MY CAR – A REASON I AM BROKE

If you're constantly broke and can't figure out why, the answer may be sitting in your driveway.

Americans are spending more on their vehicles than ever before -- more than $8,000 a year on average -- and it's driving some to the breaking point. "They may be spending 15% to 20% of their (take-home) pay on just the car payment," said Thompson, who supervises credit counseling for the nonprofit Family Foundations, "and that doesn't include insurance, gas, maintenance and all the other costs of owning a vehicle."

And sometimes there's more than one whopping payment. Sandra McGeary, a counselor at Consumer Credit Counseling Services of Western Pennsylvania, says she regularly sees middle-class families struggling with two payments in the $400 to $500 range. The burdens are so big that it doesn't take a major disaster, like a job loss, to send them over the edge.

With most other areas of the budget, you can find ways to trim. You can eat out less and shop more carefully to reduce your food bill. You can lower utility bills by adjusting the thermostat. You can cut your entertainment budget by canceling your cable service and borrowing movies from a library. You can even reduce your shelter costs by taking in a roommate or moving to cheaper digs.

Once you've committed to a car payment, though, your options are few, particularly if your loan is greater than the car's value. Whether you drive it or not, you've got to make the payments, and you've got to insure it.

More than 80% of car loans are for terms longer than four years (which, a couple of decades ago was considered a long loan). The average loan term has grown from just under four years and seven months over five years and four months.

One out of four -- 25.6% -- of cars that are financed include debt rolled over from a previous vehicle. Rolling debt from one car to another is, in case you didn't know, a terrible idea. You'll pay higher interest rates because so much of what you owe isn't secured by the car itself.

And being "upside down" can really leave you up a creek if the car is totaled or stolen. You can protect yourself somewhat with so-called gap insurance, which covers the difference between what you owe and what you get from your insurer, but that's another hit on your wallet.

So why are so many people messing up so badly on such a basic purchase? There are plenty of reasons, including:

- Viewing cars as a need rather than a want. Transportation is, indeed, a real need. We have to get to the grocery store and to work. But many of us have plenty of options, from our own feet to public transportation to car pools to shared car arrangements.

- Owning a car does get pretty close to a need in rural areas without public transport or when your job doesn't allow for car-pooling. But you never "need" a new car. That's a luxury, not a need. There are plenty of safe, reliable, gently used cars on the market.

- Treating cars as a status symbol. You can't watch television for long without being bombarded by car commercials, and many of us have absorbed the idea that we are what we drive. It's complete BS, of course, but some people have been so brainwashed that they literally drive themselves into bankruptcy.

- Failing to consider the overall costs. When buying or leasing a car, many people consider nothing more than the monthly payment. They're not seeing the whole picture -- far from it.
Once you factor in insurance, gas, maintenance, repairs, taxes, depreciation and other costs, most cars will set you back at least twice the initial purchase price over five years. (Depreciation, by the way, is just a fancy word for the steady, day-by-day drop in the value of your car. You don't pay for it as it happens, but you do pay eventually, when you go to trade in your car for another.)

In fact, the typical passenger vehicle costs over $9,000 a year assuming 15,000 miles driven annually. The estimate is based on fuel prices and finance charges, based on a five-year loan. Your costs may well be higher; for example, bad credit can send your finance costs soaring.

Assuming they can afford a payment simply because a lender approved it. Thirty years ago, there was some truth in the idea that a lender wouldn't let you get in over your head. No longer. Not only are lending standards much looser, but many auto finance companies make loans knowing that a substantial portion of their borrowers will miss payments or default altogether. Lenders count on high interest rates to cover their risks. In short, they don't really care if you can afford the payment or not -- they're gambling on making enough from the loan that they'll profit either way.

What are my options?

- I may be able to sell the car if I have some equity in it or can come up with extra cash to pay off the loan -- or if I can persuade the lender to let me pay off the remaining debt over time.
I may be able to refinance if I bought the car new, made payments for a few years and have a lender who is willing to extend my loan term. For used cars, I'll need to have some equity in order to be able to refinance.

- I can let the lender repossess the car. This option should be avoided if at all possible because repossession, voluntary or otherwise, trashes my credit and usually leaves me with substantial debt besides. I'll still owe the difference between my loan balance and whatever the car brings at auction, plus substantial repossession and auction fees.

- I can drive out of the loan. This is usually the best solution for a too-expensive, upside-down car. Trim other areas of my budget so I can make the payments and keep driving the car until it's paid off, and then keep driving it until I've saved up enough to buy another car or at least make a substantial down payment.

- I also can try to reduce my transportation costs by driving less, raising my insurance deductibles and maintaining my car properly to avoid big repair bills.

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