



U.S. AIR FORCE

BUYING A NEW CAR?



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Buying a New Car

Purchasing a new car sounds like an easy task. Just walk in to a dealership, sit down with a salesman, pick out the model, color and options, and sign the contract. Piece of cake. That is, if you enjoy getting robbed blind. So what can you do to avoid the tricky scams of those savvy salesmen? Well, this guide will help you begin the journey of buying a new car.

1. Establishing the Finances

Establishing credit and evaluating how much you can spend is perhaps the most important part of the whole buying process.

How Much Can You Afford?

One unwritten rule is that **your monthly car payment(s) should not exceed 20 % of your monthly net income**. Another is, **“you can’t afford the car if you’re still paying for it after two years.”**

Begin by calculating your monthly "take-home pay" and subtracting all your expenses. Once you know your monthly net income, you can estimate:

- How big a down payment you can afford
- The monthly payment you can make
- Which price range to shop in

With these amounts in mind, you can make the right decisions, and not end up biting off more than you can chew. Keep in mind the cost of tax, registration and insurance when deciding on the price range you can afford. These costs can add up and lead to a cost beyond your budget!

Establishing Your Credit

Before you even consider what you want to buy, and whether you wish to lease or buy, you should check your Credit Score (FICO Score) and your credit report. When dealers offer finance deals, they will only authorize those who have excellent credit. All of those ads that promise 0 % financing are meaningless if your credit is poor or even not established. Before you go to the dealer know your credit score on your own. Do not rely on a dealer or lender to do so as they have been known to be dishonest with buyers/borrowers about the FICO Score so that they could justify a higher loan percentage rate. Check your score is online at Websites such as www.equifax.com, www.truecredit.com, and <http://qspace.ispace.com>.

Regarding FICO, if your credit score is above 680, you are considered a "prime borrower" and will get a good APR on your loan. However, if your credit score is below 680, you are "sub prime", and will pay much higher APR on your loan. If you are below 550, you will not be able to get a loan.

In order to increase your chances of getting credit approval for a car loan, you need to have a good credit report along with your FICO. For military members, this is not so easy because we move often. Before buying a car, try to increase your chances by following this list of advice:

- If you're a recent college grad or this is your first full-time job, don't apply until you're at your new job at least 6 months.
- Don't apply if you have moved in the last 6 months. Lenders verify address and income.
- Pay off your credit card balances as quickly as possible - no minimum payments.
- Don't apply for a car loan for at least 3 years after a bankruptcy.
- Don't keep a high debt load or credit card balances.

How Will You Pay For Your New Car?

Now that you've looked at how much you can spend, let's take a look at just how you should spend it:

1. Leasing

Leasing a car sounds like a great idea at first. You get the car you want for a lower monthly payment and at a lower down payment than if you were purchasing. Additionally, you only pay sales tax on the portion of the vehicle that you finance. Therefore, you can afford a better car for less. However, there are many disadvantages to leasing. First, you don't own the car. You are essentially paying for it as you would an apartment. Most leases allow you to purchase the car in the end if you wish, but you end up paying plenty more for the car. Usually, you will pay manufacturer's suggested retail price (MSRP) plus all the leasing charges that they tack on to the bill. Additionally, if you decide not to buy at the end, you must be very careful to stay within the low mileage limits that the contract requires. This is particularly hard for military members, due to our nomadic lifestyle.

2. Buying

Buying a car is always the better option, **IF** you can afford to. When buying, you as the consumer have greater leverage. If you've done your homework and researched your credit and your car choices, then you are a step ahead of the dealer. So, essentially, you can get the car for much less than you would have if you were leasing. Moreover, if you own the vehicle, then you don't have to worry about mileage penalties or lease termination issues. You own the car... you can drive as much as you fancy, and sell it when you want. Although buying is the better option, remember, it's only if you can afford to. If you finance when you buy, you will have a higher initial down payment and monthly payments than with a lease. **BUT**, the car does cost less in the end. And since this pamphlet is about buying, we will look more in depth below.

3. Do-It Yourself Financing

If you are going to buy a car, and plan on financing, you may want to plan ahead, instead of taking whatever the dealer offers as financing. It is very wise to arrange the financing before you meet with the dealer. Loan shopping will get you a more competitive rate. Shopping allows you to take your time without being pressured by a salesman. Most importantly, walking into the dealership with your finances in order removes one more variable in the negotiation. All you have to worry about is the price of the car. Accordingly, if the dealer rate is cheaper, you still have the option to take it in the end. However, be wary of dealer financing. Many times payments may sound less, but that is because they are stretched out over a longer period of time. Be sure to read the fine print!

2. Shopping For the Car

Now that your finances are in good order, you are ready to begin hunting for the car and the deal. This article will refrain from telling you what type of car you want or need. You know what you want, whether or not you “need” it, you’re going to convince yourself that you do. Instead, we will focus on how to get the best deal on the car that you’ve chosen.

Pay attention to sales commercials that manufacturers are airing. Generally, the best deals on cars will be found in the end of December and during the closeouts at the end of the model-year. However, many dealers will not inform the customer of these deals in efforts to retain a larger profit. This is one reason why you must research the car you wish to buy.

Use the Internet to search for vehicle prices and for the value of your trade-in if you have one. Competitive rates for vehicles can be found at Autoweb, and InvoiceDealers. Additionally, it does not hurt to check Edmunds.com for the vehicle MSRP and value. When you find a price that you like, print out the results so the dealers can see it.

The ideal purchase is one where there is a rebate and the dealer will give up holdback, dealer prep and advertising fees and the factory to dealer incentive. This can happen at any time, so you must be aware, and be willing to haggle with the dealer for the price you want. Be sure that you shop at several dealers to see who will be the most compliant and customer-friendly, so you can shoot for the best deal possible.

The Test-Drive

Once you narrowed down the choices of cars, try to schedule test-drives for all or most of the cars on the same day. This will help you to make a better comparison, since each drive will be fresh in your mind.

Although the dealer may try to force you into a predetermined route, ask if you could try a route that includes highway time, and any other type of driving that you encounter in your daily commute.

The salesperson will ask for your license. If you wish, bring a photocopy of the license for them. If not, ensure that they return your license after they make a copy, but before you go on the test-drive. Additionally, you should ask for the copy of the license back before you leave. This will prevent them from calling and bothering you if you are not interested. Be aware that it is a violation of Federal law for any dealer to run a credit check on you without your consent. If the dealer does this while you are out on the test-drive, and you find out, report it to the FTC.

Pay Attention!

When you get into the vehicle, adjust everything necessary to give you the best fit. Make sure that the car feels right to you, and that you feel right in the car. Ask yourself: Is the car comfortable? Do I fit correctly in it? Are there any blind spots or other issues with the design that make me feel uncomfortable? Listen to the sound system, and make sure it suffices, because you won't be hearing it for a while. Turn off the radio before you begin driving, so you can hear the engine and concentrate on the driving experience. You want no distractions while listening for strange vibrations or rattles.

During the test drive, evaluate these specific points:

- Acceleration from a standstill
- Visibility
- Braking
- Passing acceleration
- Handling
- Suspension
- Comfort
- Ergonomics
- Engine noise
- Rattles and squeaks
- Storage space

During the test drive try not to act excited or impressed. Dealers will try to get you hooked onto the car. Act indecisive. Never let them control the conversation. Ask the questions you want answered, but do not believe them until they give it to you in writing. In fact, ask for the answers in writing.

When the test drive is over, try not to let them lure you into making a deal. They may try to work off of your euphoria and sell you the car when your guard is down. If you like the car, take a business card from the dealer, and write down the stock #, and the prices and fees you see on the window sticker. If there is no window sticker, and the car is new, **DO NOT** even THINK about buying that car. Dealers are not allowed to sell you a new car without the sticker.

Once you're done, move on to the next test drive. Don't buy the first one you drive, you may like another model even better.

3. Wheeling and Dealing

Now that you know exactly what you want, all the options, etc., it gets down to how you're going to get it. Let's take a look at the purchasing process:

Should you Trade in the old clunker?

Trading in your old car will always result in a loss for you. The dealer will never take your car for more than he can sell it. However, the dealer will take it, so it relieves you of the pain of having to deal with selling it on your own.

If you are thinking of trading, be sure to look up the value of your old car. Edmunds.com does provide this service, as does the blue book. You will realize that the dealer will give you thousands less than the car is actually worth. Additionally, trading in the car when buying a new one will complicate the deal further. Now, you'll have another figure to worry about in the deal process.

Realize this: If you still owe on your car loan, the dealer pays off your loan at the trade in. But, he doesn't do this for free. Actually, it gets financed in with the car you are buying! Now you are essentially paying for financing on the consolidation of two loans. You may not notice it at first, however, because the dealer will structure the loan so that you are paying low monthly payments, but for a very long time. In the end, you've paid for both loans anyway, and paid more interest due to the length of the loan.

If you feel that you must trade in the vehicle, then make sure it is clean inside and out, and has been tuned up. Dealers may try to give you even less for the vehicle if it is dirty or the oil looks old.

The Sales Pitch

The salesperson will try to get you to agree to pay more than you need to. Remember, they're out to make the biggest profit they can. One way to try to work out the agreement is to inform the dealer that if you are not given a deal that you like in 30 minutes or less, you will leave. You are offering them the same type of deal that is offered, and accepted everyday at other dealerships. Every time the salesman disappears to review an offer with the sales manager, remind him that he's losing time. If you cannot get a good deal in a half hour, you will not get a good deal, because the salesperson has past the point where the profit and/or commission he would have earned no longer covers the time spent.

Be prepared mentally and physically before going in to make the deal. Dress appropriately, not too nice, but not in ripped jeans and a t-shirt. Make sure you've eaten, had plenty of rest, and are ready to crunch numbers. Not good at numbers? Then bring a calculator!! Make sure you have your folder with all the items you might need for the debate. This would include all of your notes, printouts, advertisements from other dealerships, and prices from the internet. This lets

the dealers know that you are prepared to give them a hard time. Be sure you have all model option prices with you in case you need to price a car with different options than you had planned on. Don't go in on your own, then take a backup, just to play devil's advocate, or to just catch things that you might miss. Dealers don't like this, because it works to your advantage.

When beginning the negotiation, don't fall for the monthly payment question. You want to negotiate the actual price of the car. Once that's established, then a monthly payment can be agreed upon. If you talk monthly payment only, the salesman can shift numbers to give you an attractive looking plan, but you'll be paying top dollar for the vehicle.

Tell them you'll be paying cash for the car. If you preplan as suggested, then you'll have financing prearranged. Remember, you want the car at the Edmunds.com price, so do what you can to get it, even if that means an offer lower than the vehicle's value to start the negotiating process.

Keep in mind that there may be current incentives for the vehicle. These incentives are essentially rebates, so be sure that you negotiate a price for the vehicle, and then tell the dealer to factor out the incentives.

If you do decide to trade your old car in, get the value of it on Edmunds.com as well. Try to get a value higher than the Edmunds trade-in value, and bear in mind that you could always get more for the vehicle if you clean it up and sell it yourself.

4. Closing the Deal

Securing a Commitment

Once the deal is set, the salesperson will want to get a commitment from you. He may write on the four-square sheet: "Customer will buy and drive today," and ask you to sign it. Don't be afraid of signing this — it isn't binding. But instead of signing, just initial it.

You may also be asked to write the dealership a deposit check. The salesperson will probably tell you it's necessary to "show the boss you're serious." Avoid writing a check now. Assure the salesperson you have the funds to close the deal. You will write a check when you see the deal in writing.

Or you might consider writing a check — but don't sign it. This will excite the salesperson by showing you are "a live one." But if the deal falls apart, you won't have to stand on your head to get your check back.

Looking Ahead

If you agree on the numbers and the terms of the deal, shake the salesperson's hand. He will probably say "congratulations," and make you feel like the dealing is done. Just remind yourself

that the car isn't yours, yet. Don't let your guard down. You still have to go through the finance and insurance process — or the F&I room.

5. The F&I Room

Before you drive away in your new car, you have one more important step: signing the contracts in the finance and insurance room or "F&I room."

The men and women who work in the F&I room were once out on the lot selling cars. They were promoted to their positions in F&I where they make much more money. Their duties are to draw up the contracts on your new car, make sure you are insured and give you temporary registration.

The F&I person is also there to sell extras to new-car buyers: rustproofing, fabric protection, emergency road kits, extended warranties and more. They will offer to include the cost in your car payments.

One of the big decisions you will have to make in the F&I room is whether to buy an extended warranty. Here are a few thoughts on this controversial subject.

A Word on Warranties

In the past, Edmunds.com has recommended that consumers turn down offers of extended warranties. If you buy one, the F&I person will receive a large commission. There is also a high profit for the dealership.

In general, avoid buying the things that are sold in F&I. They are designed to add profit to your deal. Road safety kits, rustproofing and fabric protection are either overpriced or nearly useless.

Consider Dealer Financing

The F&I person will probably say, "I see you've got your own financing. What bank are you using? Maybe we can beat their rates." Sure, let them try. Just verify that the term matches what you have already arranged.

If you don't already have insurance, the folks in F&I will be sure to recommend a company. If you're leasing, they'll set you up with gap insurance. Gap covers the difference between what the insurance company will pay for the car and what you might have to pay to the leasing company in the event of an accident or theft. Gap insurance is a necessity — but many lease contracts already provide it. Check before you pay extra.

Finally, you'll need to sign various papers: Depending on the state in which you live, you may be asked to sign a power of attorney that allows the dealership to go to the DMV and register the vehicle for you, the transfer of title if you're trading in a vehicle and the like. Each document should be reviewed. Once your signature is on the paperwork, the deal is done; this is your last chance to back out.

It may be impractical to read all the fine print. But you should check the figures and question anything that looks inflated or out of place. If you are pressured to sign the contract quickly, proceed with caution.

Advertising Fees

For most businesses, advertising costs are necessary. But some dealerships try to pass this cost along to the consumer. Should you pay it? This has been a bone of contention for some time, and the issue is still not crystal clear.

If the ad fee is in the car's invoice, paying it seems unavoidable. If it has been written into the dealership's contract as an additional item, you may be able to get it removed. We know buyers who have protested the fee and successfully bought the car without paying it.

The following lists may prepare you for the fees you might encounter in the F&I room.

What You Should Pay:

- Destination charge
- Sales tax
- License and registration fees (DMV fees) vary from state to state. These fees are usually from 1 to 3 percent of the purchase price of the vehicle.
- Reasonable documentation fee (\$50 is reasonable; \$250 is not)

Charges You Should Question

- Extended warranties. Sometimes warranties are added without the customer's consent.
- Appearance or protection packages. Usually paint protection or sealant.
- Administrative costs.
- Dealer flooring charge. Another cost of doing business, and one that is covered by holdbacks.
- Dealer-installed security system. If you want a security system, order one from the manufacturer or try an aftermarket source.
- Delivery & Handling (D&H). Delivery is paid for by the destination charge — don't pay it again.
- Fabric protection. Do your own with a \$5 bottle of Scotchgard.
- Pinstriping. The most expensive tape in the world.
- Rustproofing. It is unnecessary and can void your warranty.
- Sales promotion. When's the last time a sale charged the customer money?
- Teflon coating. No longer needed because of clearcoat paint used on cars today.

The F&I person will now collect the down payment and the papers on the trade-in. They'll give you the owner's manual, manufacturer's warranties and two sets of keys. You will probably be handed back to your salesperson who will escort you outside where your new car is waiting. The car should be cleaned, detailed and filled with gas.

By now, you probably really want to leave the dealership. But don't hurry. Carefully inspect your car to make sure there are no dents, scratches or tears in the fabric. If it is nighttime, make sure you are under good lighting. If you find anything wrong, get the salesperson to write up a "due bill," a written agreement to have the service department perform the needed work.

6. Consider Alternative Buying Strategies

In the previous steps, we have described the time-honored method of car buying: You go to the car lot and deal with the salespeople. That's how it's been done for years. Recently, several new methods have emerged as ways to buy without going into a dealership. These are:

1. **Internet** — you can locate and bid for cars online.
2. **Telephone** — some dealerships will negotiate over the phone.
3. **Fax** — you can fax offers to nearby dealerships and take the lowest bid.

Shopping Online

Edmunds.com has several online car buying services listed on our Web site. These sites will not only let you research cars and locate inventory, but they may also save you money. However, some people still don't trust the Internet connection. They want the "feel of the wheel" before they "seal the deal." Yes, you will have to test-drive the car. But with online car buying, the test drive can be the final step — after you know what you will be paying for the car and where you will buy it.

For now, here are a few quick tips when buying your car online:

- If you want to do business with a specific dealership, visit its Web site and e-mail the Internet manager or the fleet manager. Dealerships usually treat Internet customers as informed buyers.
- Get bids from several online services.
- Keep in mind that the initial quotes you receive on the phone might change when you arrive in person.
- If you pick up the car at the dealership rather than having it delivered to you, the salesperson may try to "up-sell" you by switching you to a more expensive car or including costly add-ons.
- Read [Edmunds.com Town Hall](#) accounts from buyers who have used online services.

Shopping by Phone

The telephone can be used to speed up your search and cut through the haggling process. Here are things that can be accomplished by calling — rather than visiting — a dealership. You can:

- Locate the car you want without hiking across acres of inventory.
- Qualify the salesperson — if you like who you talk to, make an appointment.

- Ask about rebates, incentives and interest rates.
- Begin or even reach a deal to buy a car.
- More easily escape rude, aggressive or pushy salespeople.

Salespeople are often vague or uncooperative over the phone. They think you are trying to get a quote from them so you can "shop" their rate with other dealers. Of course, this is exactly what you are trying to do. But Internet or fleet managers understand how competitive the marketplace has become. They will give you enough information so you can make an informed decision.

As you call dealerships, you might have a salesperson tell you to submit a credit report before they will quote you the price of their car. Your credit report has nothing to do with the price of the car. Instead, just explain to them that you have your own financing already arranged. Tell them you are just calling for a quote. If the salesperson insists on a credit report, take your business elsewhere.

When you make a deal over the phone, repeat the figures and say, "Let me write that down." Even better, have them fax you a worksheet with all the figures on it. Sign it and fax it back. Now you have proof of your agreement.

Once you arrive at the dealership, you will still have to test-drive the vehicle and go through the F&I process. But you may have avoided the stress of negotiating face to face.

Using a Fax Machine — Get Bids for your Business

If you are looking for a type of car that is readily available, and there are a number of dealerships in the area, let them bid for your business. (Note: This method also works well for e-mail. The advantage of faxing is that a hard copy seems to carry more weight.)

1. Get the fax numbers of the Internet or fleet managers at as many dealerships as you can.
2. Fax them a description of the vehicle you want.
3. Include all options and a list of preferred colors. Sweeten the offer by stating you will also have the car serviced at their dealership.
4. Tell them you will buy the car from the lowest bidder and ask for their best price.
5. Put a time limit on your offer.
6. Sit back and wait for the bids to roll in.

Since the managers know they are bidding against other dealerships, they will be very competitive.

Once you have all the bids, call the dealership with the best offer and confirm the price. Make sure there is a stock number for the car the fleet manager is offering to sell you. If there is hesitation or a vague answer from your salesperson, ask him to fax you the car's invoice. Make sure you are dealing on a specific car. Handwrite your acceptance of their offer and fax it back to them. Then set an appointment to take delivery of your car.