



CAR BUYING STRATEGIES

WELCOME AND INTRODUCTION

Almost every service member will purchase a new or used car while on active duty. They will spend more of their disposable income on automobiles than on virtually anything else except food and shelter. Many will be “driven” into debt by needless car costs and repairs.

This course is designed to help you save money and hassles on your next car purchase by focusing on the “Three Deals of Car Buying” – the Purchase, the Financing and the Trade-In. It will also take a look at legal rights you have when buying or selling a car.

DEAL #1: THE PURCHASE

Many people begin the car buying process by visiting a dealership—which should be one of the last things they do. Unfortunately, the process often ends the same day with the purchase of an inappropriate car at too high a price. Dealers will ask about financing and trade-ins before offering a bottom-line price so that they can mentally calculate their profits to the buyer’s disadvantage. You can save yourself hundreds, if not thousands of dollars, on your next purchase by doing some homework **before** you step on the lot so that you are always in control of the buying process.

There are five things you need to determine **before** stepping on the lot in order to make a successful purchase. They are:

1. How much you can afford,
2. The type of vehicle you want to buy,
3. Where you will buy the vehicle,
4. A fair and affordable price for the vehicle, and
5. If you should lease.

At the dealership you need to know:

- What questions to ask,
- How to negotiate, and
- The “Tricks of the Trade.”

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Three Deals
of Car Buying

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How Much Can You Afford?

Rather than selecting the car and then figuring out how you can pay for it, the clever consumer saves considerably by determining what they can reasonably pay and then selecting a car and options in that range. You need to know all three of the following key amounts to determine what you can reasonably pay:

- How much you can spend in total on the vehicle. Reason: If you only figure out how much you can afford to pay each month and not the total amount you want to spend on the vehicle, you will probably get the monthly payment you want, but risk paying too much for the vehicle overall.
- How much you can put down on the vehicle. Reason: The more you put down, the less you have to finance and the lower your monthly payment.
- How much you can spend per month on a payment. Reason: If you only figure how much you want to pay in total, you risk ending up with a monthly payment that you can't afford. Never "buy payments."

Preparing a Spending Plan: These key amounts can be found in your budget or spending plan. If you already use a budget at home, review it and determine these three amounts. If you don't already have a spending plan, now is a great time to start. The benefits of having one stretch way beyond this car purchase and can impact your entire financial future—so do it!

Debt-to-Income Ratio: You will also want to know how much of your money currently goes to pay monthly debt payments so you don't over-extend yourself if you add a car payment. To find this out, compute your debt-to-income ratio. The debt-to-income ratio is a figure used to determine if a person is carrying a total debt load that is manageable, one that might lead to financial difficulties, or one that indicates a person is in immediate need of debt reduction and significant adjustments in their financial lifestyle. Use it as a guide, not an absolute measure of your ability to take on more debt.

Use the scale at the bottom of the page to determine if you have "room" in your budget to take on more debt. If your debt-to-income ratio is 20% or higher, you may want to hold off on taking on more debt.

Be sure to check your credit report as you work on your spending plan and debt-to-income ratio. A dealership will most likely pull your report, so if you look at it first, there won't be any surprises. Information on how to get your free annual credit report is included in the "Sources of Help" handout.

Determine Car Payments

If you need some help to determine how much a payment would be for a specific loan amount, you can use the handout, "Determining Car Payments". The websites referred to on your "Sources of Help" handout also offer calculators to assist you in this area.

What is a reasonable monthly car payment? Financial advisors usually suggest keeping total car expenses to within 25% of your net income (what remains after taxes). It is important for potential buyers to understand that total car expenses include paying for the car as well as maintenance, insurance, operating expenses (fuel, oil, etc.), and taxes. As a general guide you can use 15% of net income for the car payment and 10% of net income for the other expenses.

What Type of Car do you Want?

The vehicle you purchase must strike the right balance between wants and needs, and affordability. Everyone has different preferences in their vehicle. There are many factors to consider when deciding what to get.

- Size.
- Manual or Automatic Transmission.
- 2-, 4-, or all-wheel drive.
- Use (on or off-road, length of commute, parking conditions).
- Style.
- Safety.
- Ownership and Operating Costs.

New or Used – Once you have made some choices as far as the type and style of the car you need, you have another choice that can significantly impact the price of the car – should you get a new car or a used car? Each one has positive as well as negative aspects; there are no absolute answers to the question of a new versus used car. Each buyer must consider his or her needs and resources when making the choice.

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Determining
Car Payments

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New Car Considerations:

- Cost – almost always more than a used car.
- Mechanical problems – likely to have fewer than a used car.
- Depreciation – the value of a new car diminishes rapidly following the purchase, anywhere from 10% to 40% the first year. To get the full value of a new car, many consumers plan on owning it for several years (four, five, or more).
- Warranties – about half of automakers offers a standard three years/36,000 mile warranty, and the other half offers four years/50,000. There are even a few automakers offering five year/60-100,000 mile coverage. Extended warranties can be purchased at extra cost.

Used Car Considerations:

- Cost – generally less than a new car.
- Mechanical problems – likely to have more than a new car. Repair costs can add significant amounts to the cost of owning and operating a car. Are you mechanically inclined and able to make your own repairs? Do you have an auto mechanic you know and trust? Have you considered using base auto hobby shops?
- Depreciation – usually less than a new car because much of it may have already occurred.
- Warranties – may or may not have any remaining. Service contracts will add significantly to the cost of the car.

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Performance – Too many consumers choose their car by the image it portrays. Choose the best performing car for the price you can afford. Consumer Reports rates the reliability, safety, performance, and fuel economy of cars and is relatively unbiased since it accepts no advertising. You can also consult Consumers Union publications and the Insurance Institute for Highway Safety.

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Insurance – Once you've narrowed your choices to a few models, compare quotes on insurance cost. Sometimes two similar vehicles can have very different insurance costs and that cost difference will help you make a final decision on a model. Moreover, knowing the cost ahead of time enables you to figure this significant expense into the budget. For many junior sailors, the insurance payment can be as much

or more than the car payment! Tips for Cutting your Car Insurance costs include:

- Get at least three rate quotes.
- The higher the deductible, the lower the premium (but make sure you have savings to cover the deductible if you need to).
- Drop collision and comprehensive on older cars (add up the collision and comprehensive premiums and multiply by ten. If the amount is more than the car is worth, cancel the insurance.) The typical insurance policyholder makes a claim once every 11 years and reports a total loss only once every 50 years.
- Check your credit report ... most insurers will!
- Ask for discounts: low mileage, group, military, etc.
- Avoid lapses in coverage.
- Be a safe driver. A poor driving record can increase premiums.
- Pay the premium up front, if possible, as there may be a fee associated with an installment plan.
- If leasing, read the lease to see if Gap Insurance is required. If so, shop around for the best deal. If gap insurance is required, you usually have to have collision and comprehensive coverage as well.

Where will you buy?

Car buyers should research a minimum of three potential sellers. There are no absolute guidelines to follow in selecting a dealer, a salesperson, or an individual from whom to buy a car. Do your homework and you should get a good deal no matter from whom you buy. If you're looking for a new car, though, you'll have to go to a dealer eventually, because that is where new cars are found. Here are some guidelines to use when choosing a dealership.

Years in business – Although being in business for a long time does not necessarily mean that the dealer is straightforward, the worst of the dealers (in terms of how buyers are treated) seem to go out of business fairly quickly. This is just one factor of many to consider.

Complaints – Check with the Armed Forces Disciplinary Control Board, Office of Consumer Affairs of the Attorney General, the Better Business Bureau, and any professional associations to which the dealer belongs for any complaints filed against them.

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Salespersons and mechanics – How long have they been with the company? Again, not a foolproof factor, but anything that suggests company stability is frequently a good sign. Take your salesperson for a “test drive” – is he or she pushy? Relaxed? Open? Impatient? Responsive? Make sure the salesperson is someone you can work well with.

References – These are sometimes used to impress the buyer, but unless you can get a complete list of everyone who has ever bought a car from them, assume they are giving you the names of persons who will only say positive things. In other words, skip checking their references.

Professional membership – Membership in the Better Business Bureau, National Automobile Dealers Association, or National Independent Automobile Dealers Association doesn’t automatically mean a good deal for you. It does, however, give you some reassurance that there are avenues for you to address concerns if they occur.

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Dealers vs. private sellers – Frequently, car buyers can save money by purchasing from a private seller. The downside is that there is little or no consumer protection after the sale and no repair plan. If the car purchaser is truly knowledgeable about cars or can bring someone along who has that knowledge, this may be an excellent source to consider.

Internet – Many people are conducting successful searches for new vehicles over the Internet. At a minimum, there is a wealth of research materials available to help you make wise consumer choices. Online car buying services include:

1. Direct Services – They will sell you the car and deliver it to your house.
2. Referral – Your quote is given to a “preferred” dealer who contacts you.
3. Auctions – You name your price and dealers bid for your business.
4. Online Dealerships – You browse cyberspace car lots and buy online.

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More Buying Options: Some organizations offer their members buying services, in which the consumer indicates the make, model, year, and exact options they want and the organization does the shopping for them. They will present the buyer with several dealers offering the car and the price the dealer offers. The buyer has the option of following up on that offer (which might even be guaranteed) or declining.

Usually this service is offered at no cost to the buyer. Some of these include USAA, NCOA, and Auto-by-Tel. The same type of service can be found on the Internet at various websites specializing in car-buying information and pricing.

What is a fair price?

Auto dealers and private individuals have a right to make a reasonable profit on the sale of a car. What constitutes a reasonable profit? To know this, you must know what is a fair price.

Where to Find Pricing Information: All of the components of pricing at Dealer invoice and Manufacturer's Suggested Retail Price (MSRP) are available through a variety of resources. Price your vehicle at Dealer invoice, subtract any dealer holdbacks or incentives, add 3-5% dealer profit, and start your offer here. When working with a dealer who provides you with pricing information, make sure you know the source—it could be biased. Your best bet will be to do price research on your own from sources you know are reliable. Check out Internet sites, especially www.edmunds.com and www.nada.com. These sites will price a new or used car, and also have information on buying and selling, financing and insurance. Additional resources include:

- Public libraries – One of the very best sources of information on car pricing, where many of the below items can be found.
- Kelley Bluebook and NADA Pocket Guides – List suggested retail and loan values for specific makes and models of used cars. These are guidelines, not law. Factors such as mileage, options, and physical condition of the car affect its value. These guides offer great starting figures. They can be found on the Internet at www.kbb.com and www.nada.com.
- IntelliChoice Car Cost Guides – Besides the dealer cost and sticker prices, lists items such as resale value, economic value, maintenance costs, etc.
- Consumer Reports/Consumers Union Price Service – Each April issue is devoted to cars and pricing, and they offer a low-cost service to provide the dealer cost for particular makes, models, and options.
- Edmund's Car Prices Buyer's Guide – Available in hard copy as well as at their Internet site. Similar to the IntelliChoice guide.
- Internet Websites are listed on the "Sources of Help" handout.

Fair Pricing Terminology

- *Invoice Price:* What the manufacturer charges the dealer. (Dealer's cost may actually be less due to rebates and incentives, etc.)
- *Base Price:* Cost of the car with the standard equipment and basic warranty.
- *Destination Charge:* What the manufacturer charges to deliver the vehicle to the dealer.
- *MSRP – Manufacturers Suggested Retail Price:* The recommended retail price as suggested by the dealer and posted on the vehicle. The dealer can sell a car for whatever they choose.
- *Monroney Sticker Price:* Price listed on the sticker on the car. Includes base price, installed options, destination charges and fuel economy information.
- *Dealer Sticker Price:* Monroney sticker price plus suggested retail price (MSRP) of any options installed by the dealer.

What about leasing?

If you are thinking about leasing instead of buying, you need to understand the differences in the contracts and some of the issues that are unique to people who live the military lifestyle. There are often mileage restrictions, charges for excessive wear and tear, and limits on where you can take a leased vehicle. The next section talks about negotiating skills and legal rights, and these concepts apply to leasing as well as buying. Refer to the handout for specific differences between leasing and buying.

Negotiating Skills

Salespeople are trained in the art of selling. In the majority of instances, their pay includes a commission based on the sale price of the vehicle, so they have a vested interest in getting as high a price as possible for the car. When you walk into a car dealership the salesperson views you as a profit package: you might buy a new car, you might buy high-profit extras in the finance and insurance office, you might finance the car through the dealership, you might trade in a used car they can resell, you might have your new car serviced at the dealership, and you will hopefully become a return customer the next time you are buying a new car. You present quite an opportunity to the dealership and this can work in your favor when negotiating.

While the salesperson wants to start high, your goal is to get as much car as you can for as little as you can. There are a lot of stories about sleazy salesmen and tactics—don't let them determine your behavior. Treat the sales force and anyone else at the dealership with the dignity you would expect for yourself—but learn how to negotiate and do it effectively. Remember, everything is negotiable! Here are some negotiating tips to help you hone your skills:

- Information – The salesperson's goal is to get as much information about you as possible. With your name, military status, and particularly your social security number, a car dealer can determine what you might pay for a car and, at the least, institute a credit history check (even without your knowledge or permission!). You need only give them your first name.
- Trade – Don't forget there are three elements to the car deal: the purchase price, the financing, and the trade-in. The dealer will try to combine them and you need to keep them apart. Practice saying the phrase, "That's not important right now."
- Money Down/Deposit – Don't advertise how you will pay for the car. Again, use the phrase "That's not important right now." If they ask for a deposit, do not pay it (unless you are absolutely certain you will buy the car). Research clearly shows that people who have put down a deposit are much more likely to buy the item, even if they prefer something else! You will have to return even if you change your mind and may have trouble getting your money back. If the car you were looking at actually is sold, they will find another for you to purchase, so don't feel pressured.
- Discounts – If the salesperson offers a discount, ask if it will apply a week from now (in many cases, it will). If they don't bring up the subject, ask for one. Even the "one price/no haggle" dealers might discount options, etc. You never know unless you ask.
- Like the Car – One of the goals of the salesperson is to get you to say you "like the car." The sooner they can establish an emotional connection between you and the car, the more likely you are to buy it. Stay detached!
- Shop Twins – Some models have identical twins on other car lots with different nameplates on them. If a car you are interested in is one of them (for example, the Chevrolet Suburban, GMC Yukon XL and Cadillac Escalade ESV are twins – triplets, really; the Dodge Dakota and Mitsubishi Raider are twins, also) be sure to consider its twin and choose the one for which you can get the best deal.

- **Paying by Cash** – Stating up front that you intend to pay by cash could work against you. The dealership and the salesman make more money when they find the financing for you and lose this profit if you pay cash. If you tell the salesman that you will use 100% financing, they may give you a better deal on the sale because they plan to make up the profit on the back end of the deal. This gives them more of an incentive to offer a discount. The best route, however, is to refuse to address financing at all until you have negotiated a fair price.
- **Options** – Dealer-installed options are frequently available at other sources and much cheaper than buying through the dealer. Often, they are unnecessary (like rust proofing), cheaper if done yourself (like fabric and paint protectant) and sometimes can even void your warranty (like undercoating). If there are options already on a car that you don't need, tell them to remove the options. Many times, they will just leave them on and not charge you.
- **Road Test** – This is one of the most overlooked steps in buying a car (particularly a used car). When you road test a car, really test it! Drive it as closely as you can to your actual driving conditions: stop and go traffic, long trips, highway acceleration, rough roads, etc. Turn the radio off and listen carefully. Try every knob and switch. Leave the salesperson behind if possible; if not, ask them to be quiet and even sit in the back seat. If you are considering buying a used car, be sure to have a trusted, independent mechanic check it out before you make the purchase.
- **Extended Warranty** – Extended warranties or service contracts are more dealer profit than value to the purchaser. They are meant to take over when the manufacturer's warranty runs out. New cars have excellent reliability, often making an extended warranty completely unnecessary. If you do decide to purchase an extended warranty, shop around. You can usually buy something very similar from an insurance company for much less.
- **Best Time to Buy** – There is absolutely no consensus among experts as to when is the best time to buy. Therefore, buy only when you need a new vehicle and have done all of your homework.
- **Take Your Time** – Never buy the first thing you see. Sleep on such a major decision overnight. There will always be others to choose from if "your car" is sold.
- **180-Degree Turn** – If you don't like what you hear, don't be shy about turning around and leaving. Remember, it's your money and

your decision.

Tricks of the Trade

Most salespeople are reasonable, honest individuals. Some, however, are not above trying some techniques designed to pressure you into making a commitment you may not be ready to make. Beware and be aware of these tactics. Should you encounter them, you might choose to tell the salesperson you are aware of their tactics and prefer they not try them, to ask to see a different salesperson, or to simply leave. The handout, “Car Sales Tricks of the Trade” lists several tactics you should be familiar with.

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Car Sales Tricks
of the Trade

DEAL #2: THE FINANCING

Remember to negotiate three separate deals: The purchase price of the new car, the financing, and the deal on the trade-in. As mentioned earlier, this alone will save you hundreds, if not thousands of dollars. Things to consider in the financing deal include:

1. Where to finance.
2. The cost of money – finance charges.
3. Contracts.
4. Common financing pitfalls.

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Where to Finance

Credit Unions – A good place to look because of their non-profit status and competitive terms. By law, the federal credit unions can only calculate interest using the “simple” method. Also, your credit union may have an in-house buying service available. You must be a member and have fairly good credit.

Banks – Like credit unions, only for-profit institutions. Usually next best option and still require good credit.

Auto dealerships – Usually do not have the amount of cash on hand needed to finance a purchase, so customarily have a relationship with a finance company for this purpose. Consumers who agree to finance a car “through the dealer” frequently find themselves making payments to a finance company, not the dealer. By choosing to use one finance company over another, dealers are frequently paid a percentage of the loan as a commission. This

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is passed directly on to you, the purchaser, along with the normal cost of financing the loan.

There are some benefits to financing with the dealer, however. It can be extremely convenient (one-stop shopping), and since the dealer probably has multiple finance relationships they may be able to get an especially good deal. Ideally you should arrange your financing ahead of time and get pre-approved for a loan at your credit union or bank. But in the interest of shopping around, it doesn't hurt to see what the dealer has to offer.

Finance Companies – Vary widely in interest rates and often cater to credit risks by charging very high rates. Some are affiliated with a particular manufacturer and can have special rates as incentives for certain models.

Internet – Many Internet sites that deal with car buying also deal in financing or have links to financing alternatives.

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Questions to
Ask Car Dealers

Questions to Ask Car Dealers: Ask dealers about any special dealer promotions and low-interest dealer financing. There are often hidden costs and unstated expenses. The handout “Questions to Ask Car Dealers” provides valuable questions for you to ask so you will get all the information needed to make a decision on how to finance your purchase.

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The Cost of Money: Finance Charges

So that you can talk knowledgeably about your financing terms, let's discuss the different types of interest. Interest is expressed as an Annual Percentage Rate (APR) but is computed in several different ways.

Add-on interest – Interest for the total amount of the loan is computed for the length of the loan and added to the principal. This is an expensive option, since you pay interest on the entire loaned amount for the entire year, even though you are reducing the balance you owe each month. For example, financing \$1000 for one year at 12% add-on interest would result in a finance charge of \$120.00.

Simple interest – Paid on the outstanding balance only and by far the most reasonable to the consumer. Credit Unions are required by federal law to charge simple interest only. For example, financing \$1000 for one year at 12% simple interest would result in a finance charge of \$66.19.

Usury laws – State usury laws limit the amount of interest that can be charged on a loan. Know what the limits are in your state and read contracts thoroughly before signing. The Federal Truth-In-Lending law requires that the Annual Percentage Rate (APR) be disclosed in the financing documents. Read the fine print and have contracts checked by an attorney **before** signing.

The Purchase Contract

Dealers can make a profit from the sale of the car as well as from extra fees, options, and services they add to the contract. Carefully considering which options or services you need ahead of time will help avoid unnecessary expense. If you are not prepared, the first you will hear of some of the extra profit-makers will be when negotiating the contract.

The American Bar Association suggests that the terms of any automobile contract should:

- Describe the car and include the vehicle identification number (VIN). You can find it on the driver's side of the dashboard near the windshield.
- State whether the car is new, used, or has had a previous life as a demonstrator, rental car or taxicab.
- Include price terms consistent with your oral agreement, and details on any trade-in you will supply, including mileage and the dollar amount credited.
- State the warranty terms.
- State financing terms, including price, deposit, trade-in allowance, annual percentage rate of interest (APR), and length of term (www.abanet.org).

Here are some other things to look for when reviewing a contract:

- Read the fine print – Someone once said, “the big print giveth, and the small print taketh away!” Read every word on the contract, front and back, and be sure you understand what it says. Get help if you need it.
- Federal Truth-In-Lending Disclosures – Federal law requires these boxes to have a certain appearance and to include the annual percentage rate, total finance charge, total amount financed, total of payments, and the sales price disclosed.

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Installment
Sales Contract

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- Physical damage insurance – This is required, but can almost always be obtained elsewhere more cheaply. The property liability insurance offered by some dealers is only for their protection, not yours; in the event the car is totaled, it will compensate them for their loss and do nothing for you.
- Mechanical repair coverage – If you purchase an extended warranty or service contract, be sure you understand the term or mileage coverage (whichever occurs first and the deductible you are responsible for paying) as well as what is covered or excluded. Remember that often these are pure profit for the dealer and overpriced. To receive the covered repairs, you may be required to bring the car to the same dealership; this is not only inconvenient if you have moved far away, but can also lead to markups in repair costs so that your cost share is much higher than anticipated.
- Car protection packages – Examine these aftermarket items and make sure that, if you really need it, it cannot be obtained more cheaply elsewhere (they usually can).
- Credit life/disability insurance – If you are covered by other life or disability insurance, is credit, life, or disability really necessary? Often it is very high priced for the amount of coverage involved and protects the dealer or finance company. If you are so disabled you cannot work, are you likely to need a car?
- Taxes, license, registration, title, and processing fees – Try to pay as many of these up front as possible, to avoid having to pay interest on them if they are included in the financing. Be sure they are itemized so that you know which fees are truly the government fees and which are processing fees (pure profit for the dealer). Charges in this category may include:
 - Sales and Use Taxes.
 - Title fee.
 - Registration fee.
 - Property Taxes.

Be on the lookout for “Junk Fees”, like D&H, (Delivery and Handling). Although most fees are not negotiable, duplicate fees added by the dealer, such as D&H when you are already paying a Destination Fee, can be negotiable.

- Power of the pen – If you don't understand or approve of something in the contract, line it out and initial it and have the salesperson initial it. This legally removes the item. Better yet, demand a new contract with the offending items removed.
- Don't leave any blanks – Everything should be filled in and items left off should read "\$0.00," "N/A," be lined out, or otherwise denoted. Something simply left blank could be filled in later to your detriment.
- Take to Legal before signing – If you aren't 100% sure of every word in the contract, bring it to Navy Legal Services for an explanation **before you sign**. Again, if the dealer refuses to let you take it with you before signing, walk away – this is a sure sign something is wrong.

Common Dealership Financing Pitfalls

If you are going to sit in the "F&I" (Finance and Insurance) room, the editors of Edmunds.com suggest you watch out for these common pitfalls:

PITFALL #1: Many consumers don't know what their credit rating is when they apply for an auto loan. The strength of their credit score largely determines what kind of interest rate they will receive. Therefore, it's critical to make sure your credit report is in the best shape possible before shopping for a car.

SOLUTION: Order a copy of your credit report and look for items that may stand in the way of you getting a good rate. Correct any issues or errors promptly. Are all of your lines of credit in good standing? Are there any signs of identity theft? The credit bureaus will tell you how to correct errors when they send you the report.

PITFALL #2: Many consumers are tempted to overspend once they get to the dealership.

SOLUTION: Bring a printout of your budget to the dealership as a reminder of what you planned on spending. Be sure to bring any printouts of pricing you have done.

PITFALL #3: Most consumers arrive at the dealership without having researched the current interest rates being offered in the marketplace, so they have no idea if they're being offered a competitive rate.

SOLUTION: Use the Internet as a research tool to compare rates. Check out Web sites like bankrate.com for national averages and the Web site of your own financial institution.

PITFALL #4: Most consumers arrive at the dealership without approved auto financing in hand. This is either because they are not aware of all the financing options available or they assume they will qualify for a low rate at the dealer. This approach deprives the consumer of bargaining power when it comes to negotiating the lowest possible interest rate.

SOLUTION: Become an “empowered buyer” by getting a no-obligation loan before visiting the dealership. Having your own loan could save you significant money. For example, a 60-month \$26,000 loan at 4.49 percent can save the consumer about \$1,500 over the life of the loan, compared to a loan at 6.56 percent.

PITFALL #5: Many dealers offer a choice between discounted (or zero-percent) financing or a rebate – but not both. Consumers may erroneously assume that the zero-percent loan will deliver the most savings.

SOLUTION: Sometimes it’s better to take the cash rebate and apply it against the purchase price of the vehicle – and then use your own preapproved car loan to finance the vehicle. The savings chart below shows how a low-interest rate and a rebate can “beat” a zero-percent deal.

36-Month Car Loan Comparison

APR	0%	3.99%
Cost of car	\$20,000	\$20,000
Less equity in trade	\$4,000	\$4,000
Less rebate	\$0	\$2,000
Amount to finance	\$16,000	\$14,000
Monthly payment	\$444.44	\$413.27
Total cost	\$16,000	\$14,877.85
Savings	\$0	\$1,122.15

Source: Capital One Auto Finance

PITFALL #6: The F&I officer may try to confuse you by “intertwining” different elements of your deal. For example, they may say, “We’ll give you an extra-low price on the vehicle, but this interest rate is the best we can do.”

SOLUTION: Consumers should “unbundle the deal” and keep it Three Separate Transactions: The Purchase, The Trade-In, The Financing. Avoid discussions that can take you off of this track, such as “how much can you afford to spend per month?” With financing, focus on the APR, not the monthly payment.

PITFALL #7: By the time they get to the finance department, many consumers are mentally worn out and don’t review the contract thoroughly before signing. As a result, they may agree to buy things they didn’t plan on (such as an extended warranty, rust-proofing, etc.).

SOLUTION: Before you sign any papers or hand over any money, check the figures in the contract and understand all the charges. The sudden appearance of extra fees should be questioned. Sometimes, dealers add extra fees – so-called “junk fees” – to retake profit they have lost by selling cars at invoice.

PITFALL #8: The consumer feels rushed, pressured and confused by the dealership’s staff. In some cases these buyers have second thoughts about completing the deal – but sign the documents anyway.

SOLUTION: Consumers who feel out of their comfort zone should walk away. The buyer – not the seller – should be the one in control of the process. Remember, the federal “cooling off” law does not apply to cars.

If you do your homework ahead of time and know what to expect before entering the F&I room, the paperwork process can go quickly and easily. But more importantly, you will receive a deal on your auto loan that you can feel good about for the life of the car.

■ DEAL #3: THE TRADE-IN

Only after all homework has been done and the purchase price and financing are negotiated, should you address the issue of your trade-in with a dealer.

Trading-in vs. private sale – In many instances, you can get more for your trade-in if you sell it yourself. The dealer cannot give you full retail value in most cases because they must resell the vehicle and make a profit. On the other hand, trading your car in at the dealership can make for a quick

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transaction and could save you some tax dollars. If you buy a new car and it costs \$20,000, and you trade-in a car that costs \$12,000, in most states you will only pay sales tax on the difference, \$8,000, rather than the full \$20,000 (at 6% sales tax, that results in a savings of \$720.)

What is a fair price? – Use the same methods used in determining what to pay for the car you’re purchasing to get a fair price for your trade. Price your used car using resources like the *NADA Book*, the *Kelly Blue Book*, or *Edmunds Used Car Guide*. These resources will provide you with a price **range** (not a specific price) for your vehicle, from trade-in value to loan value to retail value (aka “blue book value”).

What is the dealer willing to pay? – Many people choose to trade in their vehicle to avoid the hassle and delay of selling themselves and accept some loss in the price of the exchange. The pricing guides list “trade-in” values for each model, which are reliable guidelines to determine if the dealer is offering a fair price. Note, however, that the condition of the vehicle will affect the pricing.

What if you owe more than it’s worth? – This is called being “upside-down” on your trade or having “negative equity” and often occurs in the first few years of paying for a new car. This occurs because so much depreciation takes place in the early period of ownership. If you really want to trade in such a vehicle, the deficit amount will be added to the price of the car you are purchasing. This will probably leave you even more “upside-down” in the new vehicle. You can see the importance of ensuring the affordability of a new car as a first step in the process, to make sure the last step isn’t repossession!

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Your Legal Rights

Consumers have some standard rights under federal laws, but their state rights vary from state to state. Once again, the best legal preparation is to research the car purchase and know what you are agreeing to before signing any contracts.

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State Lemon Laws: Most states have a Lemon Law, which enables consumers to get either a new vehicle or get their money back when the vehicle cannot be repaired to conform to the standards of the warranty. This is for new cars only.

Consumer Leasing Act: A 1976 amendment to the federal Truth in Lending Act requires disclosure of the cost and terms of consumer leases and also places substantive restrictions on consumer leases.

Odometer Reading: It is illegal to ever turn back or reset an odometer, even if a new engine is installed on the car. A statement of the odometer miles is required with every purchase. Average mileage per year in America is 15,000 miles, and the Attorney General estimates that one-third of all vehicles have had its odometer spun. The DMV can provide you with the number of owners your vehicle has had, and this information plus the age and condition of the car, can help you estimate whether the mileage is suspiciously low.

Used Car Buyer's Guide: "As Is" vs. Implied/Expressed Warranty - This sticker is required by Federal law to be placed in the window of all used cars sold by dealers. For your own protection, an outside mechanic should inspect any used car before you buy and any promises made by a dealer should be put in writing. Very few assurances are provided by "implied" warranties and you want everything to be "expressed." The Buyer's Guide sticker states:

- If there is a warranty and what protection the dealer provides.
- If there is no warranty, that the car is bought "as is" and the dealer will not be responsible for any subsequent problems.
- That any car can be subject to major problems and lists them.

Magnuson-Moss Warranty Act: A federal law that protects the buyer of any product that costs more than \$25.00 and comes with an express written warranty. This law applies to any product that you buy that does not perform as it should, including cars. This law guarantees a car buyer that certain minimum requirements of warranties must be met and provides for disclosure of warranties before purchase. A consumer may pursue legal action in any court of general jurisdiction in the United States to enforce rights under this law.

State Automobile Repair Facilities Act: Many states have enacted laws that deal specifically with businesses that repair vehicles. The rules, which vary from state to state, may deal with issues like required disclosures on written estimates, unauthorized charges, invoices, disposition of replaced parts and unlawful acts and practices. To find out if your state has an auto repair facilities act, contact your State Attorney General, consult the Consumer Action Handbook, or use a search engine on the Internet.

Complaint Resolution

If you experience a problem, you should follow these guidelines:

- Speak to the dealer first. In many cases, they have a reputation to protect and may be willing to quickly resolve problems at this level.
- If the dealer is part of a chain, speak next to the company regional representative since they also have an interest in preserving the reputation of their good name.
- If the dealer is a member of a professional association like the Better Business Bureau, NADA, NIADA, local area ADA, etc., they have dispute resolution processes to assist you.
- If these steps fail, contact the Office of Consumer Affairs of your state Attorney General and the Armed Forces Disciplinary Control Board for investigation and possible prosecution.

Sources of Help

This class has mentioned numerous resources to help you with your next vehicle purchase. Drop by your local library to look over *Consumer Reports*, *Edmunds*, the *NADA Book* or *Kelly Blue Book*, and the many other resources available. Additional resources are listed on the handout, “Three Deals of Car Buying”.