

Methods to Buy a Car

There are three main methods to purchasing a vehicle. Use the chart below to understand the advantages and disadvantages of both.

	Definition	Advantages	Disadvantages
Cash Purchase	Save enough cash to purchase a safe and reliable car. Create a sinking fund to purchase a car with cash.	<ul style="list-style-type: none"> • Usually cheapest method to own a car • Will not be upside down in a loan • No monthly payments 	<ul style="list-style-type: none"> • Requires discipline to save up enough to purchase the car • Does not help build credit • Dealerships sometimes offer discounts for financing
Auto Loans	Borrow money from a financial institution or car manufacturer for a designated loan term to be paid back at the specified increments. Interest is charged on borrowing. At the end of the loan term, you will receive a title from the financial institution showing ownership of the car.	<ul style="list-style-type: none"> • Builds credit rating • Can determine payment that fits budget by adjusting length of the loan terms • Vehicle loan is secured with the car as collateral • Own the car at the end of the term 	<ul style="list-style-type: none"> • Car is more expensive due to cost of interest • Risk of repossession if payments not made
Car Leases	This is a long-term rental agreement between the dealership and you, known as a lease. You pay a monthly fee for an agreed amount of time and miles. At the end of the agreement, you return the car or have the option to purchase for full price.	<ul style="list-style-type: none"> • Usually less expensive monthly payment than a car loan • Drive the newest vehicles on the market • Newer vehicles require less maintenance 	<ul style="list-style-type: none"> • Limits and fees on mileage • Do not own the car at the end of the term making it the most expensive form of car ownership • Penalties for breaking the lease