 1998 Lincoln Continental from a private party is about \$16,500. 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 \$20,000 ahead.



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New vs. Used

The net cost of buying new versus paying cash for a used car and investing the difference

Lincoln Continental	New 2002	Used 1998
Purchase price	\$35,719	\$16,500
Tax & license (8%)	\$2,858	\$1,320
Total initial cash outlay	\$17,820	\$17,820
Amount financed	\$20,757	\$0
Total finance charges*	\$3,102	\$0
Maintenance**	\$610	\$5,651
Total 4-year cost	\$42,283	\$23,471
Resale value after 4 yrs.	\$17,841	\$8,613
Net cost after resale	\$24,442	\$14,858
\$497 monthly payments invested over four years at 10%	\$0	\$29,185
Cash available for on next car purchase	\$17,841	\$37,798

Source: CNBC on MSN Money

*48-month loan of \$20,757 at 7% with monthly payments of \$497.

**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 almost \$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.

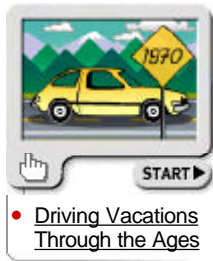


NOT ALL CARS AGE EQUALLY

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. Currently, IntelliChoice rates the Honda Civic as the best value on a used passenger car for 1997-1999 models. J.D. Power also does an annual study on the most dependable older vehicles. For 2000, Lexus won for the sixth-straight year, with half the problems of other manufacturers. Toyota, Honda and Buick were the only non-luxury makes in the Top 10. You can also look up reliability ratings on MSN Carpoint. These will give overall ratings and itemize the types of problems that different makes and models experience.

USED-CAR SHOPPING IN THE 21ST CENTURY



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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 Carpoint, 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 percent 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.

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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 2000. Lincoln 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.

Automotive News

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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 percent highway driving, 55 percent city driving, 15,000 annual miles and

a fuel cost of \$1.70 per gallon, though you can also customize these values.)

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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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