Personal Financial Management - Lesson 7
Car Buying

ENABLING OBJECTIVES:

Upon completion of this lesson, students will be able to:

7.1 Explain the car buying process
- 7.1.1 Explain the elements involved with buying a car
- 7.1.2 Define the three steps in car buying: doing your homework, making the purchase, and deciding on the trade in.
- 7.1.3 Explain the benefits of dividing the purchase into three separate transactions: the price of the new car, the financing details and the trade in.

7.2 Determine a fair price for a new or used vehicle
- 7.2.1 Explain where to go to determine the price of a new or used automobile.
- 7.2.2 Explain the process of calculating the price of a new or used automobile.

7.3 Determine the monthly car payment of an automobile based on the final price, amount they need to borrow, and prevailing interest rates using the web-based payment simulator

7.4 Determine the affordability of the above car based on their spending plan; the monthly cost for insurance, maintenance and gasoline for the car; debt-to-income ratio and spending habits

7.5 Determine the amount they can spend on a monthly car payment based on their spending plan and spending habits

7.6 Describe four common high-pressure sales tactics and negotiation methods for overcoming them

7.7 Discriminate between poor and better choices in car financing

7.8 Explain their legal rights in the car-buying process

7.9 Define how this process will work for other large purchases

7.10 Identify sources of help with the car buying process

7.11 Explain how an automobile lease works.

REFERENCES:

1. OPNAVINST 1754.1, Fleet and Family Support Center Program
2. OPNAVINST 1740.5A (DRAFT), Personal Financial Management Education, Training, and Counseling program
3. NAVPERS 1560.8C, Command Financial Training Manual
4. Edmund Publications Corporation, Edmund's Car Prices Buyers Guide. West Hempstead, New York: Current Edition
5. Intellichoice Car Cost Guides
6. Save $1,000s Buying Your New Car, by Dick Krol
7. National Automobile Dealer's Association (NADA) Official Used Car Guide
8. Consumer Reports Magazine, April Issue
9. The Complete Idiot's Guide to Buying or Leasing a Car, by Jack Nerad
10. www.lifelines2000.org
11. www.moneycentral.msn.com

SHOW SLIDES:

7-1 Lesson 7 Title Slide
7-2 Do Your Homework
7-3 Four Steps to Successful Purchases
7-4 How Much Can You afford?
7-5 Monthly Costs
7-6 Selecting a Car
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7-9 Used Car Considerations
7-10 Performance Vs. Practicality
7-11 Automobile Insurance Costs
7-12 Evaluating Dealers
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7-16 Purchase Negotiations
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7-35 Summary
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7-37 Car Buying Exercise (Loan Calculator!)
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NOTES TO THE FACILITATOR:
The main points of this topic are:

$ Preparation for purchasing a new car
$ Negotiating a purchase price
$ Deciding on your trade in
$ Consumer Protections
$ Where to go for help

CASE STUDIES:
None

VIDEO TAPES:
None

Personal Financial Management - Lesson 7
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I. INTRODUCTION In this lesson we will teach you how to research, buy, and finance, a car We will also cover how to determine a reasonable price limit based on your personal spending plan, how to get maximum value for a trade in, if you have one, and your legal rights in the car-buying process.

SHOW SLIDE 7-1- LESSON 7 TITLE SLIDE

II. YOUR CAR-BUYING HOMEWORK

SHOW SLIDE 7-2 DO YOUR HOMEWORK

A. Many people begin the car-buying process by visiting a dealership - which should be one of the last things they do. Unfortunately for these unsophisticated consumers, the process often ends right there with their purchase of an inappropriate car at too high a price. Dealers will ask about financing and trade-ins before offering a bottom-line price. They will then use this information to calculate their profits to your disadvantage. You can save yourself hundreds, if not thousands, of dollars on your next purchase by doing some homework BEFORE you step on the lot. This puts you in control of the buying process. Let's look at some areas that warrant attention before you set out for Slippery Sam's Car Emporium.

B. Four preparatory actions will help ensure you are happy with your car purchase for more than a week after driving it off the lot. These are:

1. Determine how much you can afford
2. Determine the type of vehicle you want to buy
3. Determine where you will buy the vehicle
4. Determine a fair and affordable price for the vehicle.

SHOW SLIDE 7-3 – FOUR STEPS TO SUCCESSFUL PURCHASES

C. How much can you afford? Rather than selecting the car and then figuring out how you can pay for it, be a clever consumer. Determine what you can reasonably pay and then select a car and options in that range. Three factors should be considered:

SHOW SLIDE 7-4 – HOW MUCH CAN YOU AFFORD?

1. Total Cost. If you only figure out how much you can afford to pay each month, you will probably get the monthly payment you want, but risk paying too much for the vehicle overall.

2. Monthly Payments. Face reality! You won't enjoy your car very much if you don't have enough money to put gas in it.

CLICK FOR BULLET

3. Down Payment. The more you put down, the less you have to finance. This will lower both your monthly payments and total cost.

CLICK FOR BULLET

D. Consult Your Spending Plan. The answers can be found in your personal spending plan. Remember, yesterday we prepared our spending plan. How much discretionary money did we have? How much of that do we want to apply to car payments? Remember we still need money for gas, insurance, repairs, CDs and play ;money. We don't want to buy a car and not be able to afford to go anywhere in it.

Instructor Action
Discuss your discretionary funds from previous class.

E. Reasonable Monthly Costs. Financial advisors suggest keeping total car expenses to no more than 25% of your net (after tax) income. You must realize that total car expenses include car payments and ancillary expenses such as maintenance, insurance, and operating expenses (fuel, oil, etc.). As a general guide you can use 15% of your net income for the car payment and 10% for associated costs.

SHOW SLIDE 7-5 MONTHLY COSTS

F. You should also compute what your debt-to-income ratio would be with the car loan you are contemplating. Most financial institutions won't grant you a loan that has a high potential to get you in trouble, - but beware, some dealers might. Borrowing from a willing source, such as a relative, would only worsen your plight. It is much better to live within your means.

G. What type of car should you consider? The vehicle you purchase must strike the right balance between what you want, what you need, and what you can afford. Everyone has different preferences. Factors to consider include:
Size
Manual or Automatic Transmission
2-, 4-, or all-wheel drive
Use (family, recreation, length of commute)
Style
Safety
Ownership and Operating Costs.

SHOW SLIDE 7-6 SELECTING A CAR

H. New or used? Once you have made some choices about type and style, you have another choice that will significantly affect the cost of ownership - new or used? Each has positive, and negative aspects. There are no absolute answers to the question of a new versus used car. You might consider "splitting the difference" with a "Program Car" that was a lease or rental unit and still has a good part of the new car warranty remaining.

SHOW SLIDE 7-7 NEW OR USED?

DISCUSSION POINT	RELATED INSTRUCTOR ACTIVITY
I. NEW car considerations.	**SHOW SLIDE 7-8 NEW CAR CONSIDERATIONS**
1. COST – more than a used car of same make and model.	
2. Mechanical problems – likely fewer than a used car.	**CLICK FOR BULLET**
3. Depreciation – The value of a new car diminishes rapidly following the purchase, anywhere from 10% to 40% in the first year. To get the full value of a new car, many consumers plan on owning it for several years (four, five, or more).	**CLICK FOR BULLET**
4. Warranties – Usually at least three years/36,000 miles is provided, and can be extended at significant extra cost.	**CLICK FOR BULLET**
K. USED car considerations	**SHOW SLIDE 7-9 USED CAR CONSIDERATIONS**
1. Cost – Generally less than a new car.	
2. Mechanical Problems – Likely to have more than a new car. Repair costs can significantly increase the cost of owning and operating a car. NMCRS reports 25% of the money they loan goes to auto repairs.	**CLICK FOR BULLET**

3. Depreciation – Usually less than with a new car because much of it may have already occurred.

CLICK FOR BULLET

4. Warranties – May or may not have any remaining. Service contracts will add significantly to the cost of the car.

CLICK FOR BULLET

K. Performance. Too many consumers, particularly in your age group, choose cars to portray a desired image. Carefully evaluate all the extra costs of a flashy ride versus safe, reliable, affordable transportation.

SHOW SLIDE 7-10 PERFORMANCE VS PRACTICALITY

Note to Facilitator

Ask the following question:
How much do you think insurance runs per year for a driver who is single and under 25?

L. Insurance. Once you've narrowed your choices, compare quotes on insurance costs. Vehicles, even similar vehicles, can have very different insurance costs. That difference may help with your final decision. Moreover, knowing the cost ahead of time enables you to factor this expense into all your computations. For many junior sailors, the insurance payment can be as much or more than the car payment! Call several insurance companies for premium quotes, or use the internet for research. One other word on car insurance. Particularly as you begin to accumulate assets, get all the liability coverage you can possibly afford.

SHOW SLIDE 7-11 AUTOMOBILE INSURANCE COSTS

M. Where should you buy? Car buyers should research a minimum of three potential sellers. There are no absolute guidelines to follow when selecting a dealer, a salesperson, or an individual from whom to buy a car. Do your homework, and you should get a fair deal no matter where you buy. If you're looking for a new car, you'll have to go to a dealer eventually. Here are some things to consider when evaluating dealerships:

SHOW SLIDE 7-12: EVALUATING DEALERS

1. Years in business: Although being in business for a long time does not necessarily mean the dealer is straightforward, the worst dealers (in terms of how buyers are treated) seem to go out of business fairly quickly.

2. Complaints: Check with the Armed Forces Disciplinary Control Board, Office of Consumer Affairs of the (state) Attorney General, the Better Business Bureau, and any professional associations to which the dealer belongs for any complaints filed against them.

CLICK FOR BULLET

3. Salesperson and mechanics: How long have they been with the company? Are the mechanics certified by a crediting agency, not by "Uncle Murray?" Don't be reluctant to ask questions.

CLICK FOR BULLET

4. References – Senior NCOs and some of your contemporaries who have been on-board your location for a while may have recommendations. You can probably trust such references, but be leery of references volunteered by a dealer.

CLICK FOR BULLET

5. Professional memberships – Membership in the Better Business Bureau, National Automobile Dealers Association, or National Independent Automobile Dealers Association doesn't guarantee you a fair deal. It does, however, give you some reassurance that there are avenues for you to address problems that cannot be resolved with the dealership.

CLICK FOR BULLET

N. Private Sellers. You may be able to save money by purchasing from a private seller. The downside of this type of transaction is that there is little protection after the sale. If you are knowledgeable about cars or can rely on someone who is, this may be an excellent source to consider.

O. Internet. Many people are conducting successful searches for new vehicles over the internet. At a minimum, there is a wealth of research materials available to help you make wise consumer choices.

SHOW SLIDE 7-13 INTERNET SEARCHES

P. What is a fair Price? Auto dealers have a right to make a reasonable profit on the sale of a car. What constitutes a reasonable profit? To know this you must know what fair price is.

SHOW SLIDE 7-14 FAIR PRICE

Q. Where to find pricing information. All pricing components, including base and option costs at invoice and Manufacturer's Suggested Retail Price (MSRP), as well as things like destination charges, are available from a variety of resources. Price your vehicle at invoice, subtract any dealer holdback or incentives, add a 3-5% profit, and you will have a good price goal for your vehicle. When working with a dealer who provides you with pricing information, make sure you know the source – it could be biased. Your best bet will be to do price research on your own from sources you know are reliable. Check out internet sites, particularly the two shown here. These sites will price a new or used car, and also have information on buying and selling, financing, and insurance. Additional resources include:

SHOW SLIDE 7-15 INFORMATION SOURCES

1. Public Libraries – One of the very best sources of information on car pricing is the public library.

CLICK FOR BULLET

2. Kelley Blue Book – Lists suggested retail and loan values for specific makes and models of used cars. This is a guideline, not a law. Factors such as mileage, options, and physical condition of the car will affect its value. This will give a good ballpark figure. It can be found on the internet at www.kbb.com.

CLICK FOR BULLET

3. IntelliChoice Car Cost Guides – Besides the dealer cost and sticker prices, this lists items such as resale value, economic value, maintenance, costs, etc. The site www.cars.com uses intellichoice pricing.

CLICK FOR BULLET

4. Consumer Report/Consumer Union Price Service – Each April issue is devoted to cars and pricing, and they offer a low cost service to provide the dealer cost for particular makes, models, and options.

CLICK FOR BULLET

5. Edmund's Car Prices Buyer's Guide – Available in hard copy as well as at their internet site. Similar to IntelliChoice guide.

CLICK FOR BULLET

III. THE PURCHASE If you have done your homework, you should be well prepared to make the purchase. As you go through this process, remember to negotiate three separate deals: purchase price, financing, and, if applicable, trade-in allowance. Informed negotiations can save you hundreds, if not thousands of dollars. In addition to these "Big three," there are several other things that affect your total purchase price.

SHOW SLIDE 7-16 PURCHASE NEGOTIATIONS

Note to Facilitator

Ask the following questions:
Where should we finance our car and why?
Are some places really a better deal than others?

A. Places to Finance:

SHOW SLIDE 7-17 FINANCING

1. Credit Unions – A good place to look because of their nonprofit status and competitive terms. By law, federal credit unions can only calculate interest using the "simple" method. Also, your credit union may have an in-house buying service available. You must be a member and have fairly good credit.

2. Banks – Usually the next best thing after a credit union, but still requires good credit.

CLICK FOR BULLET

3. Auto Dealerships – Usually do not have the amount of cash on hand needed to finance a purchase, so they customarily have a relationship with a finance company for this purpose.

CLICK FOR BULLET

4. Finance Companies – These vary widely in interest rates, and often cater to credit risks by charging very high rates. Some are affiliated with a particular manufacturer and can have special rates as incentives.

CLICK FOR BULLET

B. The Cost of Money – Finance Charges. You'll need to know some financing terms in order to understand your financing. First, let's talk about different types of interest. Interest is expressed as an Annual Percentage Rate (APR) but is computed in several different ways.

SHOW SLIDE 7-18 FINANCE CHARGES

1. Add-on Interest – Interest for the total amount of the loan is computed for the length of the loan and added to the principal. This is an expensive option, since you pay interest on the entire loaned amount for the entire year, even though you are reducing the balance you owe each month. For example, financing $1000 for one year at 12% add-on interest would result in a finance charge of $120.00.

2. Simple interest – This is paid on the outstanding balance only, which is by far the most reasonable to the consumer. Credit unions are required by federal law to charge simple interest only. For example, financing $1000 for one year at 12% simple interest would result in a finance charge of $66.19.

SHOW SLIDE 7-19 ADD-ON INTEREST VS SIMPLE INTEREST

Note to Facilitator

Click on the calculator icon to display the loan payment calculator overlaid on the slide.

Use the calculator to determine a couple of monthly payment examples and inform students that this will be done again for specific automobiles during the car-buying exercise to follow.

Click on the “X” on the calculator to return to normal Power Point presentation.

3. Usury Laws – In some states there are no usury laws, which are laws that limit the amount of interest that can be charged on a loan. Know what the limits are in your state and read your contract thoroughly before signing. The Federal Truth-in-Lending law requires that the Annual Percentage Rate (APR) be discloses in the financing documents. Read the fine print and get your contract checked out by an attorney before signing. The Navy legal office will review it for free.

SHOW SLIDE 7-20 USURY LAWS

IV. LEASING Leasing appears very attractive in advertisements, with its low monthly payments and short terms. Rather than building up ownership (equity) in a vehicle, you are compensating the dealer for the depreciation the car suffers while the dealer lets you drive it (basically, “rents” it to you). Although it is becoming more and more common, it is not for everyone. Consider leasing as an option only if:

SHOW SLIDE 7-21 LEASING CONSIDERATIONS

A. You can limit your annual mileage. Leases have mileage limits commonly ranging from 10,000 to 15,000 miles per year. If you exceed the limit, you will face high per-mile fees at the end of the lease, 15 cents per mile on average.

CLICK FOR BULLET

B. You take excellent care of your vehicle and don't plan to customize it. When you turn the car in at the end of the lease, you can be charged for any "excessive wear and tear." You need to know what exactly is considered reasonable "wear and tear". The car must also be in original condition so that the dealer can resell it, so customization is out of the question.

CLICK FOR BULLET

C. You want to drive a new car every few years and don't mind never-ending car payments. It is often more economical to buy a car and keep it as long as possible. However, if you like a shiny new car every few years you will end up with continuous car payments anyway. The lower lease payments can be attractive for this reason, but only if you understand that you will never own a car unless you choose to buy it at lease end.

CLICK FOR BULLET

D. You will not have to relocate. Most leases will not allow you to take the car out of the country, and many will not even allow you to move out of the state. Be sure of your future plans if you decide to lease.

CLICK FOR BULLET

E. Decoding "Lease Speak." When negotiating a lease and reading the contract, you need to speak the language. Calculating the actual lease payment is very complicated, especially if it is subsidized by the automaker, but a basic understanding of the terms will enable you to compare leases.

SHOW SLIDE 7-22 LEASE TERMINOLOGY

1. Capitalized Cost – Selling price of the car, on which the rest of the lease calculations will be based.

2. Capitalized cost reduction – Down payment you make, which lowers the amount on which the lease is based.

CLICK FOR BULLET

3. Residual Value – The predicted value of the car at lease end, after it depreciates. The difference between the capitalized cost (after any reduction) and the residual value is the amount the dealer predicts the car will depreciate over the lease term. Put simply, this is the amount you will pay for the privilege of driving the car over the lease term, plus a finance charge.

CLICK FOR BULLET

4. Money factor – The finance charge (interest) charged on the lease amount, expressed as a decimal used to figure part of the monthly lease payment. For comparison, it can be converted to an interest rate by multiplying by 2400 (regardless of the term of the lease). To convert an interest rate to a money factor, divide the rate expressed as a decimal (for example, .12 for 12%) by 24.

CLICK FOR BULLET

F. Negotiating a lease. A lease should be negotiated just as thoroughly as a purchase, but there are additional considerations.

SHOW SLIDE 7-23 NEGOTIATING A LEASE

1. Barter down to the best purchase price possible before even discussing a lease. This establishes the "capitalized cost" on which the rest of the calculations will be based.

2. Everything is still negotiable in a lease, just as in a purchase. You can always request changes in terms like mileage limits and other factors.

CLICK FOR BULLET

3. It will be to your long-term financial advantage to pay any fees up front if possible, including security deposits, taxes, destination charges, etc., to avoid paying finance charges on them.

CLICK FOR BULLET

4. Be sure you understand all the provisions of the lease. What are the mileage limits and the cost if you go over them? What is considered reasonable "wear and tear?" Who will pay for maintenance? What are the restrictions on relocating the vehicle?

CLICK FOR BULLET

5. Consider only "closed-end" leases, where all lease-end charges and residual values are established in advance at the beginning of the lease. This way you cannot be hit with unexpected fees on the day the car is returned to the leasing agent.

CLICK FOR BULLET

G. Lease-end Options. At the end of the lease you have four options:

SHOW SLIDE 7-24 LEASE-END OPTIONS

1. Return the car to the dealer and walk away – You will have to pay any applicable fees and may be charged for any minor damages if the dealer has no incentive to work with you (because you are not buying another vehicle from the same dealer).

2. Buy the car from the dealer – You will pay the residual value established at the beginning of the lease. If you've taken good care of the car, it may be a bargain for a used car at that point; if you've trashed it or gone way over the mileage limit, you may be better off buying it than paying those fees.

CLICK FOR BULLET

3. Use the car's equity to negotiate a better deal on a new car from the same dealer - The dealer hopes to sell you another car when you return. If your leased vehicle is in very good condition and has low mileage, the dealer will have an easier time reselling it and may give you a discount on your next purchase or lease in exchange.

CLICK FOR BULLET

4. Sell the car yourself – You must pay off the residual value, but if the car is in good condition you may get more than the residual value and pocket the difference.

CLICK FOR BULLET

Note to Facilitator

Ask the following questions:
Explain how a lease works.
Name two advantages to leasing.
Name two disadvantages of leasing.

V. NEGOTIATING A GREAT DEAL – Salespeople are trained in the art of selling. In the majority of instances, their pay includes a commission based on the sale price of the vehicle (including all those options), so they have a vested interested in getting as high a price as possible for the car. Your goal is to get as much car as you can for as little as you can. There are a lot of stories about sleazy salesmen and tactics – don't let them determine your behavior. Treat the sales force and anyone else at the dealership with dignity – but negotiate, and do it effectively! Here are some negotiating tips to help you hone your skills:

SHOW SLIDE 7-25 NEGOTIATING TIPS

A. Information – The salesperson's goal is to get as much information about you as possible. With your name, military status, and particularly your social security number (!), a car dealer can determine what you might pay for a car and at the least institute a credit history check (even without your knowledge or permission!). You need only give them your first name.

B. Trade-Ins – The dealer will try to combine purchase price, financing, and your trade-in. You need to keep them apart. Practice saying "That's not important right now." You will probably get more for your vehicle if you are willing to sell it yourself. This may be difficult if you owe more on the vehicle than it is worth, but in that case, you shouldn't be buying a new car.

CLICK FOR BULLET

C. Drivers License – Some car dealers tell you they must make a copy of your driver's license prior to taking a test drive. After making a copy they will run a credit check on you while out are test driving their vehicle.

CLICK FOR BULLET

D. Money Down/Deposit – Don’t advertise how you will pay for the car. Again, use the phrase “That’s not important right now.” If they ask for a deposit, do not pay it (unless you are absolutely certain you will buy the car). Research clearly shows that people who have put down a deposit are much more likely to buy the item, even if they prefer something else! You will have to return even if you change your mind and may have trouble getting your money back. If the car you were looking at actually is sold, they will find another for you to purchase, so don’t feel pressured.

CLICK FOR BULLET

E. Do you like the car? One of the salesperson's goals is to get you to say you “like" the car. The sooner they establish an emotional connection between you and the car, the more likely you are to buy it. Stay detached.

CLICK FOR BULLET

F. Discounts – If the salesperson offers a discount, ask if it will apply a week from now (in many cases, it will). If they don't bring up the subject, ask for one. Even the "one price/no haggle" dealers might discount options, etc. You never know unless you ask.

CLICK FOR BULLET

G. Shop Twins – Some models have identical twins on the other car lots with different nameplates on them (for example, the Chevrolet Blazer and GMC Jimmy). If a car you are interested in one them, be sure to consider its twin and choose the one for which you can get the best deal.

CLICK FOR BULLET

H. Payment Method – Stating up front that you intend to pay cash could work against you. The dealership and the salesman make money when they find financing for you. If you tell the salesman that you will use 100% financing, they may give you a better deal on the sale because they can make up the profit on the back end. This gives them an incentive to offer a discount. The best route, however, is to refuse to address financing at all until you have negotiated a fair price.

CLICK FOR BULLET

I. Options – Dealer-installed options are frequently available at other sources and much cheaper than buying through the dealer. Often, they are unnecessary (like rust proofing), cheaper if done yourself (like fabric and paint protection) and sometimes even void your warranty (like undercoating). If there are options already on a car that you don't need, tell them to remove the options. Many times they will just leave them on and not charge you.

SHOW SLIDE 7-26 MORE NEGOTIATING TIPS

J. Road Test – This is one of the most overlooked steps in buying a car (particularly a used car). When you road test a car, ROAD TEST THE CAR! Drive it as closely as can to your actual driving conditions: stop and go traffic, long trips, highway acceleration, rough roads, etc. Turn the radio off and listen carefully. Try every knob and switch. Leave the salesperson behind if possible; if not ask him or her to be quiet and even sit in the back seat. If you are considering buying a used car, be sure to have a trusted independent mechanic check it out before you make the purchase.

CLICK FOR BULLET

K. Extended Warranty – Extended warranties, or service contracts, are more for dealer profit than value to the purchaser. They are meant to take over when the manufacturer's warranty runs out. New cars have excellent reliability, often making an extended warranty completely unnecessary. If you do decide to purchase an extended warranty, shop around. You can usually buy something very similar from an insurance company for much less.

CLICK FOR BULLET

L. Best Time to Buy – There is absolutely no consensus among experts as to when is the best time to buy. Therefore, buy only when you need a new vehicle and have done all of your homework.

CLICK FOR BULLET

M. Walk Away – If you don't like what you hear, don't be shy about turning around and leaving. Remember: It's your money and your decisions.

CLICK FOR BULLET

Note to Facilitator

Emphasize the option to walk away. The student does not have to buy a car from any particular dealer!

N. Don't Rush – Never buy the first thing you see. Sleep on such a major decision overnight. There will always be others to choose from if "your car" is sold.

CLICK FOR BULLET

VI. CAR-BUYING SERVICES Many organizations offer their members buying services, in which the consumer indicates the make, model, year and exact options they want and the organization does the shopping for them. They will present the buyer with several dealers offering the car and the price the dealer offers. The buyer has the option of following up on that offer (which might even be guaranteed) or declining. Usually this service is offered at no cost to the buyer. Some of these include, Navy Federal Credit Union, United Services Automobile Association, Non-Commissioned Officers' Association, and Auto-by-tel. The same type of service can be found on the internet at various websites specializing in car-buying information and pricing.

SHOW SLIDE 7-27 CAR-BUYING SERVICES

Note to Facilitator

Ask the following questions:

Do you think that a car dealer will try to make as much money off of you as possible?

Do you think they use high-pressure tactics to put you at the disadvantage during negotiations?

VII. "TRICKS OF THE TRADE" Most salespeople are reasonable, honest individuals. Some, however, are not above techniques designed to pressure you into making a commitment you may not be ready to make. Be aware of these tactics. Should you encounter them, you might choose to tell the salesperson you are aware of their tactics and prefer they not try them, ask to see a different salesperson, or to simply leave.

A. Bait and Switch. The dealer advertises a certain car or model at an unbelievable low price. Problem that car has just been sold, but the salesman will show you more expensive models.

SHOW SLIDE 7-28 TRICKS OF THE TRADE

B. Mutt and Jeff. This is like "good cop, bad cop" where the salesman is the good guy and the sales manager is the bad guy. They may even stage fake arguments in front of you. Once you believe the salesman is on your side, you become an easy mark.

CLICK FOR BULLET

C. Low-Balling. Here the salesperson quotes you a price well below the going market. This will get you to return before you buy elsewhere, at which time the "bad old sales manager" just won't let the car go for the low ball price given you (verbally, of course) by the salesperson.

CLICK FOR BULLET

D. High-Balling. In this twist, the salesperson quotes you a price for your trade-in that is significantly above fair market value. Of course when you return to actually do the deal, that trade-in value won't be approved by the "nasty old manager."

CLICK FOR BULLET

E. Put-to-Ride. Here the salesperson convinces you to take the car home for the night or even the weekend. You'll have to leave your potential trade-in with the dealer (so you can't show it to other dealers). They want you and your family to become attached to the car. Also, you may feel pressure to buy, less your friends think you couldn't afford the "new" car you were driving.

CLICK FOR BULLET

F. Padding. This involves adding charges for things such as undercoating, rust proofing, protection packages, etc. to the contract before you sign it. Negotiate these out of the contract before you sign.

CLICK FOR BULLET

G. Name-Dropping. Be leery if the salesperson uses the name of someone you know, or may know of, as a third-party endorsement of the dealership.

CLICK FOR BULLET

H. Ownership. Be aware of any comments the salesperson makes about “your” car. The idea is to get you to believe that the car actually is, or at least should be “yours,” and you join the salesman to overcome any obstacles to “rightful” ownership.

CLICK FOR BULLET

I. Fixed-Price. If a dealership claims to offer only one firm fixed-price, you can bet the invoice has been marked up considerably and/or there are a lot of unnecessary add-ons (padding). Turn to leave and see if the price becomes “un-fixed” before you get to the door.

CLICK FOR BULLET

VIII. LEGAL RIGHTS Consumers have some rights under federal laws, but additional rights vary from state to state. Once again, the best legal preparation is to research the car purchase and know what you are agreeing to before signing any contracts.

SHOW SLIDE 7-29 LEGAL RIGHTS

IX. CONTRACTS Dealers can make a profit from the sale of the car, as well as from extra fees, options, and services they add to the contract. Carefully considering which options or services you need ahead of time will help avoid unnecessary expense. If you are not prepared, the first you will hear of some of the extra profit-makers will be when negotiating the contract. Let's look at some practices regarding your contract to purchase a car.

SHOW SLIDE 7-30 CONTRACTS

A. Read the Fine Print. Be sure you understand every word on the contract. If you don't, bring it to your CFS, FE, or Navy Legal Services for an explanation before you sign. If the dealer refuses to let you take it with you before signing, walk away; this is a sure sign something is awry.

B. Federal Truth-in-Lending Disclosures. Federal law requires these boxes to have certain appearance and to include the annual percentage rate, total finance charge, total amount financed, total of payments, and the sales price. Look for, read, and understand all of them.

CLICK FOR BULLET

C. Physical Damage Insurance. This is required, but can almost always be obtained elsewhere more cheaply. The property liability insurance offered by some dealers is only for their protection, not yours; in the event the car is totaled, it will compensate them for their loss and do nothing for you.

CLICK FOR BULLET

D. Mechanical Repair Coverage. If you purchase an extended warranty or service contract, be sure you understand the coverage (term or mileage, whichever occurs first) and any deductibles you are responsible for paying as well. Also know what is covered or excluded. Remember that often these are pure profit for the dealer and overpriced. To receive the covered repairs, you may be required to bring the car to the same dealership. In short, be leery of any extended warranty contract provisions.

E. Credit Life/Disability Insurance. Credit life or disability insurance is seldom necessary for members of the military. Often it is very high-priced for the amount of coverage involved and protects the only the dealer or finance company.

F. Options – Examine these carefully and ensure you really need it, and it cannot be obtained more cheaply elsewhere (they usually can).

CLICK FOR BULLET

G. Taxes, License, Registration, Title, And Processing Fees. Try to pay as many of these up front as possible, to avoid having to pay interest on them if they are included in the financing. Be sure they are itemized so that you know which fees are truly the government fees and which are processing fees (pure profit for the dealer). Charges in this category are:

1. Sales and Use Tax
2. Title Fee
3. Registration Fee
4. Property Taxes

SHOW SLIDE 7-31 OTHER CONTRACT TIPS

H. Power of the Pen. If you don't understand or approve of something in the contract, line it out and initial it. This legally removes the item. Better yet, demand a new contract with the offending items removed.

CLICK FOR BULLET

I. Don't Leave Any Blanks. Everything should be filled in, and items left off should read "$0.00", "N/A," be lined out, or otherwise denoted. Something simply left blank could be filled in later to your detriment.

CLICK FOR BULLET

J. Take it to Legal Before Signing It. If you aren't 100% sure of every word in the contract, bring it to Navy Legal Services for an explanation BEFORE YOU SIGN IT. Again, if the dealer refuses to let you take it with you before signing, walk away – this is a sure sign something is wrong.

CLICK FOR BULLET

X. CONSUMER PROTECTION There are several state and Federal laws that provide protection to you, the consumer.

SHOW SLIDE 7-32 CONSUMER PROTECTION

A. State Lemon Laws. Most states have a Lemon Law, which enables consumers to get either a new vehicle or get their money back when the vehicle cannot be repaired to conform to the standards of the warranty. This is for new cars only.

B. Odometer Reading. It is illegal to ever turn back or reset an odometer, even if a new engine is installed on the car. A statement of the odometer miles is required with every purchase. Average mileage per year in America is 15,000 miles, and the Attorney General estimates that one-third of all vehicles have had their odometers spun. The DMV can provide you with the number of owners your vehicle has had, and this information, plus the age and condition of the car, can help you estimate whether the mileage is suspiciously low.

CLICK FOR BULLET

C. "As Is" vs. Implied/Expressed Warranty. This sticker is required by Federal law to be placed in the window of all used cars sold by dealers. For your own protection, any used car should be inspected by an outside mechanic before you buy and any promises made by a dealer should be put in writing. Very few assurances are provided by "implied" warranties and you want everything to be "expressed." The Buyer's Guide Sticker states:

1. If there is a warranty and what protection the dealer provides.

2. If there is no warranty, that the car is bought "as is" and the dealer will not be responsible for any subsequent problems.

3. That any car can be subject to major problems, and lists them.

CLICK FOR BULLET

D. Magnuson-Moss Warranty Act. This is a federal law that protects the buyer of any product that costs more than $25.00 and comes with an express written warranty. This law applies to any product that you buy that does not perform as it should, including cars. This law guarantees a car buyer that certain minimum requirements of warranties must be met, and provides for disclosure of warranties before purchase. A consumer may pursue legal action in any court of general jurisdiction in the United States to enforce rights under this law.

CLICK FOR BULLET

XI. COMPLAINT RESOLUTION If you experience a problem, you should follow these guidelines:

SHOW SLIDE 7-33 COMPLAINT RESOLUTION

A. Speak to the dealer first. In many cases, dealers have a reputation to protect and may be willing to quickly resolve problems at this level.

B. If the dealer is part of a chain, speak next to the regional representative of the company since he or she also has an interest in preserving the company's good name.

CLICK FOR BULLET

C. If the dealer is a member of a professional association like the Better Business Bureau, NADA, NIADA, local area ADA, etc., they have dispute resolution processes to assist you.

CLICK FOR BULLET

D. If these steps fail, contact the Office of Consumer Affairs of your state Attorney General and the Armed Forces Disciplinary Control Board for investigation and possible prosecution.

CLICK FOR BULLET

SHOW SLIDE 7-34 SUMMARY QUESTIONS

Summary Questions

1. List the steps in the car buying process.
2. What are three of the high-pressure tactics that are used by car salespersons and how do you keep from falling prey to them?
3. What are your legal rights in the car buying process?
4. How would this process work for other high dollar purchases?
5. Where can I go to get help with the car buying process?

XII. SUMMARY During this hour we information to make you a more savvy car buyer. We talked about the steps you should take as part of the car-buying process, including determining what you can afford, researching the right car for you, selecting a dealer, negotiating a contract, and your legal rights as a consumer. Various sources of assistance you may rely on were discussed at several points in the lesson.

SHOW SLIDE 7-35 SUMMARY

SHOW SLIDE 7-36 EFFECTS OF COMPOUND INTEREST

XIII. CAR BUYING EXERCISE

The purpose of this exercise is to expose students to all costs associated with buying and owning an automobile.

A. Start the exercise by asking the class what kind of automobile they are thinking about purchasing. Invoice and Retail prices for four popular 2001 vehicles are provided on the following pages. These vehicles are:

Chevy S-10 (Small Pick Up Truck)
Dodge Durango (Small SUV)
Ford Mustang
Chevy Camaro

Lead the class to one of these vehicles and provide them with invoice and retail prices for the vehicle and selected options. Have students enter this information in the Car Buying Worksheet in their Student Handouts and perform the math to arrive at an amount to be financed.

B. Bring up the loan payment calculator and figure the amount to be financed to determine payments over a 60 or even a 72 month period. Lead the students to decide that they cannot afford a new vehicle.

SHOW SLIDE 7-37 CAR BUYING EXERCISE

Note to Facilitator

Questions for students:

What kind of vehicle would you like to have?
What options would you like on this vehicle?
How big a down payment can you make?
From your worksheets, what amount do you need to finance in order to purchase this vehicle?
What do you think your monthly payments on this amount will be? For how long?

Direct students to use Student Guide, Pages 7-1, 7-3 and 7-7. Assign an interest rate of 18% for the exercise.

CLICK ON ICON TO ACTIVATE CALCULATOR

Calculate monthly payments and discuss if these are reasonable on an E-2's income.

C. Show student's the LES.

SHOW SLIDE 7-38 LES

Note to Facilitator
Ask the following question:
What are some possible alternatives to a new car?

D. Show students the slide that has the following vehicles listed along with Kelly Blue Book suggested retail prices (June 2001).

SHOW SLIDE 7-39 USED CAR PRICES (RETAIL)

Note to Facilitator
Ask the following question:
Who thinks you may be able to afford one of these vehicles?

E. Use the loan calculator to compute monthly payments for one or two of the selected used vehicles for 36, 48, or 60 months. Make the point that these payments may be affordable and the time period gives the student a reasonable chance to one day actually own the vehicle.

CLICK ON ICON TO ACTIVATE CALCULATOR

The following wholesale and retail prices for the indicated vehicles and options were obtained from the Kelly Blue Book web site, http://www.kbb.com/, on May 28, 2001 and assumed Pensacola, FL as delivery location.

	Invoice	Retail
2001 Chevy S-10	**12143.31**	**12849.00**
Destination Charge	**585.00**	**585.00**
BASE MODEL PRICE w/ Destination Charge	**12728.31**	**13434.00**
Customer Incentive		
Cash (in SE & NE Regions)		**-1000.00**
V6, 262", SFI (4.3 Liter)	**1113.70**	**1295.00**
Automatic, 4-Speed w/Overdrive	**941.70**	**1095.00**
Convenience Group, Comfort Includes Tilt Steering Wheel & Speed Control.	**339.70**	**395.00**
Air Conditioning	**692.30**	**805.00**
Radio, AM/FM Stereo w/Cassette	**104.92**	**122.00**

	Invoice	Retail
DURANGO 2WD	**24399.00**	**26650.00**
Destination Charge	**600.00**	**600.00**
BASE MODEL PRICE w/ Destination Charge	**24999.00**	**27250.00**
Customer Incentive, Cash		**-2000.00**
V8, 360", SFI (5.9 Liter)	**524.00**	**595.00**
Automatic, Multi-Speed w/Overdrive	**Std.**	**Std.**
SLT Plus Group 2WD Model	**2948.00**	**3350.00**

Includes Leather Surfaced Heated Bucket Seats w/Dual 8-Way Power, AM Stereo/FM Stereo w/CD & Cassette, Dual Heated Power Mirrors, Inside Automatic Day/Night Mirrors, Running Boards, Tire & Wheel Group, Premium Leather Door Trim Panels, Woodgrain Instrument Panel & Door Trim Panels (Ex. w/R/T Pkg.-ASU), Overhead Console Convenience Group, Security Group, Infinity Speakers & Steering Wheel Touch Controls. ***NOTE:** Net Prices Shown Include Discounts of $440.00 Invoice & $500.00 Retail.

Radio, AM Stereo/FM Stereo w/CD & Cassette	**264.00**	**300.00**

	Invoice	Retail
MUSTANG P40/100A Standard Coupe 2D	**15816.00**	**16995.00**
Destination Charge	**600.00**	**600.00**
BASE MODEL PRICE w/ Destination Charge	**16416.00**	**17595.00**
Automatic 4-Speed w/Overdrive	**725.00**	**815.00**

Note: Limited options or incentives listed for this model.

	Invoice	Retail
CAMARO 1FP87 Coupe 2D	**15834.08**	**17305.00**
Destination Charge	**575.00**	**575.00**
BASE MODEL PRICE w/ destination charge	**16409.08**	**17880.00**
Preferred Equipment Group 1 Base Coupe	**1041.30**	**1170.00**

(*Items Included in Pkg. May Not Be Deleted*) Include Speed Control, Remote Control Hatch/Trunk Release, Power Door Locks, Fog Lights, Power Windows, Dual Power Mirrors, Illuminated Keyless Remote Control Entry System & Alarm System.

Customer Incentive (Cash)		**-1500.00**
Automatic, 4-Speed w/Overdrive	**725.35**	**815.00**
Radio, AM/FM Stereo w/CD	**400.50**	**450.00**
Wheels, Chrome Cast Aluminum	**867.75**	**975.00**

USED CAR RETAIL VALUES

NOTE
Suggested retail represents the price a dealership might ask for this make and model vehicle. This represents a fully reconditioned vehicle in excellent condition with a clean title history. This retail price is not a trade-in or private-party value, but rather assumes that a dealer has absorbed the cost of making the vehicle ready for sale, reconditioning, advertising, sales commissions, arranging for financing and insurance and standing behind the vehicle for any mechanical or safety problems. Many late model vehicles at this price have passed an inspection program or carry a warranty. Actual dealer selling price may vary from this price.

1993 Ford Explorer Sport Utility 4D

Engine: V6 4.0 Liter
Trans: 5 Speed Manual
Drive: 2 Wheel Drive
Mileage: 82,000

Equipment

XL	AM/FM Stereo
Air Conditioning	Cassette
Power Steering	ABS (4-Wheel)

Retail Value **$7,335**

1994 Chevrolet Camaro Coupe 2D

Engine: V6 3.4 Liter
Trans: Automatic
Drive: Rear Wheel Drive
Mileage: 79,000

Equipment

Air Conditioning	AM/FM Stereo
Power Steering	Cassette
Tilt Wheel	Dual Air Bags
ABS (4-Wheel)	

Retail Value $7,035

1995 Dodge Neon Sport Coupe 2D

Engine: 4-Cyl. 2.0 Liter
Trans: 5 Speed Manual
Drive: Front Wheel Drive
Mileage: 74,000

Equipment

Air Conditioning	AM/FM Stereo
Power Steering	Dual Air Bags
Power Door Locks	ABS (4-Wheel)
Tilt Wheel	Alloy Wheels

Retail Value $5,565

1995 Honda Accord LX Sedan 4D

Engine: 4-Cyl. 2.2 Liter
Trans: 5 Speed Manual
Drive: Front Wheel Drive
Mileage: 74,000

Equipment

Air Conditioning	AM/FM Stereo
Power Steering	Cassette
Tilt Wheel	Dual Air Bags

Retail Value $9,260