

## Want a second-hand car, but short on cash?

You may be considering buying a second-hand car this year. But with the economy as it is and the cost of living rising, you need to look into car financing options. But where to start?

“Traditionally, South Africans have leaned towards bank financing when buying a vehicle but there are more options which can be explored,” says Jakkie Olivier, CEO of the Retail Motor Industry Organisation (RMI).



Source: [pixabay.com](https://pixabay.com)

Leasing, for example, has gained popularity over recent years. Almost a third of consumers are leasing their vehicles in the US already. The concept is relatively new in South Africa.

“It certainly has advantages for South Africans in light of rising interest rates, fuel hikes and a shaky Rand, but whichever finance option you go for, make sure you know what you’re getting yourself into from the start,” he says.



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Evan-Lee Courie 13 Nov 2018



He explains that the main difference between a lease and an instalment agreement is that in a lease agreement the buyer will not own the vehicle at the end of the term, but can renegotiate the contract to take ownership for the residual value. Lease contracts are also for shorter terms.

“Generally, buying a car, paying it off and then keeping it for many years, remains the least expensive way to go because, despite the fact that vehicles depreciate over time, they do retain some value that you can apply towards buying another car. If you lease a vehicle, you only drive it for a fixed period and your monthly payments go towards paying for the depreciation in the vehicle, not ownership. Lease agreements also come with restrictions on how many kilometres you can do during the lease period.”

### **How do you decide which option is better?**

Olivier encourages prospective buyers to do their homework first; research the options and always be aware of the fine print.

“Bank finance can be costly as a large chunk of the monthly instalment goes towards interest payments. Banks also want to know that you have a spotless credit history and that you can afford the monthly payments on a vehicle.”

He adds that it’s a mistake to base your affordability on the repayment only. Research has shown that in certain market conditions, the actual monthly instalment of an entry-level vehicle accounts for less than 50% of the total cost of ownership.

Fuel, maintenance and insurance costs also need to be budgeted for before deciding to go ahead with the purchase of a vehicle. “There are a number of value-added products which can be built into the monthly instalment but be careful of falling for all the trappings without a clear understanding of how much these will inflate your instalment.”

“Now more than ever, a vehicle purchase should be thoroughly-researched and properly thought out. Always keep the practical use you want out of the vehicle in mind and consider your average mileage and the increasing cost of petrol,” he says.



Jakkie Olivier, CEO of the Retail Motor Industry Organisation (RMI)

Olivier highly recommends finding an independent accredited workshop or dealership to inspect the vehicle before a purchase or financing goes ahead. “You need to make sure that the value assigned to the vehicle is correct. A qualified mechanic will be able to fully evaluate the condition of the parts, body of the vehicle and so on.”

“Make sure that your festive season purchase and financing option is the right one for you by buying with your head and not with your heart. A car is a big investment so don’t make emotional decisions,” he concludes.

Mark Dommissie, national chairperson of the National Automobile Dealers’ Association (NADA), a constituent association of the RMI, says, “Buying a car is one of the biggest purchases one is likely to make, second only to property. Whether a consumer is considering a first car or simply replacing a vehicle, taking any shortcuts when planning their buying journey could result in significant problems for the buyer.”

Many car buyers make the mistake of assuming that the only cost associated with financing a car is the car repayment itself, so when they work out their budget and say they have R5,000 to spend they assume they can rush out and buy a car with repayment of R5,000 per month. It is vital that people understand that buying a car is not just about the monthly repayment on the car itself.

“Our advice is that whatever your budget works out to be, you should allow for half of it to be spent on the monthly repayment, and then put aside the other half to cover additional expenses such as fuel, maintenance and insurance,” Dommissie says.

Top five financing DOs and DON'Ts for prospective vehicle buyers**Do...**

- Draw up a budget to establish affordability.
- Leave enough spare cash in your budget to absorb rising costs such as fuel and interest rates.
- Take the time to read and understand your finance contract.
- Contact the bank if you are in a situation where you cannot meet your financial commitments.
- Make sure you always have comprehensive insurance on your financed vehicle.

**Don'ts...**

- Overextend your budget.
- Provide the bank with false information about your affordability.
- Cancel insurance when you are in a financial bind.
- Rely on a large balloon payment to make your instalments more affordable.
- Forget to include all costs in your mobility budget: petrol, insurance, and maintenance.

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