

# GUIDE TO BUYING A NEW CAR

GUIDE TO



BUYING A



NEW CAR



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# 1

## INTRODUCTION

Buying a new car is exciting, whether you're a first-time buyer or trading in for an upgrade. However, buying a car is a big decision which shouldn't be made impulsively. In fact, apart from your home, it may be one of the biggest purchases you make in your lifetime.

It's important to budget properly so your car isn't a huge strain on your monthly budget.

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**We've put together this guide to help you do all of the necessary groundwork before the fun part begins: choosing your dream car.**

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**This guide covers the financial aspects of buying a new car:**

- From weighing up whether or not you need a new car,
- to setting an affordable budget,
- getting your credit record in check,
- choosing (and applying for) the right financing option and finding the best insurance policy... we've covered it all.

Once you've worked your way through this guide, you'll have peace of mind knowing that you're empowered to make an educated purchase.



2

**DO I REALLY NEED TO BUY A CAR?**

## 2

### DO I REALLY NEED TO BUY A CAR?

With the growth of apps like Uber and Taxify, is it really worth buying your own car?

## There are many different ways to get around South Africa in 2022.

From public transport to ride sharing apps (like **CarTrip**, **uGoMyWay** and **Findalift**), taxi services, or leasing or owning your own car, it can be hard to choose which option best suits your budget and lifestyle.

Here's a list of some of the options (other than public transport) available to you, as well as tips to help you evaluate which option best suits your budget and lifestyle.



### 1. BUYING

Ultimately, this is a lifestyle enablement choice. Owning your own car gives you greater flexibility for travelling and weekends away, transporting children around (with their various paraphernalia), or even just popping out for takeaways whenever you feel like it. Buying, if you're going to keep your car for at least three to five years or need greater flexibility, is also a good option for individuals, as your car becomes an asset once the finance is paid off. It also gives you independence.

## 2

### DO I REALLY NEED TO BUY A CAR?



## 2. RIDE SHARING

Ride sharing apps like CarTrip, uGoMyWay and Findalift offer people an affordable option for daily travel (such as commuting to and from work). Drivers can offer lifts in the direction that they're travelling, to help them pay towards the running costs of their vehicle. Passengers can book a ride, along with anyone else heading in the same direction, and together split the cost of the drive. Having three or four passengers per ride dramatically decreases the cost of the trip for everyone, including the driver, and is good for everyone's carbon footprint. If you're happy with the group you've been travelling with, you can form a permanent carpool arrangement.



## 3. TAXI SERVICES

Apps like **Uber** and **Bolt** give people another relatively affordable (depending on your budget) option for travel, especially for those who aren't too keen on sharing a trip with a group of strangers. Admittedly, you'll be paying extra for the added convenience of riding alone, so this may not be an ideal option for getting to and from work if you're travelling long distances or in heavy traffic.

Apps like these are, however, excellent for young people who spend a lot of time out and about at night. Apart from being convenient and relatively affordable, taxi services offer a safe, sober ride home.

A combination of ride sharing and taxi services is great if you're a young professional, looking to keep your travel costs as low as possible. It can be limiting because you can't just jump in your car and head to the shop for an emergency carton of milk, but if you plan your trips wisely and don't mind sharing trips, it can relieve the stress of taking on rental fees or car finance debt.

## 2

### DO I REALLY NEED TO BUY A CAR?



#### 4. LEASING

Leasing is basically a long-term rental agreement with a bank (or another financial institution) or a car manufacturer. You'll sign a contract for a specific length of time (usually between 12 and 72 months), during which period you'll take temporary ownership of a car. This option is usually better suited to **short-term rentals** as at the end of the lease agreement, you have to hand the car back (unlike buying). Leasing is a good option when interest rates are on the rise, however, if you plan to keep your car for three years or more, you should definitely consider buying instead, as your car will eventually be an asset.

One of the perks of leasing is that your monthly fee usually includes insurance fees and maintenance - both of which would be additional costs to a vehicle owner.

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**Leasing is more common in businesses than in a personal capacity, as it's cost effective for fleets and sometimes results in tax benefits for a company.**

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At the end of the day, you need to make the right decision for your particular budget and lifestyle. Owning a car, just like owning a house, comes with certain responsibilities (like remembering to pay your licensing fees every year and taking out insurance), but also some major benefits, like independence, and owning an asset.



## 2

### DO I REALLY NEED TO BUY A CAR?

#### BUYING

#### PROS

#### CONS

- Once you've paid off your loan, your car is an **asset** meaning the car is yours to keep. You can use and enjoy it for as long as you want, and you won't owe any monthly rental fees.
  - Your car can be sold for cash or traded in as a deposit on a new car when the time comes.
  - Owning your own car means you're fully independent to come and go as you please.
  - Certain jobs require you to have your own vehicle.
  - Individuals don't get tax benefits from leasing (unlike business fleets) so it makes sense for an individual to opt for buying, as the car will become theirs once the finance has been paid in full.
- Buying a car is a big financial commitment which often requires a long-term loan (e.g. 60 months).
  - You'll also need to factor in additional monthly costs like car insurance, petrol and maintenance, as well as annual licensing fees.
  - You'll be driving the same car for a long time. You'd need to trade it in and buy a new car if you wanted a more modern model.
  - You'll need to have somewhere safe to park your car overnight.

## 2

### DO I REALLY NEED TO BUY A CAR?

#### RIDE SHARING

##### PROS

##### CONS

- You don't need to worry about your credit history or apply for finance. You're not tied down to a loan or any monthly rental fees.
  - It's cheaper than running your own vehicle, which costs money **each year** in fuel, maintenance, licensing, insurance and tolls. With ride sharing, you could pay as little as R20 for a 30km **commute** so you'd be looking at around spending only R5 000 to R6 000 per year.
  - You won't have the stress of having to drive yourself around (e.g. worrying about accidents and insurance).
  - If you travel a lot (for business or pleasure) you won't have to worry about leaving your car standing at home for weeks on end while you're away.
- Certain jobs require you to have your own vehicle.
  - You're reliant on your driver, so you may have to tag along while other passengers are being dropped off or collected.
  - Weekends away, carting children around and other lifestyle enablement decisions are challenging to impossible to make without your own vehicle.

## 2

### DO I REALLY NEED TO BUY A CAR?

#### TAXI TAXI SERVICES

##### PROS

- You don't need to worry about your credit history or apply for finance. You're not tied down to a loan or any monthly rental fees.

- You're not sharing your ride, so won't have to make stops for other passengers.

You won't have the stress of

- having to drive yourself around (e.g. worrying about accidents and insurance).

- If you travel a lot (for business or pleasure) you won't have to worry about leaving your car standing at home for weeks on end while you're away.

##### CONS

- Certain jobs require you to have your own vehicle.

- You're not sharing the cost of your trip with other passengers as you would be with ride sharing, so the cost per trip will be higher. Travelling long distances or during peak traffic hours will be particularly costly.

- Weekends away, carting children around and other lifestyle enablement decisions are challenging to impossible to make without your own vehicle.

## 2

### DO I REALLY NEED TO BUY A CAR?

#### LEASING

##### PROS

##### CONS

- You can discontinue your lease if you can't afford it anymore. (Although you may be faced with a penalty fee)
  - You can lease a car for a short period.
  - Certain jobs require you to have your own vehicle.
  - You'll **pay less** on your monthly rental than on monthly instalments of a loan for the same model, allowing you to lease a car that you couldn't normally afford to buy.
  - Having your own car means you're fully independent to come and go as you please.
  - You won't need to worry about trying to sell the car.
  - You can upgrade your rental at any time.
  - If you own a business and are leasing fleet vehicles, you may receive **tax benefits.**
- Leased vehicles are subject to **mileage limitations.** If you exceed your annual limitation, you'll be charged an additional fee per kilometer travelled.
  - You'll need be responsible for certain monthly costs (like petrol).
  - You'll need to have somewhere safe to park your car overnight.
  - You'll be subject to an **audit process** upon returning the vehicle, where they evaluate any damage to the car. You'll have to pay extra for anything that isn't considered fair wear and tear.
  - When leasing, you'll always have monthly rental fees to worry about.
  - Breaking a lease early can be expensive.

# 3

## SETTING YOUR BUDGET TO BUY A CAR

Printable budgeting table

New vs. used?

The importance of a test drive

### 3 SETTING A BUDGET TO BUY A CAR

If you've decided to buy a car, the first step is to set yourself a budget according to what you can afford. Don't be tempted to choose a model first and try to mould your budget retrospectively; stretching yourself too thin to buy your dream car. Far too often this ends in heartbreak when interest rates change or life happens, and you can't afford your monthly repayments anymore.

#### Things to keep in mind when setting your budget:

- Inflation
- Changes in the interest rate
- Fuel consumption
- Changes in the petrol price
- Insurance premiums
- Long-term maintenance of the vehicle (like the cost of replacing tyres)
- Whether or not you can afford a deposit
- Whether you have an existing car to trade in

You'll be driving your new baby for years. Setting your budget needs to accommodate not only your current expenses but future ones too. It's important not to be tempted to say things like "oh, but I could get a raise or promotion during this time" because this isn't guaranteed. When it comes to big ticket items like your car or home, and debt, it's better to err on the side of caution.

Here's an example of how you can perform an analysis of your budget, to see what you can afford to spend monthly on a car.

### 3 SETTING A BUDGET TO BUY A CAR

#### Example

Let's say you can afford a monthly repayment of **R4 000**.

You'll need to subtract the amount you'll have to pay for insurance - for example, **R700** - leaving you with **R3 300**. You'll also need to subtract charges like monthly services fees and compulsory credit life (life insurance that protects your credit providers), for example, **R350** - leaving you with **R2 950** for your monthly car instalments.

Multiply this amount by your intended loan term - for example, **60** months, and then add the prime lending rate, for example, **12.75%**, plus an additional **1%**.

$$(R2\ 950 \times 60) + (12.75\% + 1\%) = R201\ 337.50$$

Add the cash deposit you have available, for example, **R30 000**, and you have the amount you can spend on a car: **R231 337.50**. If you're going to be trading in an existing vehicle, you can add the trade in value to your equation. So, if your current car is worth **R60 000**, you'd end up with **R291 337.50** to spend.

Now that you know your maximum budget limit, you can shop around for vehicles that fall within this range. Try not to purchase at the top end of your affordability, as this doesn't allow you wiggle room in the event of a change in interest rate.

Read our post, [Work out the value of your car \[tool\]](#) to get a rough idea of what your current car is worth.

## 3.1 Printable budgeting table

Print out this table to help you do the exercise mentioned above. This will give you a ballpark figure to work with when you start looking at choosing a make and model and applying for finance.

### 3 SETTING A BUDGET TO BUY A CAR

	ME	SPOUSE/PARTNER
<b>MONTHLY INCOME</b>		
Basic salary (after tax)		
Average commission (if any)		
Interest from investments (if any)		
Rental income (if any)		
Other		
<b>TOTAL INCOME</b>		



### 3 SETTING A BUDGET TO BUY A CAR

MONTHLY EXPENSES		
Monthly savings		
Pension		
Medical Aid		
Rent/Bond repayment		
Internet/phone		
Electricity		
Water		
Levies, rates and taxes		
Petrol/travel expenses		
Monthly groceries (food, toiletries, cleaning products, etc.)		
School fees (including things like aftercare and extramural activities)		
Pet care (food, vet bills, grooming, etc.)		
Account payments (e.g. clothing accounts, credit card repayments, DSTV subscription, etc.)		
Entertainment (e.g. date nights, hobbies, etc.)		
Other miscellaneous expenses (clothing, nails, haircuts, bank charges etc.)		
<b>TOTAL EXPENSES</b>		
<b>INCOME - EXPENSES = TOTAL BUDGET LEFT OVER</b>		
<b>30-50% OF TOTAL BUDGET LEFT OVER = AFFORDABLE CAR REPAYMENT ZONE</b>		
<p>Now that you have an idea as to what you can afford to pay towards monthly car repayments, you can start looking at models that fall into this price range.</p> <p>WesBank advises allocating between half and two-thirds of your budget to the vehicle instalment, with the remainder going towards the additional costs involved in owning and maintaining a vehicle. "For example, if you have R5 000 for buying a car, only about R2 500 should be used for an instalment, with the other half going towards fuel, insurance and maintenance."</p>		

### 3 SETTING A BUDGET TO BUY A CAR

THE TOTAL COST OF CAR	
Retail price of the vehicle	
Extras (e.g. anti-smash and grab tint)	
Other (e.g. extended warranty, maintenance plan,	
<b>TOTAL COST OF CAR</b>	W
ADDITIONAL CAPITAL	
Trade in amount from current vehicle (if any)	
Cash deposit (if any)	
<b>TOTAL CASH AMOUNT</b>	W
<b>TOTAL COST OF CAR - TOTAL CASH AMOUNT = FINANCE AMOUNT</b>	

## 3.2 New vs. used?

### 3 SETTING A BUDGET TO BUY A CAR

## Once you've set your budget, it's time to look at options within your price range.

This is one of the biggest decisions you'll make, and it significantly impacts your buying range.

There are lots of pros and cons to both new and used cars, and in the end, you're going to have to weigh up the factors according to your budget and needs. Despite the cost advantages of second-hand cars, it's important to remember there are other things to consider too. For example, as Forbes auto journalist Joann Muller **writes** "Even the crash tests have changed, so the National Highway Traffic Safety **Administration** cautions that a 5-star crash rating before 2011 can't be compared with 5-star ratings today. Sure, that '98 Volvo has driver and front passenger airbags. But today's cars typically have 10 airbags -- protecting passengers' head, torso and knees. The old Volvo doesn't have dynamic head restraints (which prevent whiplash in rear-end crashes) nor does it have advanced seat belts (which pre-tighten just before a crash)."

Here's a comprehensive list of the pros and cons of both so you can make the right choice for your newly independent children.

### 3 SETTING A BUDGET TO BUY A CAR



## PROS

### NEW

### USED

- **PEACE OF MIND**

You know you're the first owner and the car is in good condition

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- **FULL WARRANTY**

If there are any issues with the car, you can take it back to the manufacturer for free

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- **RELIABLE**

Parts won't need to be replaced for a few years yet and the cars generally need less maintenance

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- **CUSTOMISATION**

New cars often let you add in some customisation to make the model uniquely yours

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- **LATEST SAFETY FEATURES**

New cars will have all the latest tech and safety features as they're rolled out

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- **MORE ENVIRONMENTALLY FRIENDLY**

Newer cars are made to be greener and more fuel efficient

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- **TAX FREE**

no taxes will be paid on buying a used car

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- **WIDER VARIETY**

There are many more and many varied options when looking at the used car market

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- **CHEAPER**

Because, as [Cars.co.za](https://www.cars.co.za) says, "The previous owner has absorbed the brunt of the depreciation cycle on the car."

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- **CHEAPER INSURANCE**

Costing less, the insurance premiums on a used car are cheaper

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# 3

## SETTING A BUDGET TO BUY A CAR

### CONS

#### NEW

#### USED

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>• <b>MORE EXPENSIVE</b><br/>The depreciation on a car sets in almost immediately, so your car loses value as soon as you drive it off the showroom floor</li></ul> | <ul style="list-style-type: none"><li>• <b>THE UNKNOWN</b><br/>no matter what the seller says, you can never be 100% sure of the car's history. There are, however, a few insider hacks to buying a used car.</li></ul> |
| <ul style="list-style-type: none"><li>• <b>ADDITIONAL TAX</b><br/>A carbon tax is added onto new cars which increases the price</li></ul>  | <ul style="list-style-type: none"><li>• <b>POTENTIALLY UNRELIABLE</b><br/>Breakdowns and part repair can cost a fortune</li></ul>   |
| <ul style="list-style-type: none"><li>• <b>DEALERS WILL ONLY SELL THE LATEST MODEL</b></li></ul>   | <ul style="list-style-type: none"><li>• <b>OUT OF WARRANTY AND SERVICE PLAN</b><br/>If something goes wrong, it's going to be expensive to fix</li></ul>  |

## 3.2 The importance of a test drive

### 3 SETTING A BUDGET TO BUY A CAR

**Apart from being a big expense, your car is something that impacts your quality of life.**

We spend so much time behind the wheel that it's important our car fits in with both our driving style and our lifestyle.

You can't accurately make a judgement call by simply checking a car out on the showroom floor: you need to experience the car in action, out on the open road. This applies to both new and used cars.

The following tips will help you ensure that when you do put pen to paper, and officially take ownership of your new baby, she's definitely going to be the perfect car for you.

#### How to get the most out of your test drive:



#### TEST DRIVE ALL THE CARS ON YOUR WISHLIST BACK TO BACK

This will give you the best chance to **make a direct comparison** as the experience of each car will still be fresh in your memory.

### 3 SETTING A BUDGET TO BUY A CAR



#### TAKE CHARGE OF THE TEST DRIVE

This is your potential new car, not your salesperson's potential new car - **don't feel pressured** into rushing your decision. You need to be 100% sure that you've fully acquainted yourself with the vehicle and are in a better position to make an informed choice. This being said, if you're not a serious buyer don't waste the salesperson's time.



#### DRIVE THE CAR THE WAY YOU WOULD NORMALLY DRIVE

If you normally have the radio on, test the radio, if you have your morning coffee on the road, look for conveniently placed cup holders. Make sure you've adjusted the seat and mirrors the way you would normally set them - don't be afraid to make yourself comfortable. Remember, once you've **signed** the paperwork the car is yours and if (on a Monday morning) you suddenly realise the cup holder is in a really awkward spot, it's too late.

This is by far the most important part of a test drive. It gives you a chance to spot anything that could potentially irritate you in the future. If you're struggling to get comfortable now, you can guarantee that it will only become more of a pain point when you're stuck in 5 o'clock traffic. Don't tell yourself "it's fine, I can live with it" before you've test driven all the options available to you, make sure you're making the right choice - your car is a long-term investment.

### 3 SETTING A BUDGET TO BUY A CAR



#### TRY TO TEST DRIVE THE CAR IN DIFFERENT ENVIRONMENTS

Take the car for a good, long drive (15 to 20 **kilometers** should be fine). Test the car on uphill, in traffic, on a stretch of freeway (if possible) and in the parking lot. You want to gauge how comfortable the car will be to drive on a daily basis, so ideally you want to test it in as many different situations as possible.



#### CLEAR YOUR MIND OF DISTRACTIONS

While you're driving, focus on how the car feels and try to clear your mind of that email you need to send, the bread that you forgot to buy and what time you need to fetch the kids from school. Your car is going to be your trusty steed for the next three to five years or more, so you need to make sure that you're buying it for the right reasons.

Now that you know what to look out for on your test drive, why not book a test drive and take your favourite Suzuki models for a spin?

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**Whether you're looking for a sleek city car like the Swift or a fun, outdoor companion like the Jimny, Suzuki has a car to suit every personality.**

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# 4

## DIFFERENT WAYS TO BUY A CAR IN SOUTH AFRICA

Different finance options available for you to buy a car

Financing a private car sale

Is it safe to buy cars off sites like Gumtree?

Buying a new or used car from a dealership

Balloon Payments

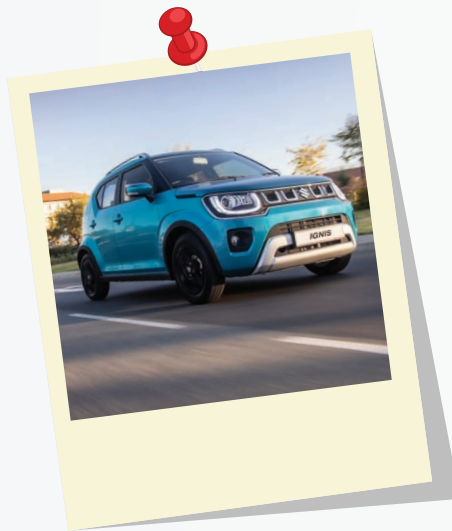
Should I choose a balloon payment?

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# Now that you've decided which make and model you'd like to buy, you'll need to decide how you plan to purchase your new set of wheels.

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## 4 DIFFERENT WAYS TO BUY A CAR IN SOUTH AFRICA



Here's a list of the various different ways that you can finance your vehicle in South Africa - to help you decide which financing option suits your budget.

**Disclaimer:** Before we dive into the various different finance options available to you, we need to note that this advice should not substitute the advice of a finance and insurance (F&I) advisor. We highly recommend that you ask for a consultation with the F&I advisor at your dealership before going ahead with any finance option.

## 4.1 Different finance options available for you to buy a car

Apart from paying cash (and let's face it, not many of us can afford this luxury), there are several different financing options available to help you buy your car.

# 4

## DIFFERENT WAYS TO BUY A CAR IN SOUTH AFRICA

## 4.2 Financing a private car sale

If you're buying a second-hand vehicle, you may be considering purchasing a car privately from, for example, a colleague, friend or family member. You could also be looking at buying from an online portal (like **Gumtree** or **Autotrader**) or from the classifieds section in your local newspaper. In all of these situations, you'd be looking to make a private sale.

### Private sale checklist

There are a few rules and regulations for financing privately through WesBank. Make sure you meet the necessary requirements to avoid your application being rejected.



#### As the buyer you must:

- › Be over 18
- › Be a South African citizen or permanent resident
- › Have a valid driving licence
- › Have a clear credit record
- › Earn at least R6,250 per month



#### As the seller you must:

- › Take the car to an approved testing centre for a technical inspection and roadworthy
- › Email the required documents to WesBank
- › Remove any personalised number plates
- › Ensure all outstanding licence fees and traffic fines are paid
- › Negotiate the cost of number plates with the buyer



#### The car you buy must:

- › Be sold by a private seller (not a dealer or a manufacturer)
- › Be worth R30,000 or more
- › Be less than 20 years old (but can include classic cars - terms and conditions apply)
- › Not be stolen or recovered (code 3)

**Image source:** WesBank (each financial institution has its own set of regulations with regard to private sales, however, most follow a similar structure)

Financing a private car sale works similarly to buying a new or used car from a dealership. However, there are a few differences - for example, the vehicle will need to undergo an inspection to ensure that it's roadworthy, complies with all necessary legalities and is indeed in good working order. While this may seem like an added hassle, this inspection serves to protect both the buyer and the financial institution. The second major difference between financing your car privately and financing through a dealership, is that when you go through your dealership their F&I advisor will assist you with getting your paperwork in order.

### 4.3 Is it safe to buy cars off sites like Gumtree?

## 4 DIFFERENT WAYS TO BUY A CAR IN SOUTH AFRICA

The truth is, no matter where you buy a car, you could still end up not being happy with your purchase. As a rule of thumb, purchasing through accredited dealerships is the safest option, as they have to maintain certain standards and customers have various recourse options in the event that their car isn't up to scratch.

That said, our current economy means that many people simply can't afford to purchase from accredited dealers as they might not cater for vehicles in the lower priced categories. Additionally - the more expensive vehicles offered by franchised dealers usually include vehicle checks (if you're buying second-hand), parts warranties and a guarantee that you're not buying a stolen vehicle. Customers who buy directly from manufacturer-accredited dealers have a kind of 'safety net' because you can contact the manufacturer directly, or the MIO (motor industry ombudsman) should you have any concerns with your vehicle through no fault on your part.

Customers who don't buy directly from approved dealerships will have a harder time dealing with faulty vehicles as the odds are far greater that the vehicle mileage has not been properly checked or verified, doesn't have a FSH (full service history), and that previous owners have hidden any inherent faults.

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## **There are, however, steps you can take to protect yourself when buying from non-accredited dealers.**

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**4**

**DIFFERENT WAYS TO  
BUY A CAR IN  
SOUTH AFRICA**



### **1. DO YOUR RESEARCH**

This point can't be stressed enough. If you're looking at buying from a standalone dealership that's not affiliated with any manufacturer, make sure you find out as much as possible about the dealership. You can do this by visiting known complaints websites such as [Hellopeter.com](http://Hellopeter.com) or by simply searching the name of the dealership online. Pay close attention to any online complaints - in some cases, you may find that all complaints were successfully resolved, which may indicate that the dealership takes its responsibilities seriously.

# 4

## DIFFERENT WAYS TO BUY A CAR IN SOUTH AFRICA



### 2. EDUCATE YOURSELF

Take the time to read through websites such as **Auto Advice** you need to be aware of potential red flags, your rights as a buyer, and the correct legal process of transferring vehicle ownership. Going 'old school' and asking people where they bought their cars and what their experience was is still a very effective method of weeding out unreliable sellers.



### 3. MINIMISE RISK

Websites such as **Auto Trader**, **Cars.co.za**, **OLX** and **Gumtree** are a goldmine of excellent deals, but only if you're extremely careful and know exactly what you're doing. These websites, especially OLX and Gumtree, are simply a portal for people to advertise their vehicles, so it's up to you as the buyer to ensure you get what you're paying for. There are no fixed rules, but it goes without saying that if people ask for upfront payments or don't want the vehicle to undergo a roadworthy inspection, alarm bells should be going off in your head. If you do decide to go this route, it's best to have someone with excellent car knowledge go with you to inspect the vehicles and ask the right questions. And in the same vein, make sure to meet up in safe and public places once you do agree to inspect a vehicle. Sadly, criminals frequently use such meetings as an opportunity.

As is often the case with car-buying advice, it's impossible for us to tell you exactly what you should do. It's one of those situations where common sense really needs to prevail: research, get expert advice, don't trust blindly, and never pay upfront.



### 3. MINIMISE RISK CONTINUED

Although accredited dealers are still the safest choice when buying a new or used car, you can often find much better deals through private sales. With private sales, however, you can't make rushed decisions and need to have the patience to wade through many dubious deals before you find the right one. If you do your homework and pay attention to those in the know, you really could find a truly spectacular gem that you would never have found at a traditional dealer.

#### 4.4 Buying a new or used car from a dealership

When you buy from a dealership, whether you're buying new or used, you have the option of taking out finance directly from a bank or financial institution (like **WesBank**) or going through the F&I advisor at your dealership.

The main difference between the two is that your F&I advisor will most likely submit your application to various different institutions on your behalf (much like a bond originator) and try to help you secure the best possible deal. If you have a preferred credit provider, you can always apply for pre-approval from them and take this with you to the F&I advisor at your dealership, to negotiate your loan terms.

**Download** our ebook, Questions to ask your dealer, for tips to help you secure the best deal on your new baby. The ebook includes a printable checklist that you can take with you to your dealership so that you don't forget to ask any important questions.

If you're buying from a dealership, you may also be considering a balloon payment.

## 4.5 Balloon Payments

A balloon payment is also called a residual value. Basically, it's a lump-sum payment attached to your loan. The balloon payment is higher than your regular monthly instalments and can be applied either at intervals during your loan, or more commonly, at the end of your loan term.

## 4.6 Should I choose a balloon payment?

**Wheels24** offers the following advice for buyers considering a balloon payment:

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**D before B except if it's C:  
rather put down a big Deposit  
before looking at a Balloon  
payment unless it is Critical.**

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The benefit of a balloon payment is that it helps buyers purchase their dream car, even if it would normally be a little too far outside their budget.

The danger of a balloon payment, however, is that tempting as it may sound, buying a car outside of your budget can end badly if you're **unable to pay** the residual amount at the end of your loan term. To make a balloon payment work, you need to be very strict with your monthly budget - putting aside money towards that inevitable residual payment.

4

DIFFERENT WAYS TO  
BUY A CAR IN  
SOUTH AFRICA



# 4

## DIFFERENT WAYS TO BUY A CAR IN SOUTH AFRICA

A normal loan would spread the total vehicle amount of a period of four to five years. A balloon payment, on the other hand, defers a percentage (say 25%) and attaches that percentage as a lump-sum at the end of your loan term. Banks encourage the balloon payment option as it allows people to purchase a car which wouldn't be affordable with a regular loan. Balloon payments lower your monthly repayments, allowing you to purchase a more expensive car without paying sky-high monthly instalments.

### Example:

If you took out a five year loan on a R 200 000 car and elected to have a 25% balloon payment, you would need to pay the residual 25% (R50 000) in a lump-sum at the end of your loan term. Your monthly instalments would then be based on R150 000 instead of the full R200 000 which means you'll have a much lower monthly repayment fee.

Over the course of your loan, **your balloon payment continues to incur interest** and over the average loan term of 60 months (five years) at an average interest rate, you'd pay around R40 000 interest on the R50 000 balloon payment.

What you need to understand about a balloon payment is that at some point you will have to pay the outstanding lump sum - which means at that time, you'll need that cash on hand or trade in.

A balloon payment is a very subjective finance option. It all depends on how much you want to borrow up front and how much you can afford to repay over the course of your loan.

# 4

## DIFFERENT WAYS TO BUY A CAR IN SOUTH AFRICA

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**If you're comfortable saving towards the lump-sum payments or have fixed investments which you know will mature in time to pay the balloon amount, then this is probably a great option for you.**

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At the time that you become liable to pay your balloon payment, you'll have two options: pay the full lump-sum in cash or "roll over" the balloon payment into a new loan (at the discretion of your bank). The problem with refinancing a car is that when you're ready to get a new car, you'll still be paying for the old one. You are able to trade your car in, in order to pay off the balloon payment however, if you negotiated the loan at the maximum balloon payment value, the trade in amount will almost precisely match your outstanding balloon payment - so you won't have anything left over to use as a deposit on a new car.

If you would like to take out a loan with a balloon payment, there are several limiting factors to consider before signing the agreement.

# 4

## DIFFERENT WAYS TO BUY A CAR IN SOUTH AFRICA



### MILEAGE:

This is one of the most important factors dealers look at when determining trade-in value, so if your car has both high mileage and a balloon payment this doesn't bode well for your settling your finance dept.



### CONDITION LIMITS:

the general condition of a car also affects its value, and so you might have restrictions regarding what's considered average wear and tear. Any damage that falls outside of this predetermined average, would again incur penalty fees. Your car will be inspected at the end of the loan term and you'll need to pay for any damages that have affected the value of the car.



### INSURANCE:

You'll be required to take out comprehensive motor vehicle insurance.

Balloon payments can be a very good option for some people, depending on their individual situation.

You'll need to take a thorough look through the following pros and cons and decide whether you're able to commit to that lump-sum payment at the end of your loan term. At the end of the day, you know budget better than anyone and only you can decide if a balloon payment is the best finance option for you.

# 4

## DIFFERENT WAYS TO BUY A CAR IN SOUTH AFRICA

### PROS

- **BUYS YOU TIME**

A balloon payment buys you some time to save up for that lump-sum, while you get to drive a car that you may not have been able to afford otherwise.

- **LOWER INSTALMENT FEES**

A balloon payment allows you to pay lower instalment fees, which alleviates some of the pressure from your monthly budget.

- **LOWERS THE RISK OF REPOSSESSION**

A balloon payment usually lowers your risk of repossession. Smaller instalment fees are more manageable and you'll be at less risk of defaulting on your repayments.

- **CONVERT TO A TRADITIONAL LOAN**

You have the option to convert your balloon payment into a traditional loan at a later stage if you so wish.

### CONS

- **FINANCIAL INSECURITY**

As much as we like to hope we'll be in a better position financially in three to five years, in order to pay off the lump-sum, this is not always the case.

- **INTEREST**

Due to the interest that you pay throughout the loan term, you'll end up paying more for the car than it's worth.

- **PAY IT OUT IN CASH**

If the bank turns down your request to refinance your car after your loan term, you'll be obliged to pay the outstanding lump-sum in cash, which could force you to trade your car in before you're ready to do so.

As you can see, there are various different finance options available to help you buy a car in South Africa. You'll need to weigh up which one suits your specific needs, to ensure that you're able to afford the monthly repayment fees. The last thing anyone wants is to purchase a car that they can't actually afford. This could end with you being

**blacklisted** with the car being repossessed by the bank.

# 5

## **APPLYING FOR CAR FINANCE**

What you'll need to submit with your application form

Tips to help you get your finance application approved

What is a credit score?

Tips to help you keep your credit record clean:

# Once you've chosen how you'd like to finance your car, it's time to fill out the finance application.

## 5.1 What you'll need to submit with your application form

- A copy of your ID
- Proof of residence
- Three months' pay slips
- Three months' bank statements

## 5.2 Tips to help you get your finance application approved

Many South Africans are faced with the nightmare of trying to get finance once they've been blacklisted, or have outstanding judgements or defaults listed against their names. Bad credit can lead to steep interest rates, large down payments or, in worst case scenarios, your finance application could be declined.

As a general rule, it's a good idea to check your credit score regularly. The National Credit **Act 34** of 2005 entitles you to a free **credit report** annually. We recommend you take advantage of this service as it allows you to keep a finger on your financial pulse.

Some institutions that offer this service include:



## 5.3 What is a credit score?

Wikus Olivier from **Debt Safe** a debt counselling service, **writes** “the information retained by credit bureaus is regulated by the National Credit Act. Your credit profile is basically built from your credit history. The Act specifies how long this information may be kept on your credit profile. Payment history may be kept for two years. Adverse listings vary from 2-5 years. A judgement will typically be on your credit profile for 5 years”. He explains “all of these factors combine to make up your credit score”.

## 5.5 Tips to help you keep your credit record clean

### • CHECK YOUR CREDIT REPORT WITH A FINE TOOTHED COMB

**Discrepancies** can and do happen. Make sure that all the accounts listed under your name do in fact belong to you and that details (like your ID number) are listed correctly. If you find a mistake, try to obtain a copy of your report from at least two other agencies. Compare all three reports to determine whether the error exists on all of them. If it does, you’ll need to dispute this with the credit bureaus to clear your name. Remember to keep following up until your report is correct.

# 5

## APPLYING FOR CAR FINANCE

### ● MAKE SURE ALL DOCTORS BILLS ARE PAID IN FULL

Unpaid medical bills are the leading cause of **negative** credit records. This is because patients rely on medical aid schemes to take care of their bills and are often unaware of outstanding amounts until they receive a legal letter.

### ● DON'T OPEN LOTS OF ACCOUNTS IN CLOSE SUCCESSION

Opening several accounts in the same month could flag you as a high risk debtor.

### ● ONLY OPEN AN ACCOUNT IF YOU KNOW YOU CAN AFFORD THE REPAYMENTS

Do a budgeting exercise each month to ensure that you know what you can **afford to spend** before making any purchases on credit. Your credit repayments should never exceed 30% of your monthly income. Aim to keep your credit repayments at below 20% of your monthly income.

### ● IF YOU FIND YOURSELF IN FINANCIAL TROUBLE, ALERT YOUR CREDITORS

You're unable to predict unfortunate circumstances like retrenchments or illness, and your **creditors** are aware of this. If you do find yourself in unfortunate circumstances, contact your creditors immediately. Your creditors don't gain anything by having to blacklist you and are usually willing to negotiate new payment terms that allow you to honour your debt. Make sure that all new agreements are documented in writing, and ensure that you don't default on the new repayment plan.



- **IF YOU'VE RUN INTO FINANCIAL TROUBLE, DON'T RUN UP ANY MORE DEBT**

Make sure you pay off everything you already owe before taking out any further loans.

- **A SMALL BALANCE LOOKS BETTER THAN A ZERO BALANCE**

This might sound counterproductive, but having a small outstanding balance on an account shows potential creditors that you're able to manage your accounts responsibly.

- **DON'T OVEREXTEND YOURSELF**

Whilst a small outstanding balance on an account can be helpful, having ten different accounts all with outstanding balances can raise a red flag to financial institutions. Try to limit yourself to just one or two accounts and make sure you keep the balances as low as possible by making regular, monthly payments.

- **DON'T MAX OUT YOUR CREDIT CARD OR OVERDRAFT LIMIT**

If your credit card is constantly maxed out, you have overextended yourself.

- LATE PAYMENTS DECREASE YOUR CREDIT RATING

Pay your accounts on or before their due date. This will increase your credit rating and reflect positively on your credit history. This applies to all accounts, from retail accounts, to credit cards, personal loans, bond repayments and car finance. Every overdue payment slowly chips away at your **credit score** and will result in defaults, judgement and ultimately blacklistings.

- REVIEW YOUR ACCOUNTS CONSTANTLY

If you have any mismanaged accounts with overdue amounts on them, make sure that you re-establish regular, timely payments on these accounts. This will slowly start to build up your credit rating again.

- DON'T IGNORE LEGAL LETTERS

If you've received a legal letter from a creditor, **address it immediately**

Clearing your credit record after blacklisting can be a long, stressful process, so it's better to try and get your financial affairs in order as soon as you notice a problem.

# 6

## **CHOOSING THE RIGHT INSURANCE POLICY FOR YOUR NEW BABY**

How to compare car insurance policies

How to secure the best possible monthly insurance premium

Factors that could influence your monthly premium

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# There's nothing more exciting than that moment your dealer hands you the keys to your new baby.

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But before you edge carefully out into the traffic, take a moment to consider the financial implications of the journey you're about to take...

With a reputation for “some of the most **dangerous roads** in the world”, car insurance in South Africa is a necessary evil. When it comes to motor insurance, you want to make sure you're fully covered in an accident situation - but how do you know if your insurance policy covers everything you need it to?

Insurance is really about peace of mind, protecting the new asset that you've just acquired. However, the average person isn't necessarily familiar with the process entailed in acquiring insurance tailored specifically to meet their needs. We spoke to Denis Pascal, an insurance lecturer, and member of the Insurance Institute of South Africa **IISA** with over 40 years of experience in the industry, for some tips on how to compare car insurance policies.

How to compare car insurance

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CHOOSING THE  
RIGHT INSURANCE  
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NEW BABY

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## 6.1 How to compare car insurance policies

“Motor policies typically offer a number of cover options as well as extensions to the basic cover,” says Denis. Some examples of extensions include:



### CAR HIRE FOLLOWING AN ACCIDENT

This is extremely important if your household only has one vehicle. Getting to and from work can be a nightmare when your car is in for repairs. There are various different periods of car hire (some are seven days, others up to a month) so be aware of this as you'll be liable for the cost of any further car hire outside of this period.



### TOWING CHARGES

Towing is extremely expensive and can be risky if you're not using a reputable company to tow your car. Make sure that your policy covers towing in the case of an emergency.



### WAIVER OF EXCESS

A waiver of excess adds an additional amount to your monthly premium, however, in the event of an accident you won't be liable to pay any excess toward repairs. As a general rule, the lower your premium, the higher your excess amount will be.

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## EMERGENCY HOTEL ACCOMMODATION

Certain policies can include emergency hotel accommodation in the event of an accident away from home. This is handy if you do a lot of travelling for business, as you won't get left in the lurch, having to fork out for a place to sleep overnight.



## ROADSIDE ASSISTANCE

There's nothing worse than getting a flat on the side of the freeway, so roadside assistance is a very handy service have. Certain car manufacturers (including Suzuki) include roadside assistance under their warranty. However, if you don't receive roadside assistance through your dealership, you may want to consider adding it through your insurance policy.



## OUTSTANDING FINANCE CHARGES

As you're probably aware, your car is a depreciating asset - meaning it loses value each year. Having bought your car on finance, it can be a real problem if your car is stolen - if the actual value of the car is now less than the outstanding balance on the loan. You can include an extension so that your insurer will pay off the full amount outstanding to the bank.

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CHOOSING THE  
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In order for you to enjoy the full benefit of your cover, you need to understand these services (and whether or not they're included with your policy).

Buying car insurance can be confusing if you don't know what to look for in a policy. "You'll need to read through your policy wording carefully to ensure that you understand it. Many people, however, only do so once they're actually faced with a claim," says Denis. Quite often, a motorist will only find out that their policy doesn't include car hire or towing once it's too late - causing drivers to fork out of their own pocket to cover the balance.

"If you can afford to pay slightly higher premiums, it's in your best interest to include some of these extensions, as it's easier on your budget in the long-term" advises Denis.

## 6.2 How to secure the best possible monthly insurance premium

"The best way to know that you've chosen the right policy is to obtain several insurance quotes" Denis explains. "This way you can compare premiums, excesses and terms." While it's tempting to opt for the cheapest quote, you need to make sure the terms outlined in your policy suit your needs. "Quite often there are limitations in the wording which could negatively affect you in the event of a claim" says Denis.

The quickest way to compare quotes is to do some online research. Websites like **Hippo** are a great resource for this, as they source quotes from various insurers on your behalf.

# 6

## CHOOSING THE RIGHT INSURANCE POLICY FOR YOUR NEW BABY

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**Buying the right cover is vital. If you're not clued up on the contents of your policy, it's helpful to have an insurance specialist to guide you through the process.**

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There are two ways to buy motor insurance. You can either buy your insurance via direct insurers or it can be bought through insurance brokers.

“The commission paid by insurance companies to brokers can increase your premiums by comparison to the direct insurers who don't need to pay any commission. However, my personal preference is to appoint a good broker to look after your insurance portfolio,” Denis advises. This is because your broker's knowledge of the market, expertise and advice is extremely valuable to the ordinary man on the street, who's not familiar with insurance technicalities. “Should the unthinkable happen and you're involved in an accident, your broker will also be there to help you through what's often a traumatic process,” says Denis.

Unlike a direct insurer, your broker acts on your behalf. They're there to help answer questions about your policy, ensure that you the best possible rates (e.g. by combining your household and car insurance policies) and assist with the administration in the event of a claim.

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**CHOOSING THE  
RIGHT INSURANCE  
POLICY FOR YOUR  
NEW BABY**

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## 6.3 Factors that could influence your monthly premium

Make sure you keep the insurance premium in mind when setting a budget for your car. Denis explains, “you’ll need to insure the full value of the vehicle (plus any accessories). This will influence your premium as well as the claim payment in the event of a total loss.”

### Factors which affect your premium include:

#### ● THE VEHICLE ITSELF (THE MODEL AND ENGINE CAPACITY)

Your vehicle model and engine capacity will also affect your premiums. Cars with a larger engine are viewed as a higher insurance risk. Drivers who purchase more powerful engines are generally also more inclined to speeding and therefore are involved in more frequent accidents.

There are ways to improve your monthly premium, for example, by buying a lighter colour car. White cars are the most visible on the road at night and during bad weather, therefore this reduces the risk of an accident occurring.

#### ● YOUR RESIDENTIAL ADDRESS

The address where the vehicle is parked at night is also a factor which will affect your monthly premium. This takes into account things like the likelihood of theft or break-ins. If your car is securely parked behind a locked gate at night, you’re likely to pay less on your monthly premium.

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### ● THE USAGE OF THE VEHICLE (DOMESTIC VS. BUSINESS)

If you use your private vehicle for business during the day, you'll incur a higher premium. This is based on the number of hours on the road - the more time you spend driving, the higher the chance of an accident occurring.

### ● THE REGULAR DRIVER (AGE, DRIVING EXPERIENCE AND PREVIOUS CLAIMS HISTORY)

If you're under 25, your insurance premiums will naturally be higher than drivers who are older than 25. This is because lack of driving experience coupled with risky driving behaviour (e.g. driving faster than the speed limit) is quite common among young drivers. Experts found drivers are more likely to have an accident within their **first year** of obtaining their driver's license, than at any other time in their lives.

### ● SECURITY FEATURES

Features like anti-smash-and-grab tinting and central locking will decrease your monthly premium.

### ● ANY EXISTING NO CLAIM BONUS

If you're a seasoned driver, with existing insurance and have received a no claim bonus, this will decrease your monthly premium as you're viewed as a low-risk driver.

### ● OBTAIN A DEFENSIVE DRIVING CERTIFICATE.

This lowers your chances of being viewed as a risky driver.

Despite being somewhat of a grudge purchase, it's important to make sure your car is fully insured. Too often, drivers take a chance and don't insure their vehicle - leaving them completely stranded when an accident occurs. Don't take that chance. Rather choose a car which is well within your budget, allowing you the extra wiggle room in your budget for a decent insurance policy.

# 6

## CHOOSING THE RIGHT INSURANCE POLICY FOR YOUR NEW BABY

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# 7

## CONCLUSION

Choosing the right car for your budget and lifestyle, as important as this may be, doesn't need to be difficult. The two main factors which should influence your decision are the affordability of the car for next three to five years, and whether or not your car is fit for purpose.

Got your heart set on a Suzuki? Test drive your favourite model to experience the Suzuki Way of Life.

### BOOK A TEST DRIVE



A large, stylized number '8' in a light pink color, centered on the page. The background is a solid dark red with two large, overlapping, semi-transparent light red circles on the left side.

**ABOUT THE AUTHOR**

# Brendon Carpenter

Brand and Marketing Manager

Brendon joined the car industry in 2010 and finds the excitement of launching new models exhilarating. He enjoys learning about the creation of new models - from concept to production, marketing and sales - and watching them in action with customers; in short, as he puts it, “the entire vehicle lifecycle”. He’s passionate about everything to do with cars, bikes and 4x4s and, unsurprisingly, the Jimny is his favourite model because it will “still be SUPER cool in 30 year’s time and show the ‘bigger, tougher, more expensive’ 4x4’s how it’s done.” He an off-road fanatic and loves adventuring in the outdoors - hunting for geocaches, going scuba diving and taking his motorbike out.