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THE MECHANICS OF AUTO FINANCE

What to Do Before You Buy

Low interest rates and seasonal rebate offers have made affording a car even easier than before. However, it's important to remember that not unlike other big-ticket purchases, buying a car takes careful preparation from start to finish. This includes becoming comfortable and familiar with everything from your credit history to your financing options.

“By doing your homework, you can walk in with the knowledge and confidence it takes to get a great deal,” said Charlie Vogelheim, Executive Editor of Kelley Blue Book.

Here are some tips from Capital One to help your hard-earned dollars put you behind the wheel of your dream car.

1. Check your credit's rearview mirror

- If you intend to finance your car, it's important to ensure your credit report is in good shape. Many creditors will use your credit report as a way to begin determining your creditworthiness, as it contains a comprehensive report of your payment history, amount of outstanding debt and the length of your credit history. You can order your report from one of the three credit reporting bureaus (www.equifax.com, www.transunion.com and www.experian.com).
- Carefully review your report for items that may stand in your way of getting a car loan:
 - Identify open lines of credit that can be closed
 - Ensure all lines of credit are in good standing
 - Ensure the report contains no errors or signs of ID theft

2. Determine your needs

- Identify what automobiles best suit your needs and budget
 - Consider the cost of different makes and models, as well as options such as air conditioning, automatic transmission or a sun roof
 - Determine if a new or used vehicle makes most sense for you, as each has its advantages. With new cars, there is the allure of the pristine, there are fewer surprises and interest rates are typically lower; with used cars, much of the depreciation has already occurred, manufacturers offer certification programs and there's a huge inventory available to choose from

3. Get educated online

- Use online sources such as Kelley Blue Book (www.kbb.com) to compare new and used models, evaluate best values and research the value of your current automobile if you plan to trade it in

4. Create a realistic budget

- Outline the complete cost of owning the car, from purchase and registration to fill-ups at the gas station. *Note to editors: For your convenience, a list of car-related expenses is available upon request.*
- After assessing your household budget and the associated costs of owning the car, set a realistic price range for the vehicle purchase (experts suggest that monthly car payment should not exceed 20 percent of your monthly net income)

5. Map out what you can afford

- Take the time to sit down and detail your monthly expenses; be sure to include everything from basic living expenses and loans to entertainment and shopping expenses
 - Use a spreadsheet and save receipts to track expenses accurately
- Identify how much money within your current budget you can dedicate to car-related expenses
- If your budget is falling short, identify expenses you can reduce or cut out entirely. Many people find that a few small changes can add up to big savings

6. The two avenues of auto financing...which one do you take?

- When it comes to buying a car, you come to a fork in the road: you can finance at the dealer or you can pay cash.
 1. Get financing at the dealer. Financing can be conveniently arranged through the dealership's financing department based, among others, on the consumer's credit history, the negotiated price of the car and related expenses (sales tax, title and licensing fees). Your dealer will likely shop your application around to several qualified creditors; Capital One Auto Finance is one financing source your dealer may work with. Remember, you may be able to negotiate certain terms of the transaction, including price and interest rate, with the dealer.
 2. Pay cash. Paying cash for a new car makes the transaction very simple – after you negotiate the price of the car, it's as simple as writing the dealer a check for the amount. Don't have the cash in your savings account to cover the cost of a new car? You can still purchase a car with the power of a cash buyer by securing a loan through a bank, credit union or online auto lender prior to visiting the dealership.

- Banks and credit unions offer low-interest car loans, but you generally will have to provide details about the specific automobile you intend to purchase, including make, model and style number
- Online lenders have helped open the door for consumers who wish to go to the dealer ready to buy with loan in hand. With online lenders, such as Capital One Auto Finance, consumers can apply for a car loan from the comfort of their own home. The automated application process takes approximately 15 minutes. (Capital One Auto Finance customers receive an exclusive Blank Check[®] to take to the dealer and use like a personal check for the purchase of almost any automobile.)
- Another important factor in your financing is how quickly you intend to pay off your new car. You can generally finance an automobile for three to five years – 36 to 60 monthly payments. The longer your finance term, the lower the monthly payments will be. However, you'll end up paying more in total because you are paying the interest over a longer period of time than you would with the same interest rate over a shorter term.

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