

# Tips on buying and financing a car

Find out how much your car dealer's profit is through an LTA website in order to negotiate a better price, says **LARRY HAVERKAMP**

**H**ERE are useful tips if you're thinking about buying a car.

First is the most radical: Don't.

After all, do you really need a car? Without one, you are less likely to get lost, especially when all taxi drivers know their way around the city better than you.

The government is also making a big push to get people to take public transportation, and ours is probably the best in the world. Making use of it seems sensible. Public transport reduces traffic congestion and pollution, and it's cheap. Even if you prefer taxis, it could still cost less than owning a car.

Alas, some people, like my wife, simply can't be convinced. They want a car, they need a car, and they might even love their car! So don't waste time telling them it's not a necessity; you won't win.

For these hardcore car lovers and all the wealthy people out there who like to save money, here are some tips for finding the best deal in the world's most expensive city to own a car.

## Do your research

The most important tip is: Do your research. You'll be surprised to learn it doesn't take much.

First, identify the 168 car models in Singapore.

Second, find the major cost components for each of them, like the certificate of entitlement (COE), additional registration fee (ARF), open market value (OMV) and all that.

Then, find the dealer's selling price for each of those 168 car models. Finally, take the selling price and subtract the above costs to get the dealer's profit for each car model.

Now, was that so bad? With this information, you'll know how low you can go in negotiating with the dealer.

OK. I can hear you saying: "Impossible! No one has time to do all that!"

Well, surprise. It's easy and takes very little time since the work has already been done. I'll show you how in a minute.

## Car costs: The Big Five

First, here is a primer on the five major costs of buying a car. In descending order, they are the COE, ARF, customs duty, OMV and GST.

Here is how each works:

1) The COE is the certificate of entitlement, which is based on a clever Dutch auction scheme that we use to bid for cars every two weeks. At the moment, COEs are around \$73,000 for small cars (engine size 1,600cc and below) and \$77,000 for large cars (engine size above 1,600cc).

2) The ARF is the additional registration fee, which has been changed so that it is now graduated according to the car's value. It is part of the tsunami of rule changes introduced on Feb 25 to reduce demand for cars. (See related article below.)

3) The OMV is the open market value and is the value of the car sold by the manufacturer. This represents all costs paid to get the car made and shipped to Singapore.

4) The customs duty is 20 per cent of the OMV.

5) The Goods and Services Tax (GST) is 7 per cent times the OMV + custom's duty.

## Assembling the data

So much for preliminaries. Now, on to assembling data for each of the five cost components, for each of the 168 makes and models sold in Singapore and then comparing all that information to each dealer's selling price.

The problem is it will take two lifetimes to pull it all together, and possibly longer since dealers won't tell you much.

Now - drum roll - the solution! It's the Land Transport Authority's (LTA) online site: [www.OneMotoring.com.sg](http://www.OneMotoring.com.sg)

It is probably the most useful website in Singapore for anyone looking to buy a car. The information is easy to find but once there, you have to drill down to get what you need.

You do it like this: from [OneMotoring.com](http://OneMotoring.com), go to "Information & Guidelines", then "Buy a New Vehicle", then "Car Cost", and scroll down the page to click on "Detailed breakdown of car costs".

Bingo. The information is there in a nine-page pdf file. Print it out to study at your leisure. It contains everything you could ever want to know about each dealer's car costs and selling prices.

You will see the five cost components listed individually and then summed up in a column called "Total Basic Cost" for each of the 168 car makes and models. The table shows the most recent data, from May, for 10 popular models.

Take, for example, the best-selling car model in Singapore: Toyota's Corolla Altis. The most recent data from May shows it is a 1,600cc car with a Total Basic Cost of just under \$98,000. That is the sum of the five basic cost components listed above.

The last two columns tell each dealer's average selling price with and without COE. With COE, this car sells for just under \$121,000.

Whoa. How can that be since the cost components add up to only \$98,000? Does it mean the dealer is making a gross profit of \$121,000 minus \$98,000, that is \$23,000?

Yes, that is more or less correct, although the \$23,000 also includes the dealer's overheads plus a few minor costs.

## Dealing with dealers

This super-valuable information serves as a benchmark for how far you can go in negotiating a lower price with dealers.

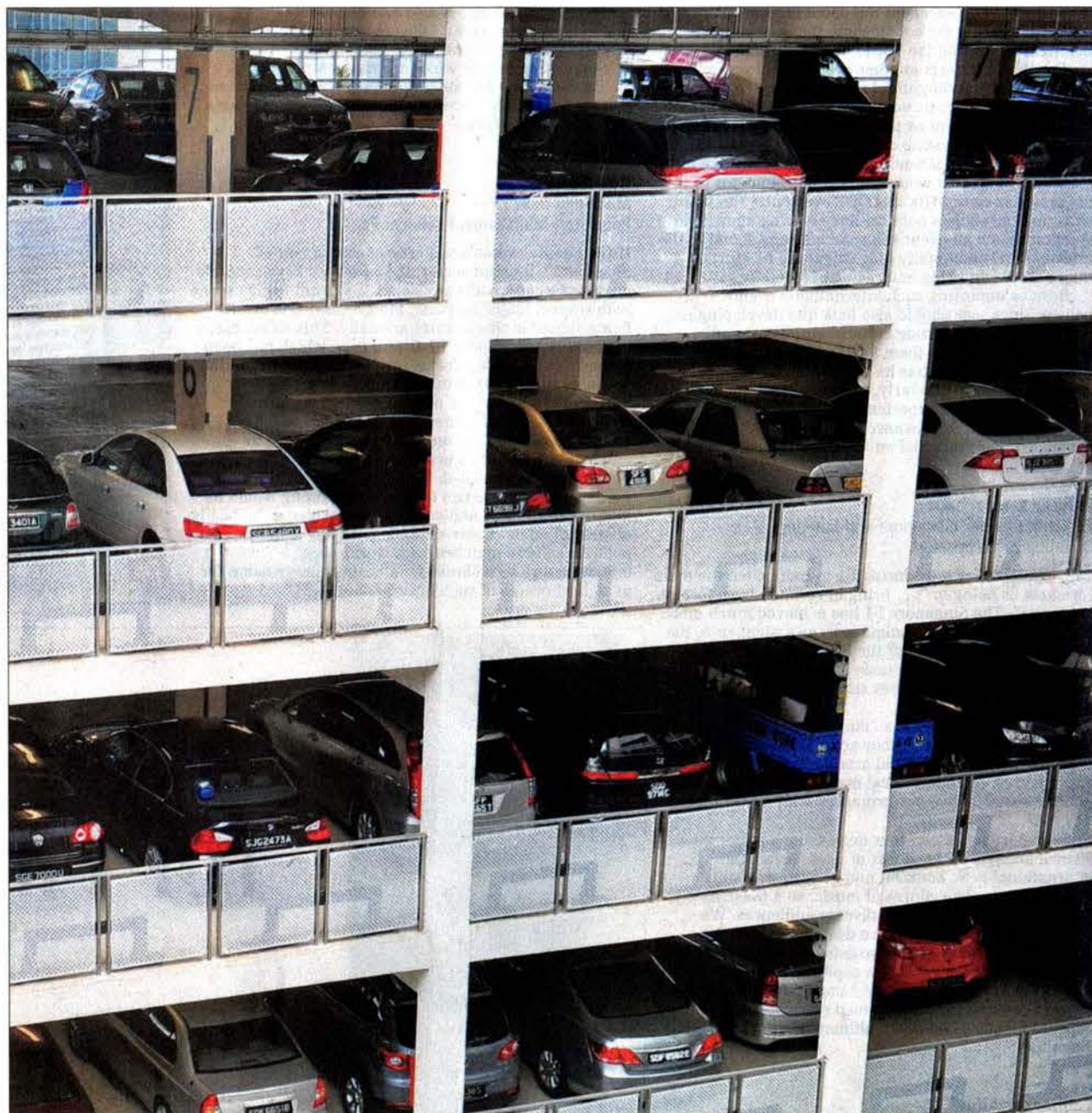
Of course, it's not nice to squeeze the dealer too much. Leave them a reasonable profit, like \$500 or so. (Okay, leave more if you're feeling generous.)

Once you buy a car, don't forget you also have to pay a few yearly costs of ownership like number plates, road tax, car insurance, maintenance and petrol.

It all adds up. For me, at least, total car costs exceed even the most expensive public transport alternative, which is daily taxi fare.

By the way, another reason not to feel guilty about squeezing the dealer's profit margin is that they get additional income from a sale.

For example, most dealers recommend where you should buy car insurance and get a car loan. Dealers benefit, sometimes with a re-



The world's most expensive city to own a car: Toyota's Corolla Altis is a 1,600cc car with a Total Basic Cost of just under \$98,000, which is the sum of the five basic cost components. With COE, this car sells for just under \$121,000. This means the dealer is making a gross profit of \$121,000 minus \$98,000, that is roughly \$23,000 - which includes the dealer's overheads and a few minor costs. ST FILE PHOTO

bate, when they bring a new customer to the insurance company or bank.

While this looks like a conflict of interest, customers may also benefit if the bank and insurer are able to offer a lower rate for bulk sales through a dealer.

It is not certain this happens, however, so shop around to see if the dealer really is steering you to the cheapest insurance and lowest loan rate in town.

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## Big bucks

### Tiered Additional Registration Fees (ARF) for cars

VEHICLE OMV	ARF RATE
First \$20,000 of OMV	100% of OMV
Next \$30,000 of OMV	140% of Incremental OMV
Remaining OMV above \$50,000	180% of Incremental OMV

### Car dealers' gross profits for 10 brands

CAR MAKE AND MODEL	AVERAGE SELLING PRICE WITH COE	BASIC COST	GROSS PROFIT
Subaru Impreza CVT 1.6	\$108,000	\$99,000	\$9,000
Suzuki Swift GLX 1.4	\$102,000	\$92,000	\$10,000
Nissan Juke CVT 1.6	\$124,000	\$113,000	\$11,000
Volkswagen Golf A7 1.4	\$141,000	\$124,000	\$17,000
Honda City I-VTEC 1.5	\$120,000	\$100,000	\$20,000
Toyota Corolla Altis 1.6	\$121,000	\$98,000	\$23,000
KIA Optima Sunroof 2.0	\$149,000	\$112,000	\$37,000
Mercedes C180 BlueEff	\$180,000	\$141,000	\$39,000
Ford Focus Titanium 1.6	\$168,000	\$101,000	\$67,000
BMW 520i 2.0	\$248,000	\$165,000	\$83,000

NOTES: (i) Figures are rounded, (ii) Gross profit may also include dealer's overhead and certain direct costs. (iii) 'Average selling price' and 'basic cost' are from different sources and may cover different time periods. Source: [onemotoring.com.sg](http://onemotoring.com.sg)

# Misleading to look at 'flat rate'

**A** KEY question is: Are banks honest with their customers? The answer is: It depends. If you call it misleading to advertise one interest rate and then charge another, then the answer is, "no".

The problem is car lenders quote the flat rate of interest which is about half of what borrowers actually pay.

What is the "flat rate"? It is what you would pay if the car loan required you to pay interest only over the term of the loan and then repay the principal on the last day.

In fact, car loans aren't structured this way and you repay the principal in instalments, which means the balance owed declines and so do the interest costs.

It makes a huge difference and results in the flat rate quoted by dealers being about

half of what you really pay, which is called the effective interest rate (EIR).

The most misleading is when bank officers discuss car loans with customers. They often talk in terms of the flat rate but never mention EIR.

In written ads, both the flat rate and EIR are shown - which is an improvement - but it's also confusing to see two interest rates.

Some might think they are paying the lower rate since the higher rate is usually in a smaller font or a footnote.

Others might average the two interest rates and think that is close to what they pay.

There is no rule requiring banks to tell their customers that the flat rate is irrelevant, and the effective interest rate - which is about twice as much - is what they really pay.

For example, if a bank quotes a car loan

rate of 2.8 per cent, the borrower is really paying an EIR of around 5 per cent. The EIR is always slightly less than double the flat rate. (The exact amount depends of the lending rate and term of the loan.)

Flat rates apply to more than car loans. Banks have also made them the industry standard for personal term loans, so watch out for those too.

Strangely, banks quote flat rates only for those two types of loans. Others - like all-important home loans - do it correctly and only quote the EIR.

## Four rule changes

In an effort to move people from cars to public transportation, there have been four important rule changes.

Two of them, which took effect from Feb

25 this year, have made car financing more difficult.

The first is the requirement that you must repay your car loan in five years instead of the old standard of seven or 10.

The second is the new loan-to-value ratio which requires that you borrow no more than 60 per cent of the car's total price for less expensive cars (OMV of \$20,000 or less) and 50 per cent for more expensive cars (OMV over \$20,000). Previously, buyers could borrow up to 100 per cent.

Third are the COEs, which have risen since July 2012 when the small car COE quota was reduced by 37 per cent. These have made COEs more expensive and reduced car demand.

Small and large-car COE's topped out at around \$90,000 and \$95,000 earlier this year, but fell again after the Feb 25 rules. They have most recently traded around \$73,000 and \$77,000 for small and large cars.

While down from their peak, COEs are still high by historic standards and the good old days of \$20,000 and \$30,000 COEs are probably gone forever.

Fourth, also dampening demand for large cars is a new graduated ARF, which raises the price for more expensive cars.

Will these be enough to make people switch from cars to public transportation?

Time will tell but reducing road congestion is a worthy goal and, as explained, it need not be an inconvenience since we have efficient taxis, buses and best of all, the MRT.

Singapore is a world leader in trusting markets to efficiently allocate scarce resources.

In this case, it means those who cannot live without a car, don't have to. They have three choices: pay more, finance more from personal savings or downgrade to a smaller and less expensive model. All are do-able.

There are also creative solutions like buying a weekend car or buying a car jointly with a friend or relative, but how well that works depends on personal circumstances.



**What you see, not what you get:** There is no rule requiring banks to tell their customers that the flat rate is irrelevant, and the effective interest rate - which is about twice as much - is what they really pay. ST FILE PHOTO