

*Buying and Financing
Your New or Used Car*



*County of Bucks
Department of
Consumer Protection/
Weights and Measures*

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*Provided as a public service
by the
Bucks County Commissioners
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Protection / Weights & Measures*

Helpful Websites

Consumers' Checkbook—Car Bargains www.carbargains.org

Edmunds.com www.edmunds.com

Federal Consumer Information Center www.pueblo.gsa.gov

Kelley Blue Book www.kbb.com

National Automobile Dealers Association **(NADA) Guides Online**
www.nadaguides.com

National Highway Traffic Safety Administration www.nhtsa.dot.gov

*The material in this brochure
is for informational purposes only.
It is meant to give you general information
and not specific legal advice.*

Before You Sign Anything - *READ THIS!*

**DON'T BE PUT "ON THE SPOT."
BEWARE OF *SPOT DELIVERY!***

So you purchased a beautiful new car, signed all the necessary paperwork, and drove it right off the lot, a big smile on your face. The dealer got your financing approved *on the spot*, or so you thought.

A few days or weeks later, the dealer calls and asks you to return to sign "a few more papers." "Mr. Smith," he says, "we couldn't get the car financed, and you need to sign a new loan with another bank", or "you need someone to co-sign", or "give us another \$1,000 and we can do the deal", or "Mr. Smith, we need to increase your monthly payment to get this done". The dealer may even have delayed paying off a traded vehicle loan or refused to mail registration papers, all to place additional pressure on the consumer to do as they are instructed or to face dire consequences to their credit.

SOUND FAMILIAR? IT GETS WORSE!

If you refuse, the dealer may threaten to repossess the car, tell you that you have no legal entitlement to keep it, or even make you wait for hours at the dealership under some excuse, to wear you down. This situation is most common when it involves customers with bad credit, since dealers perceive that such people are vulnerable and easy to take advantage of.

Most consumers assume the dealer is telling the truth and will do whatever the dealer says, resulting in higher payments, additional money being spent over the life of the loan, and/or thousands of dollars in increased "hidden" costs. Those who refuse see their cars "repossessed".

WHAT IS HAPPENING HERE?

It's a scam! Unlawful! Illegal! Call it what you will. The Industry has given it a name: *SPOT DELIVERY*, a description which refers to the dealer placing a consumer in a car "on the spot" to get the sale, only to "yo-yo" them back at a later date for additional funds. Played to perfection, a dealer can reap thousands of dollars in unearned fraudulent gain.



WHAT TO KNOW:

If you signed purchase documents and registration applications and if you obtained insurance for the vehicle, had a new license plate put on the car and/or had your old plate transferred, *the car belongs to you.*



If PennDOT records do not disclose the previous mileage, contact the most recent previous private owner (not dealer) and ask how many miles were on the car when it was sold. If the mileage was approximately the same as when you purchased the car, you probably can dismiss your suspicions. To check further, contact the next previous owner for the mileage information.

Take Precautions:

- Know the reputation of the person or dealer from whom you are purchasing your car.
- Obtain the odometer mileage **before** completing the transaction.
- Don't fool yourself. A car that is ten years old will not have only 10,000 miles on its odometer.

Savvy Shopping in A Nutshell

Know What To Ask

When shopping for a car or auto financing, make sure you ask about the following:

- Total price of the vehicle
- Available "dealer incentive" discounts
- Total amount you will pay over the life of your loan
- Annual interest rate
- Monthly loan payments
- Number of months until the loan is paid off
- Early payoff fees that could cost you more if you decide to refinance your car loan
- Cash down payment
- Trade-in credit for your old car
- Additional fees like delivery or title transfer



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- The dealer must honor the quoted trade-in allowance.
 - An “As-Is” notice must be attached to the window of a car being sold without a warranty.

Odometer Rollbacks

It is illegal to disconnect, reset, or replace an odometer for the purpose of changing the number of miles on it. Federal and State laws give protection to consumers who suspect they have purchased a car with a rolled back odometer.

According to law:

- When a vehicle is transferred, the new owner must be given a written odometer statement disclosing the car’s true mileage at the time of transfer, the date of transfer, the buyer’s and seller’s names and addresses, and the vehicle’s make, year, body type and vehicle identification number (VIN #).
- It is illegal to tamper with an odometer; sell, use or advertise any device for tampering; or operate a vehicle with a disconnected or non-functional odometer with intent to defraud.
- If the seller knows that the mileage has exceeded the 99,999 miles mechanical limit, he must provide that information to the buyer.

Consumers who suspect that they have bought a used car whose odometer was rolled back should follow this procedure:

Write to: Bureau of Motor Vehicles
Licensing-Information Sales
1101 S. Front Street
Harrisburg, PA 17104-2516

In your letter, give the serial number and the title number of your car and request a list of previous Pennsylvania owners. There is a small charge for this information.

You will receive a photocopy listing previous title holders, their addresses, and in some cases, the car’s mileage at the time of sale if PennDOT has such information available.

TOOLS TO PROTECT YOURSELF

- Remember that if you have signed papers, you own the car, regardless of whether the vehicle has been financed.
- Your credit was good or the dealer would not have delivered the car to you at the price you agreed to pay.
- A finance document showing payments, deposit, interest rate and other finance items is a binding contract, giving you specific legal rights.
- You own the car subject to making payments only. The dealer cannot change that once you take possession.
- Keep all copies of your paperwork and anything else associated with the sale (including calendars, photographs, advertisements). If the finance manager asks for your papers at any time for any reason, *refuse!* Keep these documents in a safe place—not in the car.
- If you are called back to the dealership to sign additional papers, either do not go or do so in a different car than the one you bought.
- Have a friend or spouse drive you and witness whatever is being told to you. This will prevent the dealer from taking your car as hostage, an all too common happening.
- If a dispute arises with the dealer over the contract and the dealer demands the car be returned, park it in a garage or remote location until the matter is resolved, to prevent it from being taken against your wishes.
- Put together a complete timeline of everything that happened from the time you thought of purchasing the car until the car was taken away. Try to remember specific names of dealership personnel and any statements that were made to you during conversations with the sales and finance staff..

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- Keep track of all monies you had invested into the purchase, including registration, insurance, down payment and trade. *Never* pay cash, and *always* get a receipt!
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Buying A New Car



Whether you think of your car as an object of love or view it merely as a way to get somewhere, having a brand new one is bound to give you a lift. But that pleasure can be tainted by thoughts about the cost – both the thousands of dollars you must pay for the vehicle and the emotional cost of coping with the hassles of making the purchase.

Fortunately, there's a way to avoid the hassles and get a great price. The key is competition. Get new car dealers to bid competitively for your business.

The Center for the Study of Services, an independent nonprofit consumer group, operates a service used by many thousands of customers each year to get great prices on new cars. See the "Money-Saving Help" list on page 16 of this pamphlet for more information. You can use the same general approach and get a very good price on your own. What follows is advice that comes out of the experience of this service.

For Your Protection

Although just about everyone buys a car at one time or another, many people are wary when it comes time to actually complete the purchase. Fortunately, Pennsylvania has the Automotive Industry Trade Practices regulations, which provide the consumer with many protections when it comes to buying a car. These regulations cover numerous aspects of the car buying process, from advertising to the condition of the vehicle.

Advertising and Representations

One section of the regulations prohibits deceptive advertising and misrepresentation in describing a car and its price. Dealers must state the existence of certain defects or conditions. Advertisements must disclose:

- The business name and address of the car dealer.
- The year, make, and model of the car.
- The conditions of sale, including the offer's expiration date and any limitations on the number of vehicles available.
- If price is indicated, it must include all charges usual or necessary prior to delivery, such as freight, handling, and dealer preparation charges. ***Tax, registration and licensing fees need not be included, however.***

In addition, the regulations also contain detailed provisions about the written agreement given to you when you buy a car. Among these, the regulations require that:

- A copy of the written contract or agreement of sale, the installment sales contract, an odometer statement and the warranty be provided to the consumer.
- The contract must list the car as "new" or "used," and if used must describe the vehicle's prior usage.
- The contract must list itemized charges for any item not included in the purchase price.
- The dealer must deliver the car within the time specified in the contract or within eight weeks after the contract date.

Car manufacturers often offer special financing plans as an alternative to customer cash rebates. Whether the financing plan is a better deal than the cash rebate depends on the size of the rebate, the manufacturer-offered plan's APR, the APRs available from other lenders, the amount you'll be borrowing, and how long a period you'll be borrowing for. On a 48-month loan, each percentage point you cut your APR is the equivalent of a car discount of about \$20.50 per \$1,000 of loan.

To illustrate, assume you could get a \$13,000, 48-month loan from a bank at 10% APR, and that the special manufacturer-offered plan's rate is 5.9%. The savings from the factory plan would be estimated as follows: $(10 \text{ minus } 5.9) \text{ times } 13 \text{ times } \$20.50 = \$1,093$.

Refinancing Your Loan

Just because you're paying 16% on your car loan doesn't mean there isn't a better deal to be had. Most car loans can be refinanced without a lot of added costs and you might be surprised at your savings from a new loan. Before you try to refinance your loan, ask if your current loan has a penalty for early payoff.

When shopping for a new loan, ask about hidden fees or processing charges before you apply. You will be required to pay a title transfer fee because during refinancing you will replace the name of your new lender for your old one on your car's title.



You may have had friends tell you about sitting eyeball to eyeball for hours with new car dealers.

It's nonsense. They wasted their time.

The only leverage any customer has with a new car dealer is the possibility that he or she will walk out – and either buy a car from another dealer or not buy one at all.

To get a good price, you need simply set up a competitive bidding process. You have to be careful, thorough, and persistent, but you don't have to know all the intricacies of the car business.

You can start the bidding process after you've decided on the make, model, and style of car you want. You don't have to know the exact options you want.



It's best to conduct the bidding process by phone. If you try to do it in person, you'll waste many hours and you'll have difficulty persuading salespersons that you're really serious about leaving and getting other dealers' prices.

Get each dealer to bid an amount above or below the "factory invoice price". The factory invoice price is the same for all dealers, so if one dealer bids \$500 *ABOVE* invoice and a second bids \$500 *BELOW* invoice, you'll know the second is \$1,000 lower priced than the first. The "Money-Saving Help" list on page 16 of this pamphlet tells you how you can get information on factory invoice prices.



But you really don't have to have the invoice price information in advance; just explain to each dealer that you will expect to be shown the actual factory invoice for any car you consider buying. Talk only to a sales manager or fleet manager. Here's the basic approach:

“I’m in the market for a (make/model/style) and I’ve made a list of dealers to call – including one that’s out of the local area. I’ve done some homework, and I know the approximate invoice cost of the car. What I’m doing now is calling each dealer on my list to find out what each wants as a markup or markdown from factory invoice cost. I would expect to be able to take my pick of any car on your lot of the make, model and style I’m looking for at the markup or markdown you quote. So that everyone is on a level playing field, I’m not saying what any other dealer is bidding. I assume you will let me see a copy of the invoice of any car I pick out to buy.

“Before we talk about your markup or markdown from invoice, tell me are there any charges you will expect me to pay for advertising, document preparation, or other services even though they are not listed on the factory invoice? Also, are there any dealer add-ons, like rustproofing, pinstripes, or wheel locks, that I will be required to pay for?”



You may want some options that aren’t factory options. For example, some manufacturers don’t offer Bluetooth or CD players as a factory-installed option on some basic styles. If you are interested in such *dealer installed* options on these cars, you’ll need to find out each dealer’s charge to provide them. Then ask:

“Is there a factory-to-customer rebate in effect on this car? Please don’t take any customer rebate into account in your bid; I assume I’ll get the rebate separately as a further discount..

“Okay, I think that’s all I needed to go over. Now, would you like to give me a commitment as to exactly how much mark-up or markdown you’ll accept above or below all these costs we’ve just discussed?”

If your ailing credit record puts you into the “subprime” financing arena, you should first try to work with a credit counselor or other advisor. It may be possible to consolidate debts or come up with a workable repayment plan. If you show a loan officer that you are taking action to overcome the problems, they may be more willing to grant you a loan at a reasonable rate.

As a last resort, dealers may offer special financing packages for those with credit problems. However, you may pay as much as four percentage points more for a loan.

The Markup Game



Most auto finance companies that work with dealers mark up the interest rate the company will charge by several percentage points. To explain the difference between the quoted rate and any advertised rates, salespeople will tell customers they do not qualify for the lower rates. This extra finance charge is called a “yield-spread premium” and it is pure profit that is split between the dealer and the lender.

The markup is not illegal, but it is unfair because it is hidden. To make the practice even worse, recent studies have found that especially high markups are charged to African-American and Latino customers. The best way to avoid a dealer markup is to determine your credit and what loan rates you would qualify for with an online lender or with your bank or credit union before visiting dealerships, which will put you in a strong position to negotiate the best deal.

Ready to Finance?

First, check the annual percentage rate (APR) currently being offered by banks and savings and loans in the area. As mentioned earlier, if you are a member of a credit union, check their rate.

According to the Fair and Accurate Credit Transactions Act (FACT Act of 2003), the three major credit bureaus are required to provide consumers with one free credit report each year. To get your credit report, contact:

Equifax— 800-685-1111, www.equifax.com

Experian— 888-397-3742, www.experian.com

Transunion— 800-916-8800, www.transunion.com

Your credit can be affected by how often you have moved, how steady and how verifiable your employment history is, and how many credit applications you have filled out recently. If you've never had a car loan before, or if your current debt is high despite a good credit rating, you may be quoted higher rates.

In most cases, people with a credit score of 680 or above are considered prime borrowers. Those with scores below 550 many have problems getting a loan at all.

How Much Car Can You Afford?



Probably the most difficult part of buying a car will be figuring out what you can afford. A good rule of thumb: your monthly auto loan payment should not be more than 20% of the money you have available each month after you pay your usual living expenses—rent or mortgage, utilities, food, transportation, credit card payments, etc. When reviewing your budget, you should also take into consideration other associated costs of owning a car, such as fuel, license, registration, personal property taxes, and insurance. Contact your insurance company before you purchase your car to determine what the monthly insurance costs will be.



If you are taking out a car loan, figure on a down payment of at least 10%. Lenders might be skeptical otherwise. If you have enough cash available to boost that percentage, do so. Cutting the principle of your loan will do more to slash payments than getting a lower interest rate.

“What if I don’t see the car I want on your lot but I still want to buy my car from you? Will you exchange cars with another dealer in order to get me the car I want? Will you still honor the bid you just gave me if you have to get the car from another dealer? If not, how will you figure the additional charge for this dealer exchange? What if I want to factory-order a car? How will that affect your price commitment?”

You *can* go through this process with each dealership. Don’t be intimidated. If you don’t understand something or if answers seem fuzzy, ask again. You will almost certainly save hundreds of dollars – many buyers will save thousands of dollars by following this process.

What if the dealer won’t give me a price?

There are many excellent dealers that will respect your businesslike approach and respond in kind. But some dealers may not be so helpful. You may get responses like –

“I’ll beat any price you get. Call other dealers and then call me back.”

“What do you think is a fair markup? You tell me.”

“We don’t quote prices over the phone. Just come in and I’ll give you the best deal in town.”

Let these dealers know: if they don’t bid, they have no chance for your business. Be businesslike and persistent. If a dealer won’t give you a serious bid, go on to the next dealer.

What does “factory invoice price” really mean? Aren’t there hidden kickbacks?

The “factory invoice price” is *theoretically* what the dealer paid the manufacturer for the car. The dealer will actually have a printed invoice that shows this price figure. It is *less* than the “manufacturer’s suggested retail price” (MSRP) which is the “list price” shown on the window sticker of the car and is the price for which the manufacturer *theoretically* thinks the car should be sold to you.

Actually, almost all cars are sold *below* the manufacturer's suggested retail price, and some cars are sold to customers *below* the factory invoice price.

How is it possible for a dealer to sell a car below the factory invoice price? It is possible because the factory invoice usually doesn't reflect the true cost to the dealer: dealers often get "holdbacks", end-of-year carryover allowances, factory-to-dealer incentive payments, and other allowances that reduce the cost below what the factory invoice shows.

Although the factory invoice price is not the dealer's true cost, it *is* a useful figure because for identical cars it is the same for all dealers. That is why you can use it as a reference point for dealers' bids.

How do rebates and incentives work?

If a car manufacturer offers a factory-to-*customer* rebate, you will be able to get this rebate directly from the manufacturer, or you can have the dealer apply the rebate to your purchase price, further reducing the price of the car.

In contrast, a factory-to-*dealer* incentive payment, sometimes referred to as a "dealer rebate", is money the factory gives the *dealer* for each car sold. The dealer can use the money for advertising, employee bonuses, extra profit, or many other purposes – or the dealer can pass this money along to you as a price reduction. One of the purposes of the bidding process is to use competition to prod dealers to give this incentive money – which sometimes is \$500, \$1,000, \$2,000 or even more – to you as a price reduction. The "Money-Saving Help" list on page 16 of this pamphlet tells you how to get information on rebates and incentives.



A negative item on your credit report may cause a dealer to raise the interest rate of a loan even after you've signed a contract on the car.



When you are pre-approved, many lenders give you a blank check to take to the dealership when you shop. The check has a price limit and an expiration date. Dealers like to complete a transaction the same day and may give you a lower price if you can close the deal immediately.

If you don't get pre-approved and you don't want dealer financing, ask the salesperson for a purchase order that you can take to the bank or credit union to apply for a loan. You will have to wait for your loan to be approved before you can buy the car.

DID YOU KNOW? Many people are eligible to join a credit union and don't realize it. Credit unions are not-for-profit and they exist to provide a safe, convenient place for members to save money and to get loans at reasonable rates. To find out if you are eligible to join a credit union, visit the CUNA web site at www.cuna.org and click on "Consumer Information".

Checking Your Credit

Your credit is the biggest factor in determining whether you will be approved for a car loan and what the interest rate will be. If you have a poor credit rating, you'll be asked to pay a higher than average annual percentage rate (APR) to finance your loan.

Don't go shopping for a car or a car loan until you've ordered a copy of your credit report. Errors on credit reports are common, and by checking your report ahead of time, you'll be able to contest inaccurate information. It can take time to dispute mistakes on your credit report.

Rebates

Rebates are widely advertised price reductions offered during slow sales periods or on overstocked models. Often, however, dealers will offer you the option of low-cost financing instead. If you get outside financing, you may be able to get both the rebate and a low interest rate. To make it easy to determine the better deal, use one of the many online calculators. To find them, search on the Internet for “auto financing calculators”.

Dealer Incentives



On some models, dealers may offer incentives that are not advertised to the public. Dealer incentives are passed on to the dealer by the manufacturers. Dealers don't have to pass the savings on to the customer and sometimes salespeople are not even aware of them. Ask to speak to the sales manager about dealer incentive

programs. It can help you to negotiate a better deal if you know that the dealership often will adjust its profit margin to make a sale. Check auto magazines and websites such as Edmunds.com for information on incentive programs.

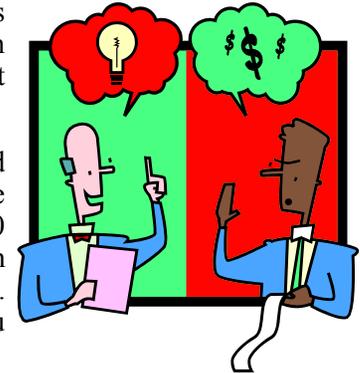
Get Pre-Approved

It's a good idea to get pre-approved for a loan *before* you look for a car. This allows you to compare the rates you found with what the dealer offers. At the very least, you should check your credit score and get quotes from online lenders before venturing into a dealership. E-loan.com provides free credit scores and individualized interest rate quotes online.

DID YOU KNOW? Lenders may look more favorably on your loan application if you can prove you have lived in the same place and worked for the same employer for six months to a year and you can verify your income with two or more consecutive pay stubs.

What is a good price?

There's no one answer to this question. The right price depends on supply and demand at the moment for the specific car you want.



Some consumer advice articles and books give guidelines like the following: “Shoot for \$150 to \$300 over invoice for a mid-size car in good supply.” Ignore such advice. The only way to know what you should pay is to get dealers to bid.

Do I have to know more about prices and costs to get a good deal?

The more you know about factory-to-dealer incentive payments, “hold-backs,” and other allowances the dealer will receive, the better off you'll be. It is also helpful to know what the current market for cars is – the best prices cars like yours have recently been selling for. That gives you a “target” price to shoot for.

But without devoting your entire life to car buying, you can't hope to know about all the available allowances and current selling prices. You have to count on competition – and the fact that no dealer knows how much the next dealer will give away – to drive down the price to a satisfactory level.

What if a dealer won't live up to its bid?

This could be a problem for individual buyers, but it doesn't have to be if you do the bidding properly. Be very businesslike in getting your bids. Deal only with a sales manager or fleet manager. Review the details of the bid by phone with the dealer. If you have access to a fax machine, have the low bidder fax a confirmation. If a dealer tries to renege on a bid or make changes, take your business to the next lowest bidder.

Financing Your Purchase

Choose the right car

If you are going to finance a vehicle, look for one that will retain its value over time. You can find historical information on specific models online at Kelley Blue Book (www.kbb.org) or in *Consumer Reports* magazine at the library.

Auto insurers don't publish the fact, but they have a rating system to determine how much it will cost you to insure different makes and models. Since you will be required to carry expensive collision insurance coverage on your financed vehicle, contact your insurance company in advance to ask about differences in premiums for the cars you are considering.

Buy or lease?

Leasing rarely makes as much financial sense as buying a car, especially a good used vehicle. Leasing is like a long-term rental, but car leases come with strict rules about how many miles you can drive and keeping the car in excellent condition.

Leasing costs you more in the long run, because at the end of the lease you don't own the car, but it still attracts many car shoppers because on the same car monthly leasing fees are lower than monthly financing payments.

When the lease term expires, you can return it, buy the car from the dealership for an additional sum, or trade it in on a new leased model.

Lease agreements usually allow you to drive 12,000 to 15,000 miles per year. For additional miles, you'll pay between 10 to 25 cents per mile.



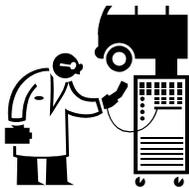
Do I need to know the exact options I want?

You are better off not to limit dealers' bids to a specific set of options or a specific color. Get the dealership to make its markup or markdown commitment applicable to any car of your make, model, and style. This approach allows dealers to bid even if they don't have a car with a specific option that you might have requested but that might not be of great importance to you.

Once you have your bids, you can call the low bidder to check what specific options and colors are available on cars that are on its lot or that it can get for you.

Shouldn't I consider which dealer offers the best repair service?

Your new car warranty will require you to use a dealer for covered repairs. For this warranty service, you'll naturally want to use a dealer that is conveniently located and that does high-quality repair work.



But you don't have to have warranty repairs done at the dealership that sells you the car. Your manufacturer will reimburse any of its franchised dealers for your repair work. So you can buy your car at the dealership that gives you the best price, then have repairs made at a different dealership if the other dealership is more convenient and does better work.

A dealer with a good repair shop is likely to give you good service even if you didn't buy there. Dealers make money on repairs and won't want to lose your repair business.



How should I deal with financing, trade-in, and other extras?

You don't want to lose the benefit of a good price on a new car by paying too much for financing, for an extended service contract, and for rust-proofing, paint sealant, and other add-ons. You also don't want to get too little for your used car trade-in, if you have one. Before you go to a dealer to buy a car, you must know the true market value of all these extras. To avoid confusion, don't discuss any of these matters with a dealer until you have settled on the price of your new car.

Other problems you may want to avoid include:

Damage Disclosure, Salvage and Rebuilt Titles—These titles are issued by states when the vehicle has sustained damage as a result of one or more incidents. States issue salvage titles when an insurance company takes possession of a vehicle as a result of a claim. This generally occurs after a vehicle has been declared a total loss. The state may issue a rebuilt title if a vehicle sustained damage and was rebuilt or reconstructed, then placed back on the road. States issue junk titles to indicate that a vehicle is not roadworthy and cannot be titled again in that state.

Lemon Laws (Manufacturer Buyback Titles) - “Lemons” are sometimes resold to consumers as used cars. The lemon laws were enacted to protect consumers from having to keep a new car that has recurring problems.

If someone buys a new car with major problems, and the manufacturer fails to repair the defect in a certain amount of time, the manufacturer may be required to refund the consumer’s money by buying the vehicle back. Unfortunately, some of the vehicles which are bought back are subsequently resold as used cars.

Flood Damage Title—States issue flood titles when a vehicle has been in a flood or has received extensive water damage.

If you still want the car after the test drive and inspection

- Take the car to a mechanic you trust and have it checked. Make sure the compression is tested.
- Attempt to contact the previous owner.

A Note on Curbstoners

Most states limit the number of cars that an individual can sell without a dealer’s license or only allow the selling of one’s personal car. Curbstoners are people who ignore these laws and sell multiple cars that frequently have hidden problems in their pasts—problems that can affect both the safety and the value of these vehicles. Before buying any used car, you should research both the vehicle and the seller. Be wary of sales conducted from the side of the curb or a vacant lot. Often these vehicles are sold by con men posing as private individual sellers.

Extended service contracts

Extended service contracts often yield substantial profits for the dealers that sell them and the extended service contract companies that back them.

Many new cars are very reliable, so there are few service claims. Also, many cars now carry long manufacturer warranties, so many service problems are covered by the warranty, leaving little to be covered by the extended service contract.



If you decide, despite these facts, that you want to purchase one of these service contracts, check carefully exactly what is covered. Almost all contracts exclude from coverage maintenance and wear items, ranging from brake pads to exhaust system components to air filters. And many contracts exclude – or fail to include – electrical devices like power windows and radios, interior trim, gauges, and even air-conditioning systems. Some contracts cover the cost of towing and a rental car but others do not. And most contracts require you to pay a “deductible” amount for each repair – in some cases, as much as \$100 – before the service contract company pays anything.

Be sure to check whether you can get repairs done at the selling dealer only, at any dealer of your make of car, at any new car dealer, or at your choice of a new car dealer or an independent repair shop. Since many consumers are more satisfied with repairs at independent shops than with dealer repairs, it’s good to have the option of using an independent shop.

Also, check how the shop will be paid. Under some contracts, the shop simply bills the contract company; under others, you must pay the shop, then seek reimbursement from the contract company. Even if a service contract company says shops can bill it directly, check with repair shops you might use to make sure they will in fact bill the contract company. Many shops have decided not to put up with the hassle of collecting from service contract companies.

Finally, be sure the service contract company is financially secure. Many of these companies have gone out of business in recent years, rendering their contracts worthless. You are probably safest with a service contract backed by an auto manufacturer, by a large insurance company, or by a long-established independent warranty company.

A key point: If you want an extended service contract, you don't have to buy it where you buy your car or where you plan to have it serviced. For example, you can buy your car from one Ford dealer, buy a Ford-backed service contract from another Ford dealer, and have your car serviced under the contract by still another Ford dealer. There have been cases where one dealer was selling a contract for under \$500 while another was selling exactly the same contract for more than \$1,000.

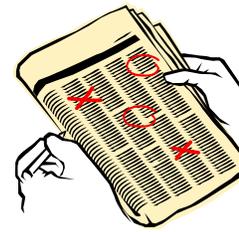
Before you go to a dealer to purchase a car, check other dealers for the prices and coverage of their service contracts. Then you'll be able to use these alternative vendors either to negotiate a good service contract price from your dealer or to supply you a contract if your dealer won't meet the competition.

Other add-ons

If a dealer has already applied rustproofing, paint sealant, or fabric protection, you will have to pay for these treatments, but they often are over-priced. When dealers have outside vendors come to the dealership to apply these treatments on cars, the total cost to the dealer is usually less than \$50 per car. If a dealer tries to charge you more than that, you can regard the cost simply as an extra markup. It's better to buy from a dealer that applies these treatments to cars only after a customer requests them.

With regard to rustproofing, there are special problems. Many manufacturers recommend *against* dealer-installed rustproofing. Most say such rustproofing is unnecessary, and some are concerned that it will block weep holes and actually *contribute* to rust.

Burglar alarm systems, wheel locks, and other add-ons may be worth-while, but find out what other dealers and independent shops will charge for these items, if you want them, *before* you go to the dealer where you plan to buy. You can use the other firms' prices as a negotiating standard or you can simply buy the add-ons



Check the sources

Buying through the classifieds? Check the name on the title and match it to the name on the seller's driver's license. Many individuals disguised as private sellers are actually unlicensed, unregulated curbstoners, who may pass problem cars on to unsuspecting buyers.

Potential Problems/Warning Signs

The most sought-after used cars are probably less than five years old and have less than 50,000 miles on the odometer. When you're looking for a used car, you'll probably want to find one that has been driven no more than 15,000 miles per year. But you can't assume that a low-mileage car is necessarily in great shape.

One major concern is odometer tampering. The National Highway Traffic Safety Administration (NHTSA) estimates that consumers lose billions of dollars a year to odometer fraud. Odometer readings may be rolled back or documents can be forged. Making miles disappear helps increase the car's value to the seller, but can mean increased maintenance and repair costs to the buyer.

In addition to odometer fraud, there are other significant events in a car's past that unscrupulous sellers may try to hide. Every state has laws designed to protect consumers from buying used cars that may not be road-worthy. Consumers should get a detailed vehicle history report. The person selling you a used car should provide a detailed vehicle history that answers questions to your satisfaction.



If the seller cannot provide a detailed vehicle history report, you can use the 17-digit vehicle identification number (VIN) to secure a history from either the state or a private vehicle history company. These companies have compiled data from multiple sources to help you get a better picture of the car's past. You can search the web to find the companies providing this service by looking under the topic "vehicle history".

- *In a parking lot*, make a few slow, tight turns in each direction. Turn the radio and anything else off that makes noise, and roll the windows down. Listen carefully for any noise coming from the wheels that might indicate CV joint problems. CV joints are expensive to replace, and a bad one can be dangerous!
- *Check for “dog-tracking”*. Have a friend follow you while you drive the car. If the rear end of the car seems to be sliding to the side, the car may have serious frame damage from a collision.
- *After a quick stop*, the car should not rock back and forth separately. If it does, it may need new struts or shocks.

Brakes

- **Make both** slow and hard stops.



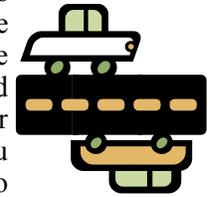
- *The car should not* pull to one side under braking.
- *A spongy or low pedal* may indicate leaks or other problems.
- *Squeaking* may indicate the need for new pads, or may be caused by glazed-over pads.
- *If the car shudders* under braking, it probably needs new, expensive brake rotors.

Comfort Equipment

- *Check* the air conditioning for proper operation. A/C repairs and refills are not cheap any more!
- *Make sure* the heater and fan work properly. Drive the car long enough for the engine to warm up.
- *Check operation* of defrosters.
- *Make sure* all power options work.

Your trade-in

You can lose the benefit of a good deal on your new car if you don't get a good price on the old car you are getting rid of. The “Money-Saving Help” list on page 16 of this pamphlet lists sources where you can check the approximate value of your used car. But the best way to get a solid estimate of your used car's value is to take it to several new car or used car dealers to see what they will pay you for it. Simply tell each dealer that you plan to sell your car and that you are getting offers from at least five dealers. You can expect the dealer where you buy your new car to pay you roughly the same amount for your used car as these other dealers would pay. If not, you might as well sell your car to one of the other dealers.



Think of trading-in as really a sale of your used car at wholesale. If you've gotten a rock bottom price on your new car, the dealer won't be able to pay you more than the true wholesale value for your used car. A dealer who offers a fat trade-in allowance must be making it up on the new-car price.

Remember, you can sell your used car on your own to another consumer. By checking classified ads, you can get an idea how much your car might sell for. That will probably be more than a car dealer will give you for it, but selling the car on your own is more trouble than selling it to a dealer or trading it in. You have to advertise the car and you may have to deal with a number of potential buyers.

Is there a right time of year to buy a new car?

There is no sure way to predict. Guessing the car market is no easier than guessing the stock market.

Prices simply respond to supply and demand. Where there is excess supply, dealers drop their prices and manufacturers throw in incentive programs to get the market moving.

Should I shop outside my local area?

For most cars, it is sufficient just to reach out as far as necessary to include at least five dealers in the bidding process, but it won't hurt to include one that's a little farther away.

After a new year's models come out, does it make sense to buy one of the previous year's models?

If you plan to keep the car only for a couple of years, you'll probably be better off with the new year's model, but two or three years down the line it will have a substantially higher resale value than the previous year's model. In contrast, if you plan to keep the car eight or ten years, the previous year's model may be a better bet. You'll pay a lower price now for the older model and a decade from now the difference in resale value between the two years' models will be small.

The best decision, of course, depends on how much less you can pay for the previous year's model than for the new year's model and on whether the new year's model has new features that are important to you.

Money-Saving Help

Choosing the car

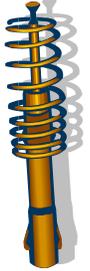
Most public libraries and major bookstores have extensive information to help you select the *type* of car that will fit your needs. Three good sources of comparative information on cars, each of which is published annually, are *The Car Book* by Jack Gillis, *Consumer Reports* magazine's April issue, and the December issue of *Kiplinger's Personal Finance Magazine*.

Getting a firm price commitment

The *Center for the Study of Services* offers the *CarBargains* service (1-800-475-7283), which will get at least five dealers in your local area to bid to sell a new car of the make, model, and style you want, using the methods described in this pamphlet. **THERE IS A FEE FOR THIS SERVICE.** You can also reach the Center for the Study of Services online at www.checkbook.org.

Many credit unions, local American Automobile Association (AAA) chapters, membership warehouse stores, and employee associations have lists of dealers who have agreed to sell cars at a fixed markup from invoice. You can contact local organizations to see what programs are available. The dealers that participate in these programs may or may not pay to be listed, depending on the specific program's arrangements.

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- *Check the suspension.* Push down and release each corner of the car. If it bounces more than once, the car may need struts or shocks. Push and pull on each wheel from beside the car. If the wheel moves in or out, the bearings or CV joints may be in bad condition. Remember that uneven tire wear may indicate suspension problems. If the car has new tires, be *extra* careful in checking the suspension.



If the car is front-wheel drive, check the CV joint boots on either end of the front axles. There should be a total of four. If any are torn or missing, expect to have trouble with expensive joints!

TEST DRIVE CHECKLIST

Drivability



- *Acceleration* should be smooth.
- *Pinging* may indicate a needed tune-up or may be poor fuel. Some pinging under hard acceleration may be normal.
- *Blue smoke* indicates burning oil.
- *There should be no delay* between engine speed and the speed of the car. If there is a delay, the car may have transmission problems.
- *If the car has a manual transmission*, the clutch should engage smoothly and should not slip.

Suspension

- *When it is safe*, take your hand from the wheel. The car should *not* pull to one side. It is okay to drift slowly to the right due to the crown of the road.



You should always be concerned about buying “someone else’s problems.” Make sure you get a detailed vehicle history report and service records from the person selling the vehicle. A vehicle history report can identify major problems including past accidents, flood damage, and odometer discrepancies. When you decide to buy a car, make sure you get it checked out by a trusted mechanic before you give the seller any money.

INSPECTION CHECKLIST

In Addition to A Mechanical Inspection, You Should:



- **Take a look.** Make sure body parts line up, the paint matches, doors open and close easily, and the tires show even wear. Check for body filler (use a refrigerator magnet on suspicious spots). Look for rust all around, especially at the wheel wells, under doors, and in trunk.

Tires must be the same size, and wear should be consistent with the odometer mileage. Insist on a spare, jack, and lug wrench.

- **Lift the hood.** Check under the hood for leaky hoses, worn belts, and dirty oil. Automatic transmission fluid should be clear and reddish, and not smell burned. Radiator water should have a light yellow or green color.
- **Take a seat.** Turn the ignition key to accessory and make sure all of the warning lights and gauges work. Start the car and check all the lights and accessories, and make sure no warning lights remain lit on the dashboard. Pay close attention to the airbag indicator lights. If these lights fail to illuminate as you start the car, or stay lit after the car is running, it is a warning that the car’s airbags are not functioning correctly.

Getting general car price information

Most libraries and bookstores, and many banks and credit unions, have books published by Pace Publications, St. Martin’s Press, and others showing list prices and invoice prices for new cars, and showing resale value estimates for used cars. *Automotive News*, available in some public libraries, gives information on rebate and incentive programs. You can also order up-to-date information for quick delivery to you *FOR A FEE* from several sources, including

Consumer Reports (1-800-933-555) offers a new car invoice and list prices that you can use in doing your own shopping. Also offers used car valuations.

Car Price Network (1-800-227-3295) offers new car invoice and list prices that you can use in doing your own shopping. Also offers used car valuations and sells a report on current rebate and incentive programs on all makes. Can be reached online at www.carprice.com.

The *Center for the Study of Services* (1-800-213-7283) also offers *The Best Price Car Kit*, which reports new car invoice and list prices, current rebate and incentive programs, and the actual target price recently paid by an expert shopper for the make/model/style you want. Kit also includes valuation of your used car and information on low-cost extended service contracts, financing, auto insurance, and leasing strategies.

Additional on-line sources of information include Autosite (www.autosite.com) and a site maintained by the publisher of the Edmunds price guides (www.edmunds.com).



Buying A Used Car

Thinking about a used car? Get the facts first!

The price of new cars has steadily risen over the past few years, making used vehicles more attractive than ever. Because new vehicles lose so much of their value as soon as they're purchased, car shoppers are increasingly turning to previously owned cars as a smart financial alternative. Today, thanks to manufacturing and maintenance advances, used vehicles are better than ever and still a great value.

Which Car Is Right for You?

The first step in buying a used car is a detailed assessment of your transportation needs. It's a good idea to answer the following questions:

- *How will the car be used?* The first thing to do is to decide on a class of vehicle that best fits your lifestyle.
- *Who will be driving the car? And where?* If you're concerned about taking your kids to soccer practice, you're probably going to need a car with lots of seating and storage capacity. If you're planning to use the car for commuting, gas mileage and comfort may be your biggest considerations.
- *What features best suit your needs?* If there are features you simply must have—like air conditioning, lumbar supports or adjustable controls—make a list.
- *What are some vehicle safety features you are looking for?* Are you interested in anti-lock brake systems, integrated seat belt systems, head injury protection, or child protection equipment?
- *How much can I afford to spend?* Think about how much you're willing to spend, how much of a down payment you can make, and how much you can afford per month, long before you start the process. Refer to the section on "Financing Your Purchase" beginning on page 25 of this booklet.

Once You've Decided on Type

After you narrow your search to a few makes and models, analyze the pros and cons for each. There are many excellent resources available to help you do your research, including websites, dealerships, and your local library. Read *Consumer Reports* magazine—online or hard copy—for reliability and repair ratings as well as general advice. The website www.edmunds.com offers pricing information and comprehensive advice on buying a used car. In addition, refer to the list of websites included in this publication.

Look at individual used vehicles. Gather as much information as you can on the different makes and models. Check out the retail value, available options, performance, and track record for repairs.

For information about car safety features, recalls, crash tests, and other auto safety topics, go to the National Highway Traffic Safety Administration's (NHTSA) website at www.nhtsa.dot.gov. You can also call NHTSA's toll-free Auto Safety Hotline at 888-327-4236 and have information sent to you.

Finding the Car of Your Dreams



You can purchase your new previously-owned car from an independent used car lot, a new-car dealership, an auction, a used car superstore, or a private seller. Wherever you decide to buy your car, there are some important things you need to know:

- *While your heart will play a big role in your decision, don't lose your head.* Be willing to walk away from the car if the deal doesn't meet the criteria you laid out earlier. Your ability to negotiate a great deal will increase by magnitudes.
- *Always know the market value of any car you're considering and make your first offer lower.* It's always easy to go up from your initial offer, but you probably won't be able to negotiate down from there. Several websites offer pricing information to help you determine the value of the car.