

Car Buying Strategies

Module Description

A sixty- to ninety-minute interactive program suitable for all audiences, designed to develop knowledge and skills that will give participants the self-confidence to negotiate effectively when purchasing an automobile.

Materials

Financial Planning Worksheet (6 pages)

Debt-to-Income Ratio

Determining Car Payments

Questions to Ask Car Dealers

Car Sales Tricks of the Trade

Installment Sale Contract for Titled Vehicle and Equipment

The Three Steps of Car Buying

Note

Instructor should be prepared to provide local phone numbers for the appropriate sources of help, and should provide information on relevant state laws regarding automobiles (insurance requirements, lemon laws, repair facilities acts, usury laws, etc.)

Relevant Websites:
www.lifelines4qol.org

Instructor References

SECNAVINST 1754.1, Family Service Center Program

OPNAV Instruction 1740.5A (Draft), Personal Financial Management Education, Training and Counseling Program

Command Financial Specialist Training Manual, NAVPERS 1560.8C (or later)

Edmund Publications Corporation, Edmund's Car Prices Buyers Guide. West Hempstead, New York: Current Edition.

Intellichoice Car Cost Guides

Save \$1,000s Buying Your New Car, by Dick Krol.

National Automobile Dealers Association, NADA Official Used Car Guide

Consumer Reports Magazine, April Issue.

The Complete Idiots Guide to Buying or Leasing a Car by Jack Nerad.

Objectives

At the conclusion of this program participants will be able to:

- ◆ Identify affordable automobiles using a financial spending plan, monthly payment calculation, and debt-to-income ratio.
- ◆ Explain the three steps in car buying: doing your homework, making the purchase, deciding on the trade-in.
- ◆ Explain the benefits of separating the purchase into three separation transactions: the price of the new car, the financing details, and the price of the trade-in.
- ◆ Research fair prices for particular models.
- ◆ Describe four common “high pressure” sales tactics and negotiation methods for overcoming them.
- ◆ Discriminate among poor and better choices in car financing.
- ◆ Assert legal rights in the car buying process.
- ◆ Identify sources of help in the car buying process.

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Introduction

Introduce self, professional background, and specific qualifications applicable to car buying.

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Purpose and Agenda

The purpose of this course is to teach you how to research, buy, finance, and trade-in a car the right way. To do this, today we will cover:

- ◆ **The Three Steps of Car Buying**

1. Doing your homework
2. Negotiating a Purchase Price
3. Deciding on your Trade-in

- ◆ **Sources of Help**

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STEP 1: The Homework

Many people begin the car buying process by visiting a dealership—which should be one of the last things they do. Unfortunately for them, the process often ends the same day with their 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 your 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. Let's take a look at the areas that need your attention before you make a purchase.

There are four things you need to do that will lead you to a successful purchase. They are:

1. Determine how much you can afford
2. Determine the type of vehicle you want to buy
3. Determine where you will buy the vehicle
4. Determine a fair and affordable price for the vehicle

1. How Much Can You Afford?

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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.

Handout:
“Financial Planning Worksheet.”
Briefly review the worksheet.

If appropriate, suggest participants consult with their CFS or attend a budgeting workshop

Handout:
Debt-to-Income Ratio worksheet.

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Prepare a Spending Plan

The answer to these 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, and the benefits of having one stretch way beyond this car purchase, and can impact your entire financial future—so do it!

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Debt-to-Income Ratio

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 to understand that total car expenses include both 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 your net income for the car payment, and 10% of your net income for the other expenses.

You will also want to know how much of your money currently goes to pay monthly debt payments so you don't overextend yourself if you add a car payment. To find this out, compute your debt-to-income ratio. Debt-to-income ratio is a figure used to roughly 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. It is intended to be used as a guide and is not an absolute measure. Explain to the class how to use the Debt-to-Income Ratio worksheet.

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The following percentages can generally be used as effective guidelines (this table is found at the bottom of the “Debt-to-Income Ratio” calculation sheet):

- ◆ Less than 15% May use some additional credit with caution

- ◆ 15 - 20% Fully extended
- ◆ 20 - 30% Overextended
- ◆ More than 30% Seriously overextended. Seek help!

Determine Car Payments

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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”. **Explain to participants how to use the chart. If time does not allow for an example, encourage participants to read the handout on their own and/or contact a CFS or FE for assistance.**

2. What type of car should you consider?

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The vehicle you purchase must strike the right balance between what you want, what you need, and what you can afford. 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 I 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 purchaser must consider his or her needs and resources when making the choice.

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 - Usually at least 3 years/36,000 miles is provided, and can be extended at significant 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. NMCRS reports 25% of the money they loan goes to auto repairs. 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 MWR 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.

Performance

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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.

Insurance

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Once you've narrowed your choices to a few models, compare quotes on insurance costs. 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! Call several insurance companies for premium quotes, or conduct some research using the internet.

3. Where should you buy?

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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 who you buy it from. 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.

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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. Stress that 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 (see below) for any complaints filed against them.

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. Don't be reluctant to ask these questions!

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. You can 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. A list of helpful internet sites is included one of your handouts today.

4. What is a fair price?

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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 a fair price is.

Where to find pricing information

All of the components of pricing, including base and option costs at invoice and MSRP, as well as things like the destination charges, are available through a variety of resources. Price your vehicle at invoice, subtract any dealer holdback or incentives, add a 3 – 5% profit, and you will have a good price goal for your vehicle. 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.

- ◆ **Kelly Bluebook** - List suggested retail and loan values for specific makes and models of used cars. This is a guideline, not a law. Factors such as mileage, options, and physical condition of the car affect its value. This will give a good ballpark figure. Can be found on the internet at www.kbb.com.
- ◆ **IntelliChoice Car Cost Guides** - Besides the dealer cost and sticker prices, lists items such as resale value, economic value, maintenance costs, etc. www.cars.com uses IntelliChoice pricing.
- ◆ **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.
- ◆ **Save \$1000's Buying Your New Car by Dick Krol** - Great primer on the car buying game.

Instructor should be familiar with the following terms should any questions arise during the presentation. If time permits they can be reviewed during the class.

- ◆ **Invoice Price:** What the automaker 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.
- ◆ **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) or any options installed by the dealer.

STEP 2: The Purchase

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Now that you have done your homework, you should be well-prepared to make the purchase. As you go through this process, remember to negotiate three separate deals: The purchase price of the new car, the financing, and the deal on the trade-in. This alone will save you hundreds, if not thousands, of dollars. Things to consider in the purchase include:

1. Places to Finance
2. The Cost of Money: Finance Charges
3. Should you consider leasing?
4. Negotiating Skills
5. Tricks of the Trade
6. Legal Rights

Places to Finance

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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. Must be a member and have fairly good credit.

Banks – Like credit unions, only for-profit institutions. Usually next best, 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.

Handout:
*“Questions to Ask Car Dealers”
and review listed concerns
regarding dealer financing.*

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A consumer who agrees to finance a car “through the dealer” frequently finds themselves making payments to a finance company instead. By choosing one over the others, the dealer is frequently paid a percentage of the loan as a commission. This is passed directly on to you, the purchaser, along with the normal cost of financing the loan.

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.

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2. The Cost of Money: Finance Charges

So that you can talk knowledgeably about your financing terms, let’s talk about 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. 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— In some states there are no usury laws, laws that limit the amount of interest that can be charged on a loan. Know what the limits are in your state and read your contract 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 get your contract checked out by an attorney before signing.

3. Should you consider leasing?

Leasing appears very attractive in the advertisements, with its low monthly payments and short term. Rather than building up ownership (equity) in a vehicle, you are compensating the dealer for the depreciation the car suffers while the dealer lets you drive it (basically, “rents” it to you). Although it is becoming more and more common, it is not for everyone.

Consider leasing an option only if:

- ◆ You can limit your annual mileage - Leases have mileage limits commonly ranging from 10,000 to 15,000 per year. If you exceed the limit, you will face high per-mile fees at the end of the lease.
- ◆ You take excellent care of your vehicle and don't plan to customize it - When you turn the car in at the end of the lease, you can be charged for any “wear and tear” considered excessive. You need to know what exactly is considered reasonable “wear and tear.” The car must also be in original condition so that the dealer can resell it, so customizing (painting flames on the side, etc.) is out of the question.
- ◆ You want to drive a new car every few years and don't mind never-ending car payments - It is often more

NOTE:

Discuss state usury laws.

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NOTE:

If time permits this section can be covered in detail. At a minimum cover the issues listed on the slide.

economical to buy a car and keep it as long as possible. However, if you like a shiny new car every few years you will end up with continuous car payments anyway. The lower payments of leasing can be attractive for this reason, but only if you understand that you will never own a car unless you choose to buy it at lease end.

- ◆ You will not have to relocate - Most leases will not allow you to take the car out of the country, and many will not even allow you to move out of state. Be sure of your future plans if you decide to lease.

Decoding "lease-speak"

When negotiating a lease and reading the contract, you need to speak the language. Calculating the actual lease payment is very complicated, especially if it is subsidized by the automaker, but a basic understanding of the terms will enable you to compare leases.

- ◆ **Capitalized cost** - selling price of the car, on which the rest of the lease calculations will be based.
- ◆ **Capitalized cost reduction** - down payment you make, which lowers the amount on which the lease is based.
- ◆ **Residual value** - the predicted value of the car at lease end, after depreciation. The difference between the capitalized cost (after any reduction) and the residual value is the amount the dealer predicts the car will depreciate over the lease term. Put simply, this is the amount you will pay for the privilege of driving the car over the lease term, plus a finance charge (see below).

- ◆ **Money factor** - the finance charge (interest) charged on the lease amount, expressed as a decimal used to figure part of the monthly lease payment. For comparison, it can be converted to an interest rate by multiplying by 2400 (regardless of the term of the lease). To convert an interest rate to a money factor, divide the rate expressed as a decimal (for example, .12 for 12%) by 24.

Negotiating a Lease

A lease should be negotiated just as thoroughly as a purchase, but there are additional considerations.

- ◆ Bargain down to the best purchase price possible before even discussing a lease. This establishes the “capitalized cost” on which the rest of the calculation of the lease payment will be based
- ◆ Everything is still negotiable in a lease, just as in a purchase. You can always request changes in terms like mileage limits, money factor, processing fees, etc.
- ◆ It will be to your long-term financial advantage to pay any fees up front if possible, including security deposits, taxes, destination charges, etc. to avoid paying finance charges on them.
- ◆ Be sure you understand all the provisions of the lease. What are the mileage limits and the cost if you go over them? What is considered reasonable “wear and tear?” Who will pay for maintenance? What are the restrictions on relocating the vehicle?

- ◆ Consider only “closed-end” leases, where all lease-end charges and residual values are established in advance at the beginning of the lease. This way you cannot be hit with unexpected fees on the day the car is returned to the leasing agent.

Lease-end Options

At the end of the lease, you have four options:

- ◆ Return the car to the dealer and walk away - You will have to pay any applicable fees and may be charged for many minor damages if the dealer has no incentive to work with you (because you are not buying another vehicle from the same dealer).
- ◆ Buy the car from the dealer - You will pay the residual value established at the beginning of the lease. If you’ve taken good care of the car, it may be a bargain for a used car at that point; if you’ve trashed it or gone way over the mileage limit, you may be better off buying it then paying those fees on a car you are giving back.
- ◆ Use the car’s equity to negotiate a better deal on a new car from the same dealer - The dealer hopes to sell you another car when you return. If your leased vehicle is in very good condition and has low mileage, the dealer will have an easier time reselling it and may give you a discount on your next purchase or lease in exchange.
- ◆ Sell the car yourself - You must pay off the residual value, but if the car is in good condition you may get more and get to pocket the difference.

4. *Negotiating A Great Deal*

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 (including all those options!), so they have a vested interest in getting as high a price as possible for the car. 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! 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 you another for you to purchase, so don't feel pressures.

- ◆ **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 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 name plates on them. If a car you are interested in is one of them (for example, the Chevrolet Blazer and GMC Jimmy), 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 rustproofing), cheaper if done yourself (like fabric and paint protectant) and sometimes can even void your war-

ranty (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, ROAD TEST THE CAR! 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 warrant 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.

- ◆ **Purchase** - 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.

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Car Buying Services

Many 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 SALOC, NFCU, 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. See the Sources of Help list in the brochure "The Three Deals of Car Buying" for a listing of sites.

*Handout:
"Car Sales Tricks of the Trade"
for description and
solution to each trick.*

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5. Know the "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.

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6. Legal Rights

Consumer 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.

Contracts

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. Let's take a look at some common contract provisions.

- ◆ **Read the fine print** - Be sure you understand every word on the contract. If you don't, bring it to your CFS, FE, or Navy Legal Services for an explanation before you sign. If the dealer refuses to let you take it with you before signing, walk away; this is a sure sign something is awry.
- ◆ **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.
- ◆ **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

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NOTE:

Refer to "Installment Sale Contract for Titled Vehicle and Equipment" and review the points below.

NOTE:

Inform class of local base and state insurance minimums for liability and property damage.

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

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NOTE:
Inform class of typical fees and charges in participants' state and locality.

- ◆ **Power of the pen** - If you don't understand or approve of something in the contract, line it out and 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.

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 or the warranty. This is for new cars only.

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 has 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.

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NOTE:

See www.autopedia.com for a complete state-by-state listing of lemon laws.

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, any used car should be inspected by an outside mechanic 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 which 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.

Automobile Repair Facilities Act

If state has an automobile repair facilities act, review basics of the Act here.

Complaint Resolution Steps

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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 regional representative of the company 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.

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STEP 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.

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Trading vs. selling outright - 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.

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.

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 because so much depreciation occurs 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 a repossession!)

Sources of Help

This class has mentioned a lot of 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.”

Summary

Ask for any questions as you go over the summary points. Refer to the CFS, FE, or Navy Legal as appropriate if questions are too detailed or personal to be addressed in the time allowed.

What are the three steps of car buying? [Do your homework, Make the purchase, Decide on the trade-in. Refer to the brochure “The Three Steps of Car Buying.]

True or False: **You should always combine the purchase of the new car, the financing, and the trade-in into one deal.** [False—keep it three separate transactions.]

True or False: **NLSO will check out a car contract before you sign it.** [True]

True or False: **You may get a better deal on financing from credit unions.** [True]

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NOTE:
*Review handout,
Three Deals of Car
Buying
and
Sources of Help*

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True or False: **A car can take up to 25% of your net income.** [True]

True or False: **You don't need to get a used car checked out by a mechanic.** [False]

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True or False: **Leasing is always better than buying.** [False]

True or False: **The dealership will give you the best price on your trade-in.** [False]

True or False: **There is no one to help you buy a car—you are on your own.** [False]