Do Your Homework Before Purchasing A New Vehicle For Your Hoof-Care Business

Check your credit report, financial situation and payment options before you head to a dealership

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You've decided it is time to purchase a new farrier vehicle. That means you are facing what can often be a seemingly overwhelming process.

Timing Your Buy

That process will be at least a little less overwhelming if you haven't waited for your current vehicle to die. It can take a month or two to shop, decide, haggle and buy a new vehicle. If your current vehicle is dying, you'll be forced into hasty decisions and signing deals you may wish you never signed.

If possible, do your vehicle shopping at the two times of the year when you will have the best opportunity to take advantage of price reductions and other incentives. The end of December is one such time, as the Christmas season is a slow vehicle buying time. July through October is the other plum period, as automobile dealers sell off this year's models at lower prices to clear space for new models.

Know Your Credit Score

Before purchasing a new vehicle you should know what your credit score is. This is a vital statistic, as it is directly related to how high an interest rate you'll pay if you need to get a loan.

The Fair Credit Reporting Act (FCRA) requires each of the nationwide consumer reporting companies — Equifax, Experian and TransUnion — to provide consumers with a free copy of their credit report upon request, once every 12 months.

For more information on obtaining your credit score, visit the Federal Trade Commission website at www.ftc.gov/consumer and click on credits and loans. You can order a copy of your credit report at www.annualcreditreport.com, or call 1-877-322-8228.

Take Care When Trading In

I advise against trading in a vehicle that you still owe money on. Many consumers who have done this complain about automobile dealerships that do not pay off the loan or do not make the payments on time. Legally, your loan still belongs to you and until the dealer pays it off, you are obligated to make sure it gets paid off and on time. If you still want to trade in a vehicle you owe money on, get the details in writing. If the dealership won't agree to sign a statement saying they will pay off the loan in 10 days as required by the bank, walk away from the deal.

How To Pay

Now that you've found the right vehicle for your farrier business, it's time to find the best way to pay for it. According to research (CNW Marketing Research), 70.5% of people finance their vehicles, 18.5 % lease and 11% pay up front with cash.

Each method of purchasing a vehicle has its advantages and disadvantages. Choosing the right way to pay for your vehicle depends on several factors including the type of vehicle you want to buy, how long you want to own it, how much cash you have on hand and your credit score.

Paying Cash

Paying in cash eliminates interest and finance fees. You own your vehicle outright and are not beholden to any bank. There are no payments to make, which means there is no impact on your monthly budget. Paying in cash also allows you to sell your vehicle if and when you choose to do so.

However, if you pay in cash, you want to make sure you are not cleaning out your savings account, leaving no funds for you to fall back on in the event of an emergency.

Leasing A New Vehicle.

Leasing is no different than renting equipment or a place to live. Vehicle leasing is available through banks, credit unions, finance companies, dealerships and automakers. According to the Federal Reserve Board, monthly lease payments are usually cheaper than loan payments for a vehicle.

On The Web

Financing a new vehicle for your hoof-care business is much easier if you have a savings plan to help you. One way is to charge a barn-call fee and saving the money you collect from those fees for a future vehicle. The Hoof-Care Bottom Line column from the November 2009 issue of *AFJ* describes how to set up that process. We've posted the column at www.americanfarriers.com/ff/0912.

Leasing appeals to people who like to get a new vehicle every few years. With a lease, your vehicle will likely always be under warranty, so any mechanical problems will be covered.

Lease payments can be deducted from your taxes if you use your vehicle for business more than 50% of the time. Leasing also allows you to drive away immediately, without any down payment. You also don't have to worry about selling or trading in the vehicle.

On the downside, once you return the vehicle, you have nothing to show for it and you'll have to start over.

If you like your leased vehicle, you can pay off its remaining value, but that'll often cost you more. The values on leases are often set higher than what the vehicle is actually worth by the end of the lease, in order to cover depreciation.

Another issue could be mileage limits on leased vehicles. Leases are typically limited to a range of 10,000 to 15,000 miles a year. Knowing exactly how many miles you drive in a year is crucial, as exceeding the mileage limit typically results in stiff penalty fees. If you drive more than 15,000 miles a year, leasing doesn't make much economic sense.

Finding a vehicle for lease may be a problem. Many banks and vehicle-financing companies have cut back on or eliminated leasing programs. If your credit score is below average, it may be nearly impossible to obtain a vehicle lease.

Financing A New Vehicle.

Most people choose financing as the method to pay for a new vehicle. As with leasing, financing is available through credit unions, automakers, banks and financial companies. Financing allows you to keep more cash on hand for emergencies and, when the loan is paid off, you own the vehicle.

Once you've been approved for financing, you won't actually own the vehicle until you've made all the payments. The bank or finance company holds the title. If you decide to sell your vehicle while someone else still holds the title, the process can be difficult and usually requires your creditor's involvement.

Financing a vehicle often require a 10% to 15% down payment, except for individuals who qualify for a no-money-down deal due to good credit scores.

There are some attractive loans out there, but your eligibility will depend on your credit score. Be cautious about word games automobile dealers sometimes play with the annual percentage rate, or APR.

The APR tells you the actual annual interest rate you pay on the unpaid balance of the loan, so it's important to know. But your rate will depend largely on your credit score.

If you see an ad offering a 1.9% APR, look for the fine print. It will usually include a phrase like "with approved credit only," or "qualified buyers only." This type of ad can bring many potential buyers into a dealership, but you must have perfect credit to get the advertised 1.9% loan. And most vehicle buyers don't.

Before you commit to high monthly payments, carefully consider your finances to insure you will be able to make the monthly payments.