

CAR BUYING STRATEGIES

Introduction and Agenda

Deal #1: The Purchase

How Much Can You Afford?

What Type of Car Should You Consider?

Where Should You Buy?

What is a Fair Price?

Should You Consider Leasing?

At the Dealership... Negotiating Skills

Know the “Tricks of the Trade?”

Deal 2: The Financing

Places to Finance

The Cost of Money: Finance Charges

Contracts

Deal 3: The Trade-In

Your Legal Rights

Complaint Resolution Steps

Summary



CAR BUYING STRATEGIES

[Top](#)

Introduction and Agenda

- 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 information is designed to help you save money and hassles on your next car purchase.
- “Three Deals of Car Buying” — the Purchase, the Financing and the Trade-In will be covered. Legal rights when buying or selling a car will also be discussed.



Deal #1: The Purchase

Many people begin the car buying process by visiting a dealer-ship — which should be one of the last things you 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. Let’s take a look at the areas that need your attention before you make a purchase.

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:

6. What questions to ask?
7. How to negotiate.
8. The “Tricks of the Trade.”

[Top](#)

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.

Preparing a Spending Plan

The answer to these questions 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!

How Much Can You Afford?

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 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 net income for the car payment, and 10% of net income for the other expenses.

PAGE 1

FINANCIAL PLANNING WORKSHEET

Date _____ SSN _____ Rate _____
Name _____ Age _____
Pay Grade _____ Yrs. in Svc. _____ Date Reported/PRD (Transfer) _____
Marital Status _____ Spouse's Name _____ Age _____
Spouse's Place of Employment _____
Number of Children and Ages _____
Home Address _____
Work Telephone _____ Home Telephone _____
Command & Referred By (Self, CMD, NMCRS, FFSC, Etc.) _____
Amount of SGLI Elected _____ Amount of FSGLI Elected _____
TSP Monthly Contribution _____ MGB Monthly Contribution _____

STATEMENT OF NET WORTH

ASSETS		LIABILITIES	
Cash on hand	\$ _____	Signature Loans	\$ _____
Checking accounts	\$ _____	Auto Loans or Leases	\$ _____
Savings accounts	\$ _____	Consolidation Loans	\$ _____
Certificates of Deposit	\$ _____	Student Loans	\$ _____
Cash value of Life Insurance	\$ _____	NEX/AAFES (361r Card)	\$ _____
U.S. Savings Bonds	\$ _____	Department Store Credit Cards	\$ _____
Mutual Funds/Money Market	\$ _____	Other Credit Cards	\$ _____
Stocks/Bonds	\$ _____	NMCRS (Loan)	\$ _____
College Funds	\$ _____	Other (Friends, Relatives, etc.)	\$ _____
401(k)/403(b)/TSP	\$ _____	Advance/Over Payments	\$ _____
Other (IRAs, etc.)	\$ _____		
Real Estate (Market Value)	\$ _____	Mortgages-Balances Due	
Home	\$ _____	Home	\$ _____
Rental Property	\$ _____	Rental Property	\$ _____
Other (Vac Home/Trailer/Time Share)	\$ _____	Other (Vac Home/Trailer/Time Share)	\$ _____
Personal Property			
Vehicles/Motorcycles/Boats	\$ _____		
Furniture	\$ _____		
Jewelry	\$ _____		
Other (Collectibles, etc.)	\$ _____		

Counseling Provided By: _____
Counselor Phone #: _____
Appointment Date: _____ Time: _____
Place: _____

TOTAL ASSETS	\$ _____
TOTAL LIABILITIES	\$ _____
NET WORTH (Assets - Liabilities)	\$ _____

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 overextend 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 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 of the ability to take on more debt.

The following percentages can generally be used as effective guidelines:

- 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

If you need some help to determine how much a payment would be for a specific loan amount, budgeting for, or simply how much "car" can you afford, contact your Command Financial Specialists.

Top What type of car should you consider?

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 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 buyer 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).
- **A warranty** - **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. 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.

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.

Insurance

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! You should contact several insurance companies for premium quotes, or conduct research using Internet resources.



Top Where should 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 whom 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.

- **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.
- **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.

- **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 are:
 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.

More Buying Options

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 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.

[Top](#) **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 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. It 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.
- **Internet Websites** are listed on the Sources of Help handout.

Fair Pricing Terminology

- **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.

[Top](#) **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 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. 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.

- **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 wary of the cap cost reduction.** This is a large, one-time payment made at the start of the lease designed to lower your future monthly payments. Remember, you do not own this car, so do you really want to make a down payment on it?
- **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:
 - a. **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).
 - b. **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 than paying those fees on a car you are giving back.

- c. **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.
- d. **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.

[Top](#) **At the Dealership... 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 (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 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 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 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 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.

- **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.

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.

Top 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. Places to finance
2. The cost of money (finance charges)
3. Contracts



Top Places 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. 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. Consumers who agree to finance a car “through the dealer” frequently find 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.

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

[Top](#) **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 - 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 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.

[Top](#) **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, FSSC Financial Educator, or NLSO 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 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
- **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.

[Top](#) [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 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 repossession!

[Top](#) [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.

- **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.
- **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.

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. Automobile Repair Facilities Act.

[Top](#) **Complaint Resolution Steps**

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.

[Top](#) Summary

Sources of Help

This program 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.

NAVPERS 15608D/CFS Student Manual/20-13.

QUESTIONS TO ASK CAR DEALERS



About Special Dealer Promotions:

- Does the advertised trade-in allowance apply to all cars, regardless of their condition?
- Does a large trade-in allowance make the cost of a new car higher than it would be if you didn't have a trade-in?
- Is the dealer who offers high trade-in allowances and free or low-cost options actually giving you a better price on the car than another dealer who does not offer such promotions?
- Does the dealer's invoice reflect the costs of options, such as rustproofing or waterproofing, that have already been added to your car? What are other dealers charging for these options?
- Does the dealer have other cars in stock without expensive added features? If not can the dealer order one?
- Are the special offers available only if you order rather than buying it off the lot?
- Can you take advantage of all special offers simultaneously?

About Low Interest Dealer Financing:

- Will you be charged a higher price for the car to qualify for the low financing?
- Does the low-rate financing require a larger-than-usual down payment? Say 25%-30%?
- Are you required to pay the loan off in a shorter period of time, say 12 or 24 months, in order to qualify for the low-rate financing? If this is the case, your monthly payments will be higher.
- Do you have to buy extra merchandise or services to qualify for the low-rate financing?
- Is the financing available for a limited time only, and does it require that you take delivery of the car by a specific date?
- Does the low interest rate apply to all cars or only certain models in stock?
- If a manufacturer's rebate is offered, are you required to give it to the dealer to qualify for the financing?

Remember, careful shopping will help you decide what financing, which car, and which options are best for you!

NAVPERS 15608D/CFS Student Manual/20-12.

CAR SALE TRICKS OF THE TRADE



Put-To-Ride:

When a salesman cannot convince you to buy today, he insists that you leave your trade-in at the dealership, keep the new car overnight, and drive it home. This way no other dealership can see your trade-in, your neighbors and relatives see the car, you fall in love with it and have a hard time saying no to purchasing the car when you have to bring it back the next day.

Solution: Refuse to take the new car home overnight, and take your trade-in off the dealer's lot.

Low-and High-Balling:

Low-balling occurs when the salesperson quotes you a price on a car that is lower than the current market price. This is done to assure that you will return to him/her before signing with anyone else just to see if his offer still stands. At this point, he will tell you that he can't sell the car for that low a price because the sales manager will not allow it. High-balling is the same as low-balling, except that a high trade-in allowance figure is offered to you. Again, you come in later and the manager will not allow it.

Solution: When faced with low-or high-balling, leave and start working with another dealer.

Padding:

Adding charges that increase the dealers' profit of the time you sign the contract, i.e., undercoating, protection packages, dealer installed options, credit life insurance, disability insurance, extended warranties, etc.

Solution: Read the contract very carefully, on your own time. Refuse to sign if it is not what you originally agreed upon.

Your Car:

When the salesperson keeps referring to the car as "your car" to get you unconsciously to accept ownership of the car. Once accomplished, it is easier to get you to sign the contract.

Solution: Keep reminding the salesperson that you have not yet decided to purchase the car and make it "your car."

Bait and Switch:

When a dealership runs an ad with a picture of a well-equipped car with a price of a stripped down model to entice you to come in. You are then shown the stripped down model and quickly switched to the well-equipped one with a higher price tag.

Solution: Demand to see the manager to express your dissatisfaction. Ask for a large discount. If they're not willing to deal, leave.

Mutt and Jeff Routine:

When the salesperson plays the role of the "good guy" and the manager plays the "bad guy" to enhance the image of the salesperson. The salesperson and manager may even stage an argument in front of you, with the salesperson trying to persuade the manager to give you a lower price. Once you believe that the salesperson is on your side, you drop your guard and become an easy mark.

Solution: Leave the scene and think about the offer overnight before purchasing the car. Comparison shop in the meantime.