EXTRAS, EXTRAS

big money *How to avoid driving 7,100 miles just to pay $3,000 in interest charges.* By Scott Taylor

It was a record-breaking spring for truck sales as buyers pulled forward their replacement cycles. They want to beat the price increases manufacturers will use to offset the cost of meeting emission limits that take effect next year. Now, as we sit here in June, the pre-buy phenomenon is starting to wane. Production slots are filling up for the balance of 2006. If you order a new truck today, chances are it will have a 2007 engine. You're looking at a more expensive rig, by as much as $7,000 to $10,000.

But there's more to the cost of a truck than the number on the sticker. You really want to focus on the total cost of ownership over the life of your trade cycle: the sum of expenses like fuel, maintenance, and especially financing over three, four, five, or more years. You may find that a new truck and finance package will save you money in the long run. Here are three steps you can take to help you make the right call.

1 COMPARE RUNNING COSTS

A 2007 model truck may cost more to buy, but it probably will cost less to operate than running your current truck for, say, a fifth year. Figure out how much less. Some of the biggest differences involve maintenance. Preventive maintenance and fuel economy will be roughly the same for both vehicles, but the older truck will need extra work between the 400,000- and 500,000-mile mark, including new drive tires and a valve adjustment.

2 DON'T PAY TOO MUCH FOR MONEY

Spec'ing the truck is the fun part. You also have to spec the money. Negotiate your price, get it in writing, and then look for the best financing terms.

You might save yourself a full point on your interest rate if you shop around and find two or more lenders who want your business. A difference of one percent on your interest rate can have a huge impact. On a $100,000 loan, the difference between nine and 10 percent is almost $3,000 over 60 months. How many miles do you have to run to earn $3,000? At 42 cents a mile after taxes and expenses, the answer is 7,100 miles.

3 UNLOAD THE EXTRAS

Some "extras" on your truck won't add to the bottom line and just aren't worth paying for. There also may be extras in your finance contract you'd be better off without, like credit life and credit disability insurance.

I don't object to this type of insurance. It can help protect your family and heirs from your loan obligation in case you die (this is the "credit life" part) or get sick or hurt (credit disability). The amount of the premium is based on the size of the loan or lease, and the lender will bundle the premiums with your monthly loan payment. Sounds convenient, but that arrangement can cost you thousands of dollars compared to what another insurer may have offered.

The dealership makes a commission on selling you the insurance. It also charges the entire premium cost of the coverage to the front end of the finance contract. This elevates the amount of interest you have to pay. It's a nice arrangement for the dealer, since he's paid based on your interest charges. But I bet you can do better if you shop around.

We recently helped a client renegotiate his credit life and disability insurance package and his new monthly payment is $126.40 less than before, a savings of $6,066.92 over a 48-month term. That's the total difference between the savings on the premium itself plus the savings on the interest charged in the financing.

We wouldn't have known about it had the client not brought his finance contract to us for a review. Ask your accountant or a trusted advisor to help you work through the details of the contract so you understand what you're signing before you commit to anything. There's no reason to rush into any truck deal, especially as truck sales begin to tail off. They'll welcome you back at the dealership with open arms and keys in hand. ▲

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