

MODULE 7

Car Buying Strategies

Module Description

Purpose: Purchasing a vehicle is a common goal for many deployed Service members. This training is designed to develop the knowledge and skills that will empower participants to conduct adequate research on a car purchase, determine how much they can afford to spend, calculate a fair price for a vehicle and apply negotiation strategies to get the best deal.

Target Audience: Service members of all ranks who plan to purchase a new or used vehicle when they return from deployment.

Module Length: 30 minutes. The time to facilitate this brief may be modified based on the needs and availability of the command.

Instructor Notes

Scripts: Command leadership should become familiar with this curriculum and personalize the scripts to ensure that facilitation feels natural without compromising the course content.

Activities: Command leadership may modify or adjust the activities used in this curriculum to fit the needs of the command members. Activities are written with two options, allowing command leadership to decide which one best fits their need:

- Option 1 – Handouts, paper or other materials are needed to complete this version of the activity.
- Option 2 – Additional materials are not required, and this version can be conducted through lecture or discussion only.

PowerPoint Slides: PowerPoint slides are provided but not required. This module is designed so that it can be facilitated with or without the slides. If using slides, cues are provided for when animations occur.

Training Tips: Training tips are used throughout this curriculum to guide the content and recommend alternative methods of interaction.

FFSC Resources: An electronic copy of the *Deployment Support Handbook* is provided on this CD so command leadership may make them accessible to Service members from the command or shipboard intranet.

Learning Objectives

Upon completion of this module, Service members should be able to determine how much they can afford to spend on a car, research available vehicles, lenders and sellers, and negotiate a fair price on the purchase of a car.

- During the *This is How We Roll* activity, participants will assess their current car buying strategy and address the four questions to ask before stepping onto a car lot.
- As a closing activity, participants will list at least three actions they will apply to help them save money on their next car purchase.

Module Preparation

Materials

- *Module 7: Car Buying Strategies* PowerPoint file or printed copy
- *Deployment Support Handbook*

Handouts (if available)

- *This is How We Roll*
- *Understanding Finance Charges*
- *Knowing Your Rights*

Optional Materials (if available)

- Computer
- Projector
- Whiteboard
- Markers
- Paper and writing instruments
- Timer

Course Outline

1. Welcome and Introductions (3 minutes)
 - a. Agenda: Three Deals
 - b. Opening Activity: *This is How We Roll . . .*
2. Car Buying Strategies (20-25 minutes)
 - a. Know What You Can Afford
 - b. Choosing Your Car
 - c. Negotiation
 - d. Financing Options
 - e. Trade-In
 - f. Understanding Your Rights
3. Closing (3 minutes)
 - a. Financial Planning Workshops
 - b. *Deployment Support Handbook*

Content

Welcome and Introductions (2-3 minutes)

Slide 1: Car Buying Strategies



Provide the handouts or paper, if available, as participants enter the training area.

Provide a brief introduction to Car Buying Strategies.

SAY: Because you are attending this training, purchasing a car is probably on your list of things to do when you return from deployment.

ASK: How many of you would you like to save hundreds, perhaps even thousands of dollars on your purchase?

ASK: If you could shave a couple of thousand dollars from your car purchase, what would you do with the money you saved?

Responses will vary but may include purchase upgrades (tires/rims, stereo, etc.), keep it in savings, buy someone a gift, put it toward a vacation, etc.

SAY: If you are interested in buying the right car at the right price, then you are in the right place at the right time, because this workshop will show you how to get it done!

Slide 2: The Three Deals



SAY: We are here to help you save money and avoid hassles when you buy your next vehicle. We will do this by focusing on the three deals of car buying:

[CLICK to animate slide]

1. The Purchase
2. The Financing
3. The Trade-in

SAY: We will also look at negotiating a fair price and knowing your legal rights when buying or selling a vehicle.

Slide 3: Activity: *This Is How We Roll ...*



Refer to the *This is How We Roll...* handout, if available. Participants may also take notes on blank paper, as an option.

SAY: Buying a new car is exciting, but there are many opportunities to make unwise choices if you do not learn about the process before you buy.

SAY: For example, many people begin the car buying process by visiting a dealership. Actually, this is one of the last things you should do. Why? Unfortunately, the day often ends with the purchase of a vehicle at too high a price.

SAY: There are four things to know before you step onto a car lot:

[CLICK to animate slide]

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

SAY: Today, our goal is to help you evaluate your car buying strategy and make necessary adjustments so you can be a savvy auto consumer.

[OPTIONAL – if handout is available] SAY: You can use the *This is How We Roll ...* handout to take notes on what you learn.

[OPTIONAL – if paper is available] SAY: You can take notes during our session on what you learn. We will have a recap at the end of our training.

Car Buying Strategies (20-25 minutes)

Slide 4: Know What You Can Afford



SAY: Often people decide what type of car they want to buy and then do whatever it takes to get behind the wheel, even if it cripples them financially or is not practical for their lifestyle.

ASK: Be honest: Have you done this?

SAY: The vehicle you purchase must strike the right balance between wants, needs and affordability. For this reason, determining how much you can afford is the first thing you should do when considering a vehicle purchase. This includes:

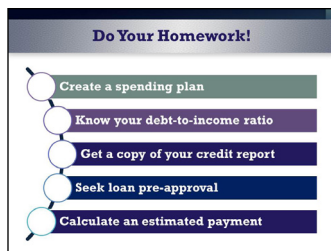
[CLICK to animate slide]

- **Total price.** How much can you spend in total on the vehicle? 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 may end up with affordable monthly payments spread over a longer finance term. In the end, you would have paid too much for the vehicle overall.
- **Monthly payment.** On the other hand, if you only figure how much you want to pay in total, you risk ending up with a monthly payment that you will not be able to afford. Buy the car; never buy the payments.
- **Down payment.** How much can you afford to put down on the car? The greater your down payment, the less you have to finance and the lower your monthly payment.
- **Upkeep.** How much will it take to maintain the car? This includes fuel, insurance and maintenance.

ASK: What information or resources do you think you will need to answer these questions?

Solicit two to three answers from the group. Responses may include creating a budget and information about the vehicle you want to purchase, or discussing different car models and the cost of insurance for each with an auto insurance agency.

Slide 5: Do Your Homework



SAY: To answer these questions, you must do your homework! This includes:

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- **Creating a spending plan.** If you do not already have a spending plan, now is a great time to start. In addition to helping you determine what you can afford, a budget can positively affect your entire financial future.
- **Knowing your debt-to-income ratio.** Determine whether you have room in your budget to take on more debt. If your debt-to-income ratio is 20 percent or higher, you may want to reconsider making such a large purchase until you pay down some debt.
- **Getting a copy of your credit report.** A dealership will pull your report (unless you are paying in cash or have pre-approved financing), so it is best that you look at it first. This way, there will be no surprises. Every adult American gets a free credit report annually. You can access your credit report at www.annualcreditreport.com.
- **Obtaining loan pre-approval.** Consider a pre-approved loan from your financial institution. This will provide information on interest rates, payments and terms in addition to ensuring that you do not overextend yourself.
- **Calculating an estimated payment.** The amount of your monthly payment will depend on the amount financed, the number of months financed and the interest rate. Navy Federal Credit Union, USAA and Autotrader.com are three resources with auto loan calculators on their website.

Slide 6: Choosing Your Car



SAY: Now that you know what you can afford, you can begin thinking about what types of vehicles are in your price range. Here are three major factors to consider when deciding what to get:

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SAY: Typical use. Will this be your everyday car? How many passengers will you typically carry? How long is your daily commute? How many miles will you be putting on your car annually? Answering these questions will help you decide what type of car will suit your needs: Do you need a sedan or a truck, or should you go ahead and get that sports car?

SAY: 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 affect the price—should you get a new car or a used car? Each one has positive and negative aspects.

SAY: Let us do a brief pros-and-cons exercise about new versus used vehicles. I will list some considerations, and you tell me if the odds are in favor of a new car or a used car.

1. Cost

Answer: “used car.” New cars typically cost more than a used car.

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2. Mechanical problems

Answer: “new car.” Used cars are likely to have more problems than a new car. New cars have fewer problems and are typically covered by a warranty when issues do arise.

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3. Depreciation

Answer: “used car.” The value of a new car diminishes rapidly following the purchase and continues to lose value at 15 percent to 20 percent during the first year. Much of the value of used cars has already depreciated.

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4. Warranties

Answer: “new car.” The average new car warranty is three years or 36,000 miles, although some automakers have warranties up to five years or 60,000 miles. Used cars may or may not have any warranty remaining, and service contracts will add significantly to the cost of the car.

Slide 7: Insurance



SAY: Once you have narrowed your choices to a few used and new models, compare quotes on insurance costs. Knowing the cost before you make a purchase enables you to figure this expense into your budget and determine whether the car purchase is feasible.

SAY: Sometimes two similar vehicles can have different insurance costs. And depending on your age and the type of vehicle you desire, the insurance payment can be as much or more than the actual car payment. When it comes to insurance, get only what you need and seek ways to cut insurance costs.

ASK: Can you think of some ways to cut costs on insurance?

Solicit two or three responses. Responses may include: shop around, ask for discounts, lump car insurance with other types of insurance.

SAY: Here are four cost-cutting strategies on insurance.

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- **Shop around.** Get at least three quotes. Never agree to insurance before obtaining a quote.
- **Check your credit.** Insurance companies now check your credit worthiness before issuing a new policy or renewing a current policy. If you have credit problems, they can affect the cost of your insurance or hinder your ability to get insurance.
- **Ask for discounts.** Low mileage, group, military, good student, etc.
- **Be a safe driver.** A poor driving record can increase premiums.

Slide 8: Safety, Performance and Reliability



SAY: While there is nothing wrong with purchasing a car that matches your personality, your goal should be to choose the safest, most reliable and best-performing car for the price you can afford.

SAY: To learn more about the performance and reliability of the vehicles you are considering, you might want to check these resources.

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- **Consumer Reports** rates the reliability, safety, performance and fuel economy of cars and is relatively unbiased because it accepts no advertising.
- **CARFAX vehicle history reports** contain information such as total loss accident history, number of owners and accident indicators, such as air bag deployments.

- **Fuel economy** plays a part in the affordability of your chosen vehicle, especially with fluctuating gas prices. To check or compare the fuel economy of a vehicle, go to the U.S. Department of Energy's fuel economy website, www.fueleconomy.gov.
- **Going "green"** or choosing fuel-efficient options that protect our environment include hybrids, electric and alternative-fuel vehicles. There are some tax incentives for purchasing green vehicles, and some states offer additional incentives for driving green vehicles. However, remember that green vehicles tend to cost more than traditional cars. You can consult the U.S. Environmental Protection Agency's website on green vehicles, www.epa.gov/greenvehicle/index.htm, for more information.
- **Recalls** can be a good indicator of the safety and reliability of a car. Millions of cars and trucks are recalled annually. Research your prospective vehicle thoroughly to see whether there have been recalls on that particular make and model. You also should verify whether the seller or dealership has properly repaired or replaced the defective items.
- **The true cost of ownership** to drive and maintain your chosen vehicle can be determined through cost-of-ownership tools. Edmunds.com has an online calculator that considers the hidden costs of car ownership. You can try this out at www.edmunds.com/tco.html.

Slide 9: Where to Buy

ASK: How many of you know where you will buy your car?

Responses may include car dealership, through an individual or the Internet.

SAY: Before making a purchase on the first car that appears to suit your needs, research a minimum of three potential sellers. If you do your homework, you should get a good deal from any type of seller, whether it be a dealership, an individual or the Internet. Here are some guidelines:

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Dealership: Most people pick a dealership based on their location and the types of cars they are known to carry. Be open to traveling a short distance to save money on your purchase. When scouting dealerships, consider:

- Years in business
- Complaint history
- Salespersons and mechanics
- References
- Professional memberships (e.g., Better Business Bureau, National Automobile Dealers Association, National Independent Automobile Dealers Association)

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Private seller: You may be able to 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 you are not knowledgeable about cars, bring along someone who is, so they can help you ask the right questions and make an informed decision.

SAY: Although most of us want to trust others, please consider your safety when communicating with private sellers. Be cautious of the personal and financial information you disclose. Take along a friend or family member when test driving or viewing the vehicle. It is also a good idea to arrange to meet at public locations that are highly visible, preferably during daylight hours.

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Internet sales: Be sure to do your homework with online sources just as you would with a dealership or a private seller. Avoid giving out any information before you have verified that the online source is legitimate and the site is secure. Online car buying sources include:

- **Direct services.** They will sell you the car and deliver it to your house.
- **Referral.** Your quote is given to a “preferred” dealer who contacts you.
- **Auctions.** You name your price, and dealers bid for your business. This includes eBay and Craigslist auctions.
- **Online dealerships.** You browse car lots via the Internet and buy online.

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Buying services: Some organizations, such as United States Automobile Association (USAA), Non-commissioned Officers Association (NCOA) and Autobytel, offer their members buying services. You tell them the make, model, year and exact options you want and the organization does the shopping for you. They will present you with several offers, and you will have the option to follow up as you wish.

SAY: Usually, these services are offered at reduced or no cost to buyers. Similar services can be found on the Internet at sites specializing in car buying information and pricing.

Slide 10: Determining a Fair Price



ASK: How will you know whether the sticker price on a vehicle is a fair price?

Responses may include researching the vehicle, determining the vehicle's Blue Book value, getting several quotes, etc.

SAY: Auto dealers and private individuals have the right to make a reasonable profit on the sale of a car. The question is, what constitutes a reasonable profit?

SAY: Fortunately, every component of pricing a dealer invoice and manufacturer's suggested retail price (MSRP) is available through a variety of resources.

SAY: Conduct price research from sources you know to be reliable, such as www.edmunds.com and www.nada.com. These sites will price a new or used car and have information on buying and selling, financing and insurance. When working with a dealer who provides you with pricing information, make sure you know the source they are using—it could be biased.

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SAY: Once you do your research, price your vehicle at dealer invoice, subtract any dealer holdbacks or incentives, add 3 to 5 percent for the dealer's profit and start your offer there.

SAY: Resources for price research include:

- Edmund's New Car Buying Guides
- Kelley Blue Book and NADA pocket guides
- Public libraries
- IntelliChoice car cost guides
- Consumer Reports/Consumers Union price reports

Slide 11: Negotiation



SAY: Now it is time to talk about negotiating.

ASK: How many of you feel a little uncomfortable negotiating?

SAY: At the beginning of this workshop, I told you that you could save hundreds, if not thousands, of dollars on your next car purchase. Everything we have discussed so far will ensure that you are a knowledgeable consumer. But that knowledge means nothing if you do not use it to negotiate the best deal for yourself.

SAY: Not everyone feels comfortable negotiating, especially with an experienced salesperson. If you are uncomfortable, remind yourself that you have done the homework necessary to confidently name your price. If you are still uneasy, bring a friend with you, preferably someone who knows about vehicles.

SAY: Car salespersons use several negotiating methods with which you should be familiar. However, please know that not all salespeople are dishonest. 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.

SAY: Here are some negotiation tips to help you hone your skills:

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If time permits, ask participants to briefly describe each tip. Confirm or elaborate if necessary.

- **Do your homework.** Create a spending plan, know your debt-to-income ratio, get a copy of your credit report, calculate payment estimates and know a fair price for the car. While the salesperson wants to start high, your goal is to get as much car as you can for as little cost as you can.
- **Take your time.** Never buy the first vehicle you see. Sleep on such a major decision overnight. There will always be others to choose from if “your car” is sold.
- **Limit the information you give.** Your name, military status and particularly your Social Security number can give the salesperson an idea of what you might pay for a car. They can also use the information to initiate a credit check (even without your knowledge or permission). You need only give them your first name to look at and start discussing vehicles.
- **Shop twins.** Some models have twins on other car lots with different nameplates on them. If a car you are interested in is one of them (for example, the Hyundai Accent and Kia Rio are same, or “twin,” vehicles, as are the Dodge Charger and Chrysler 300), be sure to consider its twin and choose the one for which you can get the best deal.
- **Ask for discounts.** If the salesperson offers a discount, ask whether it will apply a week later (in many cases, it will). If they do not bring up the subject, ask for one. Even “one price/no haggle” dealers might discount options, etc. You never know unless you ask.
- **Take a road test.** This is one of the most overlooked steps in buying a car (particularly a used car). When you test drive a car, really test it. Here are a few tips:
 - Drive it as closely as you can to your actual driving conditions: stop-and-go traffic, long trips, high-way acceleration, rough roads, etc.
 - Turn the radio off and listen carefully. Try every knob and switch and check every light.
 - Consider running the car through a car wash to check for leaks (especially with a convertible or when a car has a sunroof or moonroof).
 - If you are considering buying a used car, be sure to have a trusted, independent mechanic check it out before you make the purchase.
- **Avoid unnecessary add-ons.** Dealer-installed options are often unnecessary (such as rustproofing), cheaper when done yourself (such as fabric and paint protection) and sometimes can even void your warranty (such as undercoating). If there are options already on a car that you do not need, ask that the options be removed.
- **180-degree turn.** The No. 1 rule for all deals is, “Everything is negotiable!” However, if you do not like what you hear, do not be shy about turning around and leaving. Remember, it is your money and your decision.
- **Three separate deals.** Remember to negotiate three separate deals: the purchase price of the new car, the financing and the deal on the trade-in. The dealer will try to combine them, and you need to keep them separate. Practice saying the phrase, “That’s not important right now.”

Slide 12: Financing Options



SAY: Unless you plan to be an all-cash buyer, you will need to consider where to have your loan financed. Here are the most common options:

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SAY: Credit unions are a good place to seek financing because of their non-profit status and competitive terms. By law, federal credit unions can only calculate interest using the “simple” method (We will discuss this in a moment).

Also, your credit union may have in-house buying services available. You must be a member and have fairly good credit.

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SAY: Banks, like credit unions, are a good place to look for financing. The main difference is that banks are for-profit institutions. However, they are usually the next-best option and still require fairly good credit to get approved for a loan.

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SAY: Auto dealerships customarily have a relationship with a finance company. Dealers frequently receive a percentage of the loan as commission when you choose to finance through one of their partnering companies. This is passed on to you, the purchaser, along with the normal cost of financing the loan.

SAY: However, there are some benefits to financing with the dealer. It can be convenient, and because 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 does not hurt to see what the dealer has to offer.

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SAY: Finance companies vary widely in interest rates and often deal with 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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SAY: Many Internet sites that deal with car buying also offer finance options or have links to financing alternatives. To protect yourself, check the legitimacy of these sites and companies before you apply for a loan online.

[OPTIONAL – if handout is available] SAY: You will want to review the *Understanding Finance Charges and Knowing Your Rights* handout for information about the different types of interest that might apply to your loan, such as:

- Add-on interest.
- Simple interest.
- Usury laws.

Slide 13: Trade-In



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

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SAY: Trade-in versus 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.

SAY: On the other hand, trading your car in at the dealership can make for a quick transaction and could save you some tax dollars.



Provide the following example, if necessary: 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 percent sales tax, that results in a savings of \$720).

SAY: What is a fair price for your trade-in? The same methods used in determining what to pay for the car you are purchasing can be used to get a fair price for your trade.

SAY: Dealer's offer. Many people choose to trade in their vehicle to avoid the hassle and delay of selling it themselves, and they accept some loss in the price of the exchange. Pricing guides list trade-in values for each model, and these values are reliable guidelines in determining whether the dealer is offering a fair price. Note, however, that the condition of the vehicle will affect the pricing.

SAY: What if you owe more than the car is worth? This is called being "upside-down" on your trade-in or having "negative equity." 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 more upside-down in the new vehicle.

Slide 14: Upside-Down



SAY: When trading in a car with an upside-down loan, consider taking the following steps:

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- Try paying down your loan as much as possible so that you do not finance more than you absolutely have to.
- Re-examine your reasons for purchasing a car at this time. Waiting might save you many future dollars.
- When choosing the car you will be purchasing, try to pick the least-expensive model that still meets your needs and lowers your overall loan amount.
- Consider a private sale, where you might get more for your vehicle.

Slide 15: Protect Your Rights



SAY: As a consumer, you have basic rights under federal laws, but in each state your rights will vary. Check with the Better Business Bureau to research the lemon laws in your state. Other laws to know are included in the *Knowing Your Rights* handout. These include:

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- State lemon laws
- Consumer leasing act
- Odometer reading
- Used car rule buyer's guide
- Magnuson-Moss Warranty Act
- State Auto Repair Facilities Act

SAY: The best legal preparation is to research the car purchase and know what you are agreeing to before signing any contracts.

Slide 16: Complaint Resolution



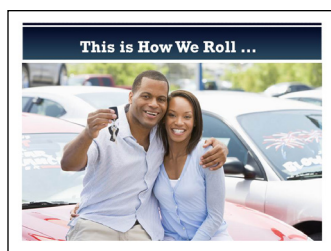
SAY: If you experience a problem, you should follow these guidelines:

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- 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, then speak next to the company's regional representative, because 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 automobile dealers association, etc., they have dispute-resolution processes to assist you.

SAY: If these steps fail, contact your state's office of consumer affairs and the Armed Forces Disciplinary Control Board for investigation and possible prosecution.

Slide 17: This Is How We Roll ...



SAY: Our goal today was to help you evaluate your car buying strategy and make necessary adjustments so you can be a savvy auto consumer.

ASK: As a recap, what are the four things you must know before stepping onto a car lot?

Look for: how much you can afford, the type of vehicle you want to buy, where you will buy the vehicle, and a fair and affordable price for the vehicle.

ASK: As a group, let us list at least three things we learned today that will help us save money on our next car purchase.

Responses may include how to determine a fair price for a car, knowing what I can afford, and negotiation strategies.

Closing (3-5 minutes)



If you have made the Deployment Support Handbook available on the Intranet, refer participants to it. If it is not available, let them know that their friends and family at home may have received it at a deployment briefing or they can check the FFSP website or go to their local FFSC.

SAY: The *Handbook* has pre-, mid- and post-deployment tips that may have been helpful for your family and friends back home. It also includes installation, community and national resources to help you experience a positive homecoming.

Slide 18: Closing



Thank you for your attention during today's training. Be sure to use these strategies when buying your next vehicle.

Slide 19: Financial Planning Workshops



SAY: To learn more about what we covered today, we encourage you to attend the full-length workshop at the FFSC or speak with a Command Financial Specialist (CFS) or FFSC financial counselor as part of your car buying strategy. They offer a wealth of information, tools and resources for you to consider.

CAR BUYING STRATEGIES

This Is How We Roll ...

Buying a new car is exciting, but there are many opportunities to make unwise choices if you do not learn about the process before you buy. Use this handout to evaluate your car buying strategy and take notes on what you learn so you can be a savvy auto consumer.

Four things you need to know before you step onto a car lot:

1. _____
2. _____
3. _____
4. _____

Know What You Can Afford

Total Price	
Monthly Payment	
Down Payment	
Upkeep	



Do Your Homework!

Spending plan

Debt-to-income ratio

Credit report

Loan pre-approval

Estimated payment

Choosing Your Car

Typical use	
Passengers	
Miles	

New Car Benefits	Used Car Benefits

Insurance: Cost-cutting Strategies

<input type="checkbox"/> Shop around
<input type="checkbox"/> Check your credit
<input type="checkbox"/> Ask for discounts
<input type="checkbox"/> Be a safe driver
<input type="checkbox"/> Other?

Safety, Performance and Reliability

Consumer reports

CARFAX vehicle history

Fuel economy

Going "green"

Recalls

True cost of ownership

Resources

Where to Buy

Dealer

Private seller

Internet

Car-buying service

Determining a Fair Price

Conduct price research from sources you know to be reliable, such as www.edmunds.com and www.nada.com

**Your
Starting
Offer**

=

Dealer
invoice

-

Dealer
Holdbacks/
incentives

+

3 to 5
percent
(dealer's profit)

Workspace

Negotiation

Do your homework

Take your time

Limit personal information

Shop twins

Ask for discounts

Take a road test

Avoid unnecessary add-ons

180 degree turn

3 separate deals

Finance Options

	Pros	Cons
Credit Union		
Banks		
Auto Dealerships		
Finance companies		
Internet sites		

Trade-in

Trade-in	
Private sale	
Fair price	
Dealer's offer	
"Upside-down"	

Protect Your Rights

State lemon laws	
Consumer leasing act	
Odometer reading	
Used car rule buyer's guide	
Magnuson-Moss Warranty Act	
State Auto Repairs Facilities Act	

CAR BUYING STRATEGIES

Understanding Finance Charges

There are different types of interest that might apply to your loan. Interest is expressed as an annual percentage rate but is computed in several different ways. It is important that you can talk knowledgeably about these financing terms.

Add-on interest:

Add-on interest is interest for the total amount of the loan 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 even though you are reducing the balance you owe each month. For example, financing \$1,000 for one year at 12 percent add-on interest would result in a finance charge of \$120. Adding this to the principal results in a loan of \$1,120 and a monthly payment of \$93.33.

Simple interest:

Interest paid on the outstanding balance only is called simple interest and is by far the most reasonable to the consumer. Credit unions are required by federal law to charge simple interest only. For example, financing \$1,000 for one year at 12 percent simple interest would result in a finance charge of \$66.19 over the life of the loan. The monthly payment on the loan would be \$88.85.

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 be disclosed in the financing documents. Read the fine print and have contracts checked by your installation Legal Service Office or an attorney before signing.

Consumers have basic rights under federal laws, but their rights vary in each state. The best legal preparation is to research the car purchase and know what you are agreeing to before signing any contracts.



CAR BUYING STRATEGIES

Know Your Rights

- **State lemon laws** enable consumers to get 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 costs and terms of consumer leases and places substantive restrictions on consumer leases.
- **Odometer reading.** It is illegal to 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. 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. Average mileage per year is approximately 15,000 miles.
- **Used car rule buyer's guide, "as is" versus 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 protection, an outside mechanic should inspect any used car before you buy, and any promises made by a dealer should be put in writing. 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, 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.
 - A warning against reliance on spoken promises that are not confirmed in writing.
- **Magnuson-Moss Warranty Act.** A federal law that protects the buyer of any product that costs more than \$25 and comes with an express written warranty. 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 laws, which vary from state to state, may deal with issues such as required disclosures on written estimates, unauthorized charges, invoices, disposition of replaced parts and unlawful acts and practices. To find out whether 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.

