

KOFA HIGH SCHOOL SOCIAL SCIENCES DEPARTMENT

ECONOMICS - PERSONAL FINANCE WORKSHOPS

7 - **BUYING A CAR**



*Vocabulary Keys : Words that are in **bold** = are terms that appear in one of the chapters , Words that are underlined = supplemental vocabulary . Ask questions about these words if you are not familiar with them !*

TOP THINGS TO KNOW

1. Make sure you are getting the right vehicle.

This seems obvious, but you could wind up an unhappy car owner if you haven't thought carefully about how many people and how much luggage or gear you need to carry.

2. Assess the worth of your old car.

Whether you plan to trade it in or sell it, your current car can be an important factor in your budget. Checking the right web site and maybe your local newspaper will give you a realistic valuation. Selling it directly instead of just trading it may also mean a sizable difference in what you get for it, though it may take a while longer to reap the proceeds.

3. Decide whether new or used is best for you.

Cars are built better now than in the past, so used cars make a lot of sense. But if you get a rebate or other cost break, the math may be on the side of a new vehicle.

4. Consider whether leasing or buying makes more sense.

Leasing provides lower monthly payments than buying with an auto loan. But it's not for everybody. If you don't have money for a down payment or if you trade your car every two or three years, you may be a good candidate for a lease.

5. Do your homework and set your target price.

The Internet has made it easier than ever to find out the dealer's cost for each vehicle and its options. That's the first step to getting the best possible deal.

6. If you are not paying cash (recommended) , shop for money before you shop for the car.

*If you plan to buy with a loan, check your **credit union** or local bank quotes online to find the lowest rate. Getting a pre-approved loan will give you added confidence in negotiating a good price.*

7. Negotiating a lease.

In the complicated world of leasing, the dealer will have the upper hand unless you learn the jargon and how to negotiate the various segments of a lease deal.

8. Negotiate a purchase.

If you are doing it yourself, get bids from several dealers, keeping the focus on the dealer's invoice price, which you will know from your research. You may be able to get bids without going to showroom after showroom.

9. If you hate haggling, consider using a car-shopping service.

Auto-buying services, such as web sites or discount clubs, make things easy with pretty good, no-haggle prices. But with most of them, you get quotations from only one dealer. Consumer services that shop several dealers near you may deliver even better prices.

10. Don't let the deal-closer close out your savings.

The finance manager isn't there just for the paperwork. He or she wants to sell you high-profit financial and mechanical add-ons. These are seldom worth the money

Choosing the right vehicle :

Before you shop, conduct an auto-biography.

Hey, wait. Don't go down to the car dealer and start shopping immediately. Are you sure that the car, pickup, sport utility or van you have in mind is what you really need?

If you rush into a deal without carefully considering how you will really use the vehicle, you could be making a \$25,500 mistake, at the average new-car price.

Sure, you want a car that will make you smile. But consider the purpose of most of your driving. Is it commuting? Hauling kids? Weekends? Vacations?

If you drive more than half an hour to work every day, a combination of a comfortable ride and reasonable gas mileage is important. If you frequently drive clients or co-workers to lunch, a sleek coupe won't be welcoming for whomever has to crawl into the back seat; you need a four-door sedan.

If you frequently haul your kids and their many friends or classmates, a minivan or sport utility with three rows of seats may be essential. If weekend errands involve hauling building materials or large bushes, that same utility or van will come in handy.

Be honest with yourself. What is the largest number of people you carry regularly? What is the biggest pile of gear, luggage or haul from Home Depot that you regularly carry?

Once you have made this practical matchup, however, you still have lots of choices. With careful planning, you can get a vehicle that you need and really want.

What can you afford? Add up all the costs and alternatives before you decide which car best fits your image.

After your mortgage or rent, car loan or lease payments are likely to be the next-biggest item in your monthly budget. So calculate carefully what you can really afford. Remember to take into account such items as insurance costs, which can run as high as 12%, but more typically 5% to 8% of the purchase price.

A new (or used) car calls for a new state registration, with fees typically running from \$50 to \$125. These items usually figure into the total amount you borrow with a loan or finance with a lease -- and therefore help determine your real-life monthly payments.

A good rule of thumb is to plan on spending 10% to 15% of your total monthly budget on all automotive expenses. If you are buying a new car, your warranty will cover major repairs for at least the first three years in most cases, but will usually not cover routine maintenance such as oil changes or replacement for items such as batteries, windshield wipers or tires.

A new car means higher insurance costs. Opting for a late-model used car can cut those costs. Your premiums for liability coverage, required of all drivers, may not change much from your old car. What will increase is the so-called collision and comprehensive portions of your policy.

Collision pays to repair accident damage to your car, while comprehensive covers theft, fire and natural disasters. Since you will want these types of coverage for a new car, your costs could shoot up sharply -- especially if you have been driving an older car or truck and have dropped collision and comprehensive coverage to save money.

Check the record. One way you can cut your insurance costs before you buy is to choose a model that has a good safety record and/or a low theft rate. Insurance costs vary not only by model but also by metropolitan areas, and even from city to suburbs within those areas. So when you have narrowed the number of cars or trucks on your wish list to a handful, call your agent for a rate quote, or check theft and safety records on the Web.

For federal crash test results, go to www.safercar.gov. The site operated by the insurance company-sponsored Highway Loss Data Institute will give you rankings for injury and property losses for any vehicle, plus a list of the most- and least-stolen models. Both those factors affect insurance costs as well as your safety and peace of mind.

New or used?

With used cars more reliable than ever, the choice often boils down to money.

There's nothing like that new-car smell. Buying a new car has a lot of allure: It's brand new and it's all yours; nobody has abused it. You can get the vehicle equipped just the way you want, and you get the full factory warranty. But hold on. Your best deal could well be a late-model used car.

The used-car market has changed dramatically in the past few years. To start with, today's new cars -- and thus used cars -- are simply made better. Overall quality and durability has increased as U.S. manufacturers pushed hard to catch up to imports. A second factor is the rise of leasing.

There are plenty of well-kept 2- and 3-year-old cars returning from leases. These cars provide a good supply of attractive, reliable used cars. New used-car superstore chains are making it easier than ever to buy with huge inventories and no-haggle shopping. The kicker is that if you opt for a 3-year-old model instead, you could save as much as 30% to 40% over new.

In the last few years, car dealers, backed by manufacturers, have introduced what they call "certified" used-car programs for newer used cars (usually up to 3 years old). Manufacturers insist that a used car must pass a series of inspections before it can become certified. And once a car passes, the manufacturer adds a fresh warranty, sometimes 12 months or more.

If you want a used car, start by checking prices of the vehicles that interest you. Among the best web sites are Edmunds.com and Kelley Blue Book's (KBB.com). Both are free, and both will let you check the going prices for almost every make, model and year you could want. Both sites list new-car prices as well.

Sites like Autotrader.com and Cars.com list classified ads for used cars, mostly from dealers. Enter your zip code and you'll get a selection of cars within 100 miles or so of your home. While ads for these same vehicles undoubtedly also are running in your local paper, you get more detail online.

For those willing to venture farther from home, eBay Motors, part of the eBay auction site, lists used cars for sale. You can restrict your search to cars in your area, but you'll probably do better by looking at cars all around the country. eBay provides various protections, as well as partnerships with used-car inspection services, to take some of the worry out of buying a used car entirely online. Read the eBay Motors "How to buy" page and see if you feel comfortable with the process.

Once you zero in on some possibilities, you need to double-check them. Unless you are buying a certified used vehicle, spend a little extra to check any specific car, truck or van you are close to buying.

First make sure the odometer is honest and that the car has never been totaled. The used car business may have become less sleazy than it used to be, but problems still do occur.

Firms like Carfax and Autocheck will track down the history of your prospective vehicle by its Vehicle Identification Number (VIN), usually listed on a metal plate just inside the windshield. If, for instance, the car had 50,000 miles when its title last changed but now shows 30,000 miles, take a pass. If the car has ever been sent to a junkyard, a salvage title will show up on the report. About one in 10 cars in its database has some kind of problem, say Carfax officials.

Once a car has passed those big hurdles, you still need to get it checked by your own mechanic, if you have one. If you don't, many cities have specialized mechanic services that will make on-the-spot inspection of used cars. If you are considering spending \$15,000 for a used car, that \$100 to double-check it may be well spent.

If you're buying on eBay Motors, they've got an auto inspection agreement with SGS Automotive. Sellers can have their car inspected and a report posted for potential buyers to see.

The most important thing to remember: Anything's negotiable except the right to inspect. If the seller won't let you and your mechanic inspect the car, walk away, no matter how nicely it runs.

Often, this rule of thumb means you'll be buying from an individual rather than a dealer, for many dealers don't allow inspections. Those who do typically won't let you take the car off the premises and won't let you use their lift.

Unless you have an unusually close relationship with your mechanic, he'll want you to bring the car to his shop. This isn't unreasonable, for a lift is essential for hunting for things like rust, worn brake drums and deteriorating exhaust systems. However, a good mechanic can tell a lot from sliding underneath the car, inspecting the exterior paint for repaired body damage, and checking the odometer reading against actual wear.

Confining your search to individuals usually means you'll get a lower price -- but it's more time-consuming because there's only one car at each location. Regardless of where you buy, there are some rules you can follow.

Jack Gillis, director of public affairs for the Consumer Federation of America, recommends what he calls the "touch and comment" technique often used by new-car dealers when they inspect trade-ins. "When you review the car, visibly point out the various problems that you note," he says. "An exaggerated touch of some loose parts or running your hand along body damage can put the seller in a defensive position."

This tactic can be used effectively when your mechanic is conducting an inspection within earshot of the seller. Have your mechanic mention each problem, allowing you to comment grimly.

Having your expert on hand can make all the difference, because even if you know a lot about cars, you need an expert witness to present the damning evidence. Like any expert witness, however, mechanics must be paid. Some shops offer a pre-purchase checkout for a set amount that can vary widely depending on the shop and the procedures performed. Others offer on-premises inspections for their hourly labor rate, which can range from \$40 to \$70 an hour, depending on the region and the type of shop.

While indispensable, your mechanic is your consultant, not your agent. To get the best possible deal on a used car, you must do some work yourself. Some pointers:

1. Before going to look at cars, visit nadaguides.com and peruse the Official Used Car Guide of the National Automobile Dealers' Association. It lists recent prices fetched by specific year models in

your region. The range between the trade-in value and retail value is your room to maneuver. If you can buy a decent car from a dealer for less than its NADA book trade-in value, more power to you.

2. If the seller touts the car as an immaculate jewel, be sure to negotiate an acceptable price before bringing in your mechanic. Failing to do so could leave you with no bargaining leverage if the car actually is in great shape. Make sure the seller understands that the agreed-on price is entirely contingent on the vehicle making Phi Beta Kappa. Once your technician determines the car's shortcomings -- and there are few used cars on the market without any -- it's your job to put a generous price on each repair needed.

3. Before buying, try to arrange a test drive at night and another on a rainy day. Nothing reveals a cheap windshield like oncoming headlights, and a replacement windshield may mean the car's been wrecked and then given a convincing paint job. Also, it's impossible to know if trunk and door seals are leaking except when it's raining. Again, leaking seals may mean that the car's been wrecked, especially on a car only a few years old.

There is a point at which too many glitches should eliminate the car from consideration. Says automotive author Mortz Schultz: "If you find a major problem, or if you rack up enough minor ones, forget the car."

In return for your rigors, do you get an absolute assurance that you won't regret the purchase? Of course not. It's still a used car, after all. Buyers must accept the occasional ping, ding or rattle. But if your mechanic is competent, and you negotiate adroitly, you can get a great vehicle for a substantially lowered price.

If you decide, however, that you really want a new car, you have a different choice to make: Should you buy or lease?

Buy or lease?

Those low lease payments look great, but there's no such thing as a free lunch.

In those new-car ads on TV, lease payments look awfully low. And they are, compared with loan payments for buying the car. But leasing is not for everyone.

Leasing is the easiest way to get a new car every few years while letting the dealer or leasing company worry about disposing of the old one. Leases have some major disadvantages.

One of the biggest drawbacks -- especially if you are not accustomed to leasing -- is that you are forced to make a major financial decision when your lease expires. You must either turn that car or truck back and buy or lease a new one, or decide to exercise your option to buy the vehicle at the lease-end price. Typically, the value of your car or truck at the end of the lease is set in advance.

Leasing a car rather than buying it will generally cost you much more than simply financing a purchase from the start. If you think you might want to buy the car, do that from the outset. Lease only if you're sure you don't want to keep the car long term.

If you buy a car or truck, you can postpone any decision about replacing it at least until mechanical trouble forces your hand. If you don't mind driving an older car, the best decision on purely economic grounds usually is to buy a new car and keep on driving it long after your loan payments have stopped.

If you typically trade for a new car every four years or less, want to avoid the loan down payment of 10% to 20%, drive close to but not more than the 15,000 miles a year allowed in most leases and typically keep your vehicle in good condition to avoid end-of-lease penalties, you might well be happy leasing.

Keep in mind that there is a reason why those low lease payments look so attractive: Instead of paying for the entire car, you're only paying the estimated depreciation over the time you are leasing it. So to get a really good lease deal, you need to look further than just the payments. You need to understand how leasing works, do your homework, and negotiate as hard as if you were buying the car. Here is a step-by-step guide:

Master the jargon. You can't successfully negotiate a lease without becoming fluent in the industry's terms. What you need to know before you start to bargain: The capitalized cost is the equivalent of the selling price, which you want to get down as low as possible. The residual value is the estimated worth of the car at the end of your lease. Your monthly payments are determined by the difference between these two figures, plus an interest charge known as the money factor. Thus, raising the residual value or lowering either the capitalized cost or the money factor will lower your payments.

Look for a manufacturer-subsidized lease. These deals, often promoted in splashy ads in newspaper auto sections, are likely to be the cheapest available. To identify a generous subsidy, go to LeaseWizard.com and, for about \$25, download a software kit that identifies the best current leasing programs in your region. It also includes the standard residual value data published by Automotive Lease Guide, an independent research firm, and provides options for changing lease terms and mileage limits.

Set a target and negotiate hard. You can find out the so-called dealer's invoice cost for any car or truck by checking sites like Edmunds.com or Kelley Blue Book. Set a target price about 2% above the dealer's cost (\$400 on a \$20,000 car, for instance). Start bidding below your actual target and plan to wind up near that figure.

Be aware, though, that manufacturer-to-dealer incentives may lower the dealers costs to far less than the invoice price, which means you may have a lot more room for negotiating. Consult Edmunds.com, which provides some information about manufacturer-to-dealer incentives. Or go to Kelley Blue Book's site, KBB.com, where you can access the actual prices people are paying for cars, as well as whether manufacturer-to-dealer incentives are being applied to a particular vehicle.

The web site for the car-buying service CarBargains.org also sells a monthly newsletter detailing available incentive plans including dealer incentives

Shopping for money :

*Always try to pay cash for a car . It is the least expensive way to buy because a car is a **depreciating asset** (losing its value from the day you take ownership) , so why pay more (via interest on a loan) than its initial value ? However , there may be times when you absolutely must have transportation and you may not have enough cash to completely pay for the car . In that case , having a loan approved in advance lets you focus on price negotiations.*

When you go to a car dealership to negotiate for a new car, you're in a stronger position if you have a pre-approved loan. Unless your model has a special low-rate financing offer backed by the manufacturer, a local bank or credit union is likely to give you a better deal on a loan. And in most cases, you can take a rebate in place of any low-rate financing and use that to lower your purchase price.

Credit unions typically charge 1/2% to 1% lower interest than bank car loans. You may have access to a credit union where you work, or may be eligible through a professional organization (teachers, government employees, etc.).

If you don't have ready access to a credit union, check out your local bank offerings. Web sites specializing in loan information will give you a quick rundown on average rates and the best rates in your area.

When you get a pre-approved loan, that commitment usually is good for a month or more. So you can shop for the car you want knowing your financing is ready to go.

In addition to getting financing before you go to a dealership, you also need to do your price homework. That's our next lesson -- setting your target price.

Setting your target price :

It's easy to learn what the dealer's cost is on any vehicle. Find out before you start negotiations. Having more information gives you more power. Not long ago, auto dealers had the upper hand because they had most of the information about price, but knowing where to look online can give you an advantage.

Using Web sites like Edmunds.com or Kelly Blue Book's (KBB.com), you can find out the dealer's cost for any vehicle. You can also find out about customer or dealer rebates, subsidized lease deals, or other special breaks that can cut your cost. Best of all, you can decide exactly what you intend to pay for the car or truck before you ever go near a showroom.

The number most often cited as the dealer's cost is the so-called invoice price -- the wholesale price that the manufacturer bills the dealer on shipment. But that is not the whole story.

The manufacturer may offer so-called "dealer incentives" for slow-moving models -- in effect, rebates paid to the dealer instead of the car buyer. Unlike heavily advertised consumer rebates, these dealer incentives are rarely publicized. If you have done your homework and know such an incentive exists, you often can negotiate half or more of that amount for yourself.

A hot-selling new vehicle may sell for a while at full MSRP with no bargaining possible. But for more ordinary vehicles, a good starting point is to aim for a target price of 2% over the dealer invoice price.

For a slow-selling model, you may be able to go even lower. If you discover that the model you want carries a sizable consumer rebate or dealer incentive of \$750 or more, let that alert you to bargain harder, since the dealer and the manufacturer want to move that model.

Negotiating the best deal

Know your target price and be ready for dealer maneuvers. Before you head for the dealership you will have already done your homework, so you will know the dealer's invoice price, whether rebates or dealer incentives are available, and your target price, as well as where you plan to start bidding.

You want to start the bidding as low as you reasonably can, but not so low that you will seem like an uninformed buyer just making a low-ball offer. Pull together a folder showing your data and sources for these details so you can readily refer to them yourself or show them to the salesman.

Here is what to do at the showroom. Establish quickly that you are a serious buyer, not a browser. If you come across as just shopping, the salesperson will be eager to move on to a likelier sale. Don't say: "I'm looking at the Ford Taurus." Say instead: "I plan to buy a Ford Taurus LX within the next two weeks and I know pretty much how I want it equipped. I will buy where I get the best price. Let's talk about it."

That keeps you in control. The salesman wants to know as much about you as possible to start spotting potential profit points. Stay pleasant, but just turn away questions and say: "We can talk about me later. Let's talk about price."

Focus on the invoice price. As soon as you can, try to switch the discussion away from the MSRP, or list price, to how much you intend to bid over the dealer's invoice cost. Bring out your Internet printout to show you have done your research on this. The salesman may well say: "That is not the right invoice price for the car." He or she may in fact know less than you do since traditional dealer training focuses on the MSRP and many dealers do not give salesmen the invoice prices. Say: "This is the invoice price for the car I want with the equipment I want." Show him your printout.

A note on buying cars as a couple: If you're negotiating to buy a car with your spouse, make sure that you both agree beforehand on what you're going to say and not say. If you're buying as a team, it's imperative that you act like one in front of the salesperson -- who will doubtlessly try to exploit any division of interests you and your spouse may have. The negotiation table is no place to sort out monetary or philosophical differences with your mate.

Start low. Though your target is \$200 above invoice, you need to leave room for the dealership to budge you a little. So start out bidding at the invoice price on a car like the Taurus, where a rebate signals you to negotiate hard. You know you are entitled to the \$500 consumer rebate that was offered recently, but don't bring that up yet. If that \$500 had been a dealer instead of a consumer sales incentive payment, you would start out bidding to try to capture at least half that money. In

that case, you would bid \$300 below invoice and make it clear how you got that figure. "Since the dealership stands to get a \$500 payment from Ford as a sales incentive, \$300 below invoice seems fair."

He who hesitates loses. At this point, the salesman is likely to say something like: "I think this is way too low, but I will take your offer to my sales manager and see what I can do for you." He or she may not even intend to talk to the sales manager, but plans to keep you waiting in the glassed-in office to pressure you into a higher offer before even seeking approval. Tell him or her you do not intend to wait long. Then don't just sit there. Wander around the showroom or go outside to look at other cars. That usually brings the salesman back quickly. It's likely that he will bring the news that your initial offer was not good enough. At this point, if you started the bidding at the invoice price, agree to \$100 over invoice.

If you get it, take it. If the dealership has a car in the color and equipment you want, and the salesman offers \$200 over invoice, accept the offer. If not, get the best offer and take it to another dealer. If the second dealer beats the original offer, keep the competition going -- play it back to the first dealer.

When you hit your target or come as close as you think you can, agree on the price. Now, and not before, is the time to talk about a trade-in. You already will know what your car is worth from checking local ads and looking up your model on sites like Edmunds.com and Kelley Blue Book. If your car is a popular model in good condition and you are sticking with the same brand, you might match or slightly beat that price with your new-car dealer who sees potential profit in selling your used car. If the trade-in offer is a good one, say yes. If not, plan to sell it yourself or take it to the used-car lot of other dealers for a price quote.

Once your price and trade-in are set, you still have to finalize the deal. In our next section, we tell you how to close.

Closing the deal ;

Don't let your guard down at this crucial moment or you might close out your savings.

The salesman may call it "doing the paperwork" or some similarly innocuous description. But the finance manager you are about to meet hopes to boost dealer profits at your expense with attractive-sounding offers of mechanical and financial add-ons. In most cases, just say, "no." But there are some exceptions.

Even if you already have financing approved, go ahead and let the dealership's financing officer give you their best offer. It may still be better than what you have in hand.

The next pitch you are likely to hear is for an extended warranty. In most cases, you'll want to pass on this. Unless you're buying a car that has known dependability issues, extended warranties usually don't pay off, according to research by Consumer Reports magazine. Instead, research the long-term dependability of the manufacturer you're considering buying from. Try to buy a car that doesn't make you feel like you need an extended warranty.

If you decide to buy one, ask when the extended-warranty coverage kicks in and what it covers. So-called "power-train only" warranties, for instance, may exclude expensive electronic repairs common in today's cars. Also be sure you know how long the manufacturer's warranty runs. Volkswagen and Hyundai extend power train coverage for 10 years and luxury models Lexus and Infiniti for six to eight years.

The latest vogue in add-ons (replacing rust proofing now that almost all new cars are rustproof to start with) is security etching. Having your vehicle identification number etched into the glass on your windows may, as claimed, make your car somewhat less likely to be stolen. But it is certainly not worth the \$1,100 some dealers charge.