



Car-Buying Strategies

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COURSE DESCRIPTION

Car-buying Strategies is a 60- to 75-minute interactive course suitable for all audiences.

Purchasing a vehicle is a large investment that can have a significant impact on an individual's short-term and long-term financial circumstances. Because purchasing a car can be a complex process, it is important that buyers understand the specific steps involved in making a wise purchase. The Car-buying Strategies course is designed to develop knowledge and skills that will enable learners to conduct adequate research on a new car purchase, to determine how much they can afford to spend on a car and to negotiate effectively when purchasing an automobile. Content for a shortened version of this course is available at the end of the regular course content. This can be used when there is less than 60 minutes to facilitate the course, as a marketing brief or to customize trainings for your commands.

LEARNING OBJECTIVES

Terminal: Upon completion of this course, learners should be able to:

- Determine how much they can afford to spend on a car.
- Research available vehicles, lenders and sellers.
- Negotiate a fair price on the purchase of a car.

Enabling:

- During the *You Tell Me* activity, learners will name at least three resources to research a vehicle purchase and describe three research techniques.
- Using the *Budget Bottom Line* worksheet, learners will correctly calculate the total monthly cost of a car and determine whether it is affordable.
- In the *What Do You Think?* activity, learners will identify solutions to common dealer sales tactics and develop the skills necessary to negotiate a fair price on a vehicle.

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COURSE PREPARATION

Handouts:

- *The Budget Bottom Line*
- *Car-buying Sources of Help*
- *Car Sales Tricks of the Trade*
- *Common Dealership Financing Pitfalls*
- *Debt-to-income Ratio*
- *Determining Car Payments*
- *Financial Planning Worksheet*
- *Installment Sale Contract for Titled Vehicle and Equipment*

- *Leasing vs. Buying*
- *Questions to Ask Car Dealers*
- *Three Deals of Car-buying*
- *You Tell Me*

Materials (vary depending on activities chosen):

- Chart paper or whiteboard and markers
- Pens, pencils, paper
- Calculators
- *Car-buying Strategies* PowerPoint slides
- *Car-buying Jackpot* PowerPoint game
- Internet access (optional)

SUMMARY OF LEARNER ACTIVITIES

- *You Tell Me*: An interactive exercise in which learners list everything they know about a car-buying topic and the instructor provides the missing content.
- *The Budget Bottom Line*: A worksheet activity in which learners calculate the affordability and total monthly cost of a vehicle.
- *What Do You Think?* A discussion-based activity for learners to examine dealer tactics and develop negotiating skills.
- *Car-buying Jackpot*: An optional PowerPoint game-show-style presentation of course content that can be used in lieu of lecture or as a course review.

CONTENT OUTLINE

1. Welcome and Introduction (10 minutes)
 - a. Agenda and Topic Overview
 - b. Learner Activity: *You Tell Me*
2. Deal No. 1: The Purchase (25 minutes)
 - a. Know What You Can Afford
 - i. Preparing a Spending Plan
 - ii. Credit Concerns
 - iii. Determining Car Payments

- iv. Learner Activity: *The Budget Bottom Line*
- b. Choosing Your Car
 - i. Insurance
 - ii. Performance and Reliability
 - iii. Where Will You Buy?
- c. Determining a Fair Price
 - i. Where to Find Pricing Information
 - ii. Fair Pricing Terminology
- d. What About Leasing?
- e. Negotiation
 - i. Negotiation Tactics
 - ii. Learner Activity: *What Do You Think?*
 - iii. Negotiation Strategies
- 3. Deal No. 2: The Financing (10 minutes)
 - a. Where to Finance
 - b. Finance Charges
 - c. Contracts
- 4. Deal No. 3: The Trade-In (5 minutes)
- 5. Know Your Rights (5 minutes)
 - a. Your Legal Rights
 - b. Complaint Resolution
- 6. Summary (5-20 minutes)
 - a. Sources of Help
 - b. Optional Learner Activity: *Car-buying Jackpot*

CONTENT MATERIAL

WELCOME AND INTRODUCTION

AGENDA AND TOPIC OVERVIEW

Most service members will purchase a new or used car while on active duty. They will spend more of their disposable income on automobiles than on virtually anything else except food and shelter. This course explores how service members and their family members can save hundreds, if not thousands, of dollars on their next vehicle purchase.





Trainer's note: Refer learners to *The Three Deals of Car Buying* and *Car-Buying Sources of Help* handouts.

Most Americans will purchase a vehicle at some point in their lives. Although it can be exciting to dream and plan for buying a car, there are many opportunities to make unwise choices if you do not learn about the process before you buy. This course is designed to help you save money and hassles on your next car purchase by focusing on the Three Deals of Car Buying – the Purchase, the Financing and the Trade-in. It will also take a look at the legal rights you have when buying or selling a car, and the sources of help available to inform and guide you in this important decision.



LEARNER ACTIVITY: *You Tell Me*

Time: Eight minutes

Materials: *You Tell Me* handout

Procedure: For a small class, this can be done as a whole-group activity. For large classes, divide the class into smaller groups for optimum participation. Distribute the *You Tell Me* handout and explain to the class that because car buying is such a popular topic, you would like to get their input on some aspects of buying a car. (Note: You will find that most people have at least some knowledge of car buying, and getting their input at the beginning of the class will help engage learners in actively participating and sharing.)

DEAL NO. 1: THE PURCHASE

Many people begin the car-buying process by visiting a dealership, which should be one of the last things they do. Unfortunately, the process often ends the same day with the purchase of an inappropriate car at too high a price. Dealers will ask about financing and trade-ins before offering a bottom-line price so that they can mentally calculate their profit to the buyer's disadvantage. You can save yourself hundreds, if not thousands, of dollars on your next purchase by doing some homework before you step onto the lot so that you are always in control of the buying process.

To make a successful purchase, there are four things you need to determine before stepping onto the lot. They are:

1. How much you can afford.
2. The type of vehicle you want to buy.



3. Where you will buy the vehicle.
4. A fair and affordable price for the vehicle.

Trainer's note: Use the lists generated during the *You Tell Me* activity for examples and discussion points during the instruction on these four points.

KNOW WHAT YOU CAN AFFORD

Before you shop, know how much you can afford to spend each month for the car and its upkeep. To save yourself a lot of money, time and effort, do your homework first to determine what you can realistically spend on a new car. Consider the following:

How much you can spend in total on the vehicle? If you only figure out how much you can afford to pay each month and not the total amount you want to spend on the vehicle, you will probably get the monthly payment you want but risk paying too much for the vehicle overall.

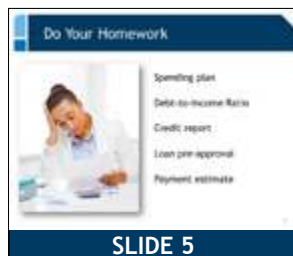
How much you can put down on the vehicle? The greater the down payment, the less you have to finance and the lower your monthly payment.

How much can you spend per month on a payment? If you only figure how much you want to pay in total, you risk ending up with a monthly payment that you will not be able to afford. Buy the car; never buy the payments.

Preparing a Spending Plan

Trainer's note: Refer learners to the *Financial Planning Worksheet*. Encourage them to complete their budget or spending plan if they do not already have one. Invite them to attend a *Developing Your Spending Plan* class or to visit their Command Financial Specialist (CFS) or Fleet and Family Support Center (FFSC) financial counselor for help in creating a spending plan.

How much you can afford to spend monthly, on a down payment and for total monthly costs and maintenance, can be found in your budget or spending plan. If you already use a budget at home, review it and determine what you can afford to spend on your new car. We will go over ideas that will help in this course. If you do not already have a spending plan, now is a great time to start. The benefits of having a budget or spending plan can extend far beyond this car purchase and can affect your entire financial future. Developing a budget or spending plan in advance of a car purchase is a win-win situation!





Credit Concerns

Trainer's note: Refer learners to the *Debt-to-income Ratio* worksheet and explain how it works. If they have had issues or concerns about their debt, invite them to attend a *Credit Management* workshop or visit their CFS before they buy a car. Encourage learners to review their credit report as one of the first steps they take in buying a car.

Debt-to-income ratio: You will also want to know how much of your money currently goes to pay regular monthly debt payments so you do not overextend yourself if you add a car payment. To find this out, compute your debt-to-income ratio. The debt-to-income ratio is a figure used to determine whether a person is carrying a total debt load that is manageable, one that might lead to financial difficulties, or one that indicates a person is in immediate need of debt reduction and significant adjustments in their financial lifestyle. Use it as a guide, not as an absolute measure of your ability to take on more debt.

Use the scale at the bottom of the page to determine whether you have room in your budget to take on more debt. If your debt-to-income ratio is 20 percent or higher, you may want to hold off on taking on more debt.

Your credit report: Be sure to check your credit report as you work on your spending plan and debt-to-income ratio. A dealership will pull your report, so it is best you look at it first, unless you are paying in cash or have pre-approved financing. This way, there will be no surprises. Information on how to get your free annual credit report is included in the *Car-buying Sources of Help* handout.

Pre-approved loan: Consider getting pre-approved for a loan from your financial institution. This will provide information on interest rates, payments and terms in addition to ensuring you do not overextend yourself once at the dealership.

Determining Car Payments

Trainer's note: Refer learners to the *Determining Car Payments* handout and ensure they understand how to make the calculations. Explain that most credit union, bank and car-buying websites also have calculators that help you determine what a car payment will be based on the amount of the loan, the number of months and the annual percentage rate.

If you need some help to determine how much a payment would be for a specific loan amount, you can use the *Determining Car Payments* handout. The websites referred to on your *Car-Buying Sources of Help* handout also offer calculators to assist you.

What is a reasonable monthly car payment? Financial advisers usually suggest keeping total car expenses to within 25 percent of your net income (what remains after taxes). Total car expenses include the car loan payment as well as maintenance, insurance, operating expenses (e.g., fuel, oil), taxes, license and registration. These operating expenses can sometimes total up to one-third of the monthly payment. To avoid spending more than you can afford, multiply the amount you figure you can afford to spend each month on your new vehicle (the total cost) by .66. The sum will give you a good idea of what the maximum car loan payment is for your current financial situation.



LEARNER ACTIVITY: *The Budget Bottom Line*

Time: 10 minutes



Materials: *The Budget Bottom Line* worksheets

Procedure: Distribute worksheets to the class. The facilitator can decide whether this will be done as an individual activity, in pairs or as small groups. Explain to the class that they will be calculating the budget “bottom line” to determine whether the cost of the vehicle payment and expenses are affordable (i.e., will they fit into the budget without creating a budget deficit?). You can read the opening scenario to the class or ask for a volunteer to read it.

Part 1: Instruct the class to use the information from the scenario, and the budget information provided, to calculate the suggested maximum affordable car payment; they should determine the budget bottom line. Give the class about five minutes to complete the calculations and then go over their answers.

Answers:

$$\$2,536 \times .25 = \$634$$

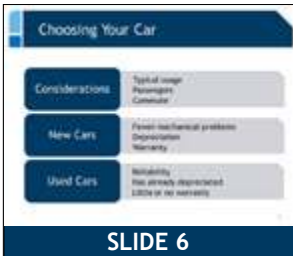
$$\$634 \times .66 = \$418.44$$

$$\$2,536 - \$1,845 = \$691$$

According to these calculations, the couple has \$691 left over each month and therefore can afford both the maximum payment based on net income and the amount the couple estimated for their chosen vehicle.

Part 2: (Optional)

Ask the class to consider whether their decisions would be different if they knew that although the couple’s budget showed a budget surplus sufficient to purchase



the car, they had a 35 percent debt-to-income ratio? This can be a good way to reinforce the information provided on credit issues before the activity.

CHOOSING YOUR CAR

The vehicle you purchase must strike the right balance between wants, needs and affordability. Everyone has different preferences in a vehicle. There are many factors to consider when deciding what to get, including size; manual or automatic transmission; two-, four- or all-wheel drive; use (on or off-road, length of commute, parking conditions); style; safety; ownership and operating costs.

To help you determine what type of car is right for you, ask yourself the following questions:

- How many passengers do you typically carry?
- Do any passengers need help getting in and out of the vehicle?
- Will you be transporting children and need accessibility for car seats?
- How many miles will you be putting on your car annually?
- How long is your daily commute?
- Are you looking for a specific fuel economy or to buy a “green” vehicle?
- Are there specific features you need on your car?
- What safety features are important to you?
- Do you have children? What are their ages?
- Do you need cargo space, towing capacity or all-wheel drive?

Once you have made some choices as far as the type and style of the car you need, you have another choice that can significantly affect the price – should you get a new car or a used car? Each one has positive and negative aspects; there are no absolute answers to the question of a new versus used car. Each buyer must consider his or her own needs and resources when making the choice.

New car considerations:

- Cost: Almost always more than a used car.
- Mechanical problems: Likely to have fewer than a used car.
- Depreciation: The value of a new car diminishes rapidly following the purchase, anywhere from 15 percent to 20 percent in the first year. To get the full value of a new car, many consumers plan to own it for four, five or more years.

- **Warranties:** The average new car warranty is three years or 36,000 miles, although some automakers have warranties up to five years or 60,000 miles. Extended warranties can be purchased at extra cost.

Used car considerations:

- **Cost:** Generally less than a new car.
- **Mechanical problems:** Likely to have more than a new car. Repair costs can add significant amounts to the cost of owning and operating a car. Are you mechanically inclined and able to make your own repairs? Do you have an auto mechanic you know and trust? Have you considered using base auto hobby shops?
- **Depreciation:** Usually less than a new car because much of it may have already occurred.
- **Warranties:** May or may not have any remaining. Service contracts will add significantly to the cost of the car.



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Insurance

Trainer's note: Gap insurance can provide valuable protection during the early years of your car's life if you have a loan or a lease. If a loss occurs, gap insurance will pay the difference between the actual cash value of the vehicle and the outstanding balance on the vehicle within or based on certain limitations according to the provisions of the loan. Sometimes it will also pay your regular insurance deductible. Remember, however, that each loan and insurance policy differs, so it is important for learners to check the provisions of each for exclusions and coverage.

Once you have narrowed your choices to a few models, compare quotes on insurance costs. Sometimes two similar vehicles can have different insurance costs, and that cost difference will help you make a final decision on a model. Moreover, knowing the cost ahead of time enables you to figure this significant expense into the budget. For many junior service members, the insurance payment can be as much or more than the car payment.

Tips for cutting your car insurance costs include:

- **Shop around.** Get at least three rate quotes. Insurance quotes should be obtained before you sign on the dotted line.
- **Remember that safety features** such as anti-lock brakes, airbags, daytime running lights and security systems can sometimes merit discounts on your insurance policy.

- Take a higher deductible to get a lower premium (but make sure you have the savings to cover the deductible).
- Review your policy and drop options or coverage that you no longer need on an older vehicle.
- Check your credit report. Insurance companies now check your credit worthiness before issuing a new policy or renewing a current insurance policy. If you have credit problems, it can affect the cost of your insurance or even your ability to get insurance.
- Ask for discounts: low mileage, group, military, good student, etc.
- Avoid lapses in coverage.
- Be a safe driver. A poor driving record can increase premiums.
- Pay the premium up front, if possible, because there may be a fee associated with an installment plan.
- If leasing, read the lease to see whether gap insurance is required. If so, shop around for the best deal. If gap insurance is required, you usually have to have collision and comprehensive coverage as well. Note that insurance will be significantly higher on a leased vehicle because you do not actually own it.

Performance and Reliability

Too many consumers choose their car by the image it portrays. Your goal should be to choose the safest, most reliable and best-performing car for the price you can afford. One of the concerns of car ownership is the cost of maintaining and driving your chosen vehicle. A car may be reasonably priced, but if it is known to be costly to maintain or drive, you may find it costs more than you can afford. To find out more about the performance and reliability of the vehicles you are considering, you might want to check these resources.

Consumer Reports: Consumer Reports rates the reliability, safety, performance and fuel economy of cars and is relatively unbiased because it accepts no advertising.

CARFAX vehicle history report: CARFAX reports contain information that can affect a consumer's decision about a used vehicle. Some types of information that a CARFAX report includes are:

- Title information, including salvaged or junked titles
- Flood damage history
- Total loss accident history



- Odometer readings
- Lemon history
- Number of owners
- Accident indicators, such as airbag deployments
- State emissions inspection results
- Service records
- Vehicle use (taxi, rental, lease, etc.)

Source: CARFAX.com

Keep in mind, however, that if body shop repairs or maintenance was performed by a private individual or by the owner of the vehicle, this information will not usually show up on a CARFAX report. So even with a CARFAX report, it is still a good idea to have a used vehicle inspected by a mechanic or someone knowledgeable about vehicles before committing to that vehicle.

Other sources: You can also consult Consumers Union publications and the Insurance Institute for Highway Safety. There are many websites that examine the cost and performance issues of vehicles listed on your *Car-Buying Sources of Help* handout.

Fuel economy: With fluctuating gas prices, fuel economy plays a part in the affordability of your chosen vehicle. If you have a long commute or plan to make a lot of long trips annually, fuel costs could affect your choices when purchasing a car. To check or compare fuel economy, go to the U.S. Department of Energy's fuel economy website, <http://www.fueleconomy.gov/>. Additionally, there are specific options on a car that can affect fuel economy. Consider choosing the smallest engine possible for your chosen vehicle (i.e., four-cylinder instead of six-cylinder) or going with a manual transmission to increase fuel efficiency. The last thing you want is to discover after you purchase a car that you cannot afford to drive it.

Going "green": You may be interested in a fuel-efficient vehicle as a way to reduce fuel costs or in an effort to protect our environment. Options include hybrids, electric and alternative-fuel vehicles. Most hybrids offer a relatively simple combination of gas and electric power without any additional equipment needed to operate, while electric and alternative-fuel vehicles require access to fuel sources (i.e., charging or refueling stations, special fuel, etc.). There are some tax incentives for purchasing green vehicles, and some states offer specific incentives for individuals who drive green vehicles. Remember that you will typically pay more for

green vehicles, so be sure to do your homework on the different types and how each functions. You can consult the U.S. Environmental Protection Agency's website on green vehicles for more information (<http://www.epa.gov/greenvehicle/index.htm>).

Recalls: Millions of cars and trucks are recalled annually. Most recalls do not pose an immediate safety risk, but sometimes recalls involve problems that, although rare, could lead to serious safety issues. Research your prospective vehicle thoroughly to see whether there have been recalls on that particular make and model. You also should verify whether the seller or dealership has properly repaired or replaced the defective items.

True cost of ownership: To figure out the overall cost of driving and maintaining your chosen vehicle, you may want to consult a true cost of ownership calculator. Edmunds.com has an online calculator that considers the hidden costs of car ownership. You can try out this calculator at <http://www.edmunds.com/tco.html>.

Where will you buy?

Dealerships: Car buyers should research a minimum of three potential sellers. There are no absolute guidelines to follow in selecting a dealer, a salesperson or an individual from whom to buy a car. Do your homework and you should get a good deal no matter from whom you buy. Since buying a new car likely involves choosing a dealership, here are some guidelines to use.

- **Years in business:** Although being in business for a long time does not necessarily mean that the dealer is honest and reliable, the worst of the dealers (in terms of how buyers are treated) seem to go out of business fairly quickly.
- **Complaints:** Check with the Armed Forces Disciplinary Control Board, a state's office of consumer affairs, the Better Business Bureau and any professional associations to which the dealer belongs for any complaints filed against them.
- **Salespersons and mechanics:** How long have they been with the company? Again, not a foolproof factor, but anything that suggests company stability is frequently a good sign. Take your salesperson for a "test drive"—Are they pushy? Relaxed? Open? Impatient? Responsive? Make sure the salesperson is someone you can work with.
- **References:** These are sometimes used to impress the buyer, but unless you can get a complete list of everyone who has ever bought a car from the seller, assume the seller is giving you the names of persons who will only say positive things. In other words, skip checking their references.



SLIDE 9

- **Professional membership:** Membership in the Better Business Bureau, National Automobile Dealers Association or National Independent Automobile Dealers Association does not automatically mean a good deal for you. It does, however, give you some reassurance that there are avenues for you to address concerns if they occur.

Private sellers: Frequently, car buyers can save money by purchasing from a private seller. The downside is that there is little or no consumer protection after the sale and no repair plan. If the car purchaser truly is knowledgeable about cars or can bring along someone who has that knowledge, this may be an excellent source to consider.

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

Internet: Many people are conducting successful searches for new vehicles over the Internet. There is a wealth of research available to help you make wise consumer choices. Online car-buying sources include:

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

With online sources you may have a greater selection to choose from, but be sure to do your homework with online sources just as you would with a dealership or a private seller. Avoid giving out any information before you have verified that the online source is legitimate and the site is secure.

Buying services: Some 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 reduced or no cost to the buyer. Some of these include USAA, NCOA, and Autobytel. The same type of service can be found on the Internet at sites specializing in car-buying information and pricing.

DETERMINING A FAIR PRICE

Auto dealers and private individuals 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 constitutes a fair price for the vehicle.

Where to Find Pricing Information

Trainer's note: If time allows and there is an Internet connection in the training room, go to one of the car pricing websites and show learners some features. Practice ahead of time so you will be proficient at demonstrating the site(s). For this section, be sure to refer learners to the Internet sites listed on the *Car-Buying Sources of Help* handout.

All of the components of pricing a dealer invoice and manufacturer's suggested retail price (MSRP) are available through a variety of resources. Price your vehicle at dealer invoice, subtract any dealer holdbacks or incentives, add 3 to 5 percent dealer profit and start your offer there. 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, especially www.edmunds.com and www.nada.com. These sites will price a new or used car and also have information on buying and selling, financing and insurance. Additional resources include:

Public libraries: One of the best sources of information on car pricing, where many of the resources listed below can be found.

Kelley Blue Book and NADA pocket guides: These list suggested retail and loan values for specific makes and models of used cars. Factors such as mileage, options and physical condition affect a car's value. These guides offer great starting figures. They can be found at www.kbb.com and www.nada.com.

IntelliChoice car cost guides: Besides the dealer cost and sticker price, the guides list items such as resale value, economic value, maintenance costs, etc.

Consumer Reports/Consumers Union price reports: Each April issue of Consumer Reports is devoted to cars ratings and pricing, and they offer a low-cost service to provide the dealer cost for particular makes, models and options.



Edmund's Car Prices Buyer's Guide: Available in hard copy as well as online, similar to the IntelliChoice guide.

Fair Pricing Terminology

As you start researching a fair price for your vehicle, it helps to understand the terminology that dealers and car manufacturers use. These include:

Invoice price: What the manufacturer charges the dealer (the dealer's cost may actually be less due to rebates and incentives, etc.).

Base price: Cost of the car with the standard equipment and basic warranty.

Destination charge: What the manufacturer charges to deliver the vehicle to the dealer.

Manufacturers' suggested retail price: The recommended retail price as suggested by the dealer and posted on the vehicle. Dealers can sell a car for whatever price they choose. MSRP averages 10 to 11 percent higher than the invoice price.

Monroney sticker price: The price listed on the sticker on the car. This includes base price, installed options, destination charges and fuel economy information.

Dealer sticker price: Monroney sticker price plus MSRP of any options installed by the dealer.

Customer rebate: A manufacturer incentive usually in the form of cash or lower interest rates.

Manufacturer-to-dealer incentive: Extra money the automaker pays the dealer for selling certain cars. May be used to increase advertising, lower the prices and/or increase the dealer's profitability.

Dealer holdback: A bonus amount (usually 2 to 3 percent of MSRP) the manufacturer pays to the dealer for meeting sales and customer service goals, regardless of the actual sale price of the vehicles.

Carryover allowance: Another manufacturer-to-dealer incentive to clear out prior-year models.



WHAT ABOUT LEASING?

Trainer's note: During this section, refer learners to the *Leasing vs. Buying* handout.

Since time does not typically allow for an in-depth discussion on car leasing, you may want to refer learners to the U.S. Federal Reserve Board's online publication "[Keys to Vehicle Leasing](#)" and Edmunds.com's "[10 Steps to Leasing a New Car](#)" for a detailed description of car leases. Facilitators should be knowledgeable about other areas of "lease speak," such as:

- **Capitalized cost:** the selling price of the car, on which the rest of the lease calculations will be based.
- **Capitalized cost reduction:** the down payment made, which lowers the amount on which the lease is based.
- **Residual value:** the predicted value of the car at lease end, after depreciation. 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 paid for the privilege of driving the car over the lease term, plus a finance charge.
- **Money factor:** the finance charge (interest) on the lease amount, expressed as a decimal used to calculate part of the monthly lease payment.

If you are thinking about leasing instead of buying, you need to understand the difference in the contracts and some of the issues that are unique to people who live the military lifestyle. There are often mileage restrictions, charges for excessive wear and tear, and limits on where you can take a leased vehicle. The next section talks about negotiating skills and legal rights, and these concepts apply to leasing as well as buying. Refer to the *Leasing vs. Buying* handout for specific differences between leasing and buying. Consider leasing only if:

- You can limit your annual mileage. Leases have 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.
- You take excellent care of your vehicle and do not plan to customize it (e.g., painting flames on the side). When you turn the car in at the end of the lease, you can be charged for any wear and tear considered by the dealer to be excessive. The car must be in original condition so that the dealer can resell it, so customization is out of the question.
- You want to drive a new car every few years and do not 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.

- You will not have to relocate. Most leases will not allow you to take the car out of the country, and many will not allow you to move the vehicle out of state.

Tax considerations when leasing: Remember that when you lease a car, you do not own the car, the dealership does. This is important if you live in a state that requires residents to pay personal property tax on their vehicles. Although you may be exempt from the tax as a service member, the dealership “resides” in that state and therefore you will be required to pay those taxes as part of your lease. If you lease the vehicle to lower your monthly payment, you may find that you get stuck with a lump-sum tax payment on top of lease payments. Do your homework and check with the department of motor vehicles in your state of residence to find out what the laws and requirements are before you commit to a vehicle lease.

Lease termination rights: The Servicemembers Civil Relief Act (SCRA) is a federal law that provides protections for service members as they enter active duty. Under the SCRA, service members may terminate automobile leases entered into before or after active-duty military service if they meet the following requirements:

- National Guard and Reserve service members may be able terminate their automotive leases if they are called to active duty for specified period of time.
- Active-duty members may be able to terminate their automotive leases if, after they entered into the lease, they either received military orders for a permanent change of station (PCS) move.
- To terminate an automotive lease, you will need to provide written notice and a copy of your orders and return the vehicle no later than 15 days after you deliver the written notice. When terminating an automotive lease, the lease ends the day you return the vehicle. Check with your Legal Service Office for more information on your rights under the SCRA.

NEGOTIATION

Negotiation Tactics

Trainer's note: Refer learners to the *Car Sales Tricks of the Trade* handout during this discussion.

Most salespeople are reasonable, honest individuals. Some, however, are not above using techniques intended to pressure you into making a commitment you may not be ready to make. Beware and 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, to ask to see a different salesperson or to simply leave. The *Car Sales Tricks of the Trade* handout lists several tactics with which you should be familiar.

Put to ride: When a salesperson cannot persuade you to buy today, they may insist that you leave your trade-in at the dealership, drive the new car home and keep it overnight. This way, no other dealership can see your trade-in, your neighbors and relatives see the car, you fall in love with it and then have a hard time saying no to purchasing the car when you have to bring it back the next day.

Bait and switch: When a dealership runs an ad with a picture of a well-equipped car and the price of a stripped-down model to entice you to come in. You are then shown the stripped-down model and quickly switched to the well-equipped one with a higher price tag.

Lowballing: This occurs when the salesperson quotes you a price on a car that is lower than the current market price. This is done to assure that you will return before signing with anyone else just to see if the offer still stands. At this point, the salesperson will tell you that they cannot sell the car for that low a price because the sales manager will not allow it.

Highballing: This is the same as lowballing, except that a high trade-in allowance figure is offered to you. Again, you come in later and the manager will not allow it.

Padding: Adding charges that increase the dealer's profit at the time you sign the contract (e.g., undercoating, protection packages, dealer-installed options, credit life insurance, disability insurance, extended warranties).

Good guy/bad guy (Mutt and Jeff routine): When the salesperson plays the role of the good guy and the manager plays the bad guy to enhance the image of the salesperson. The salesperson and manager may even stage an argument in front of you, with the salesperson trying to persuade the manager to give you a lower price. Once you believe that the salesperson is on your side, you drop your guard and become an easy mark.

"Your car": This refers to when the salesperson keeps referring to the car as "your car" to get you subconsciously to accept ownership. Once accomplished, it is easier to get you to sign the contract.



LEARNER ACTIVITY: *What Do You Think?*

Time: Five minutes to conduct the activity; discussion of the answers will be conducted as part of instruction in the next section.

Materials: *Car Sales Tricks of the Trade* handout, pens and pencils and notepaper.

Procedure: Assign each table or group one of the “tricks” from the handout. Give them five minutes to come up with some consumer strategies to combat these tactics. Ask a group leader to share one or all of the responses. Possible responses include:

Put to ride: Refuse to take the new car home overnight, and take your trade-in off the dealer’s lot.

Bait and switch: Demand to see the manager to express your dissatisfaction. Ask for a large discount. If they are not willing to deal, leave.

Lowballing and highballing: When faced with lowballing or highballing, leave and start working with another dealer!

Padding: Read the contract carefully, on your own time. Refuse to sign the contract if it is not what you originally agreed upon.

Mutt and Jeff routine: Leave the scene and think about the offer overnight before purchasing the car; comparison-shop in the meantime.

Your car: Keep reminding the salesperson that you have not yet decided to purchase the car and make it “your car.”

Negotiation Strategies

Why should we negotiate? First and foremost, when you negotiate for the best price possible you can save a lot of money. With a new car, depending on the cost of the car, this could mean thousands of dollars that you are not financing or paying for that car. What else could you do with a couple thousand dollars? What does that savings mean to your monthly car payment?

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, so they have a vested interest in getting as high a price as possible for the car. When you walk into a car dealership, the salesperson views you as a profit package: you might buy a new car, you might buy high-profit extras in the finance and insurance office, you might finance the car through the dealership, you might trade in a used car they can resell,



you might have your new car serviced at the dealership and you will hopefully become a return customer the next time you are buying a new car. You present quite an opportunity to the dealership, and this can work in your favor when negotiating.

While the salesperson wants to start high, your goal is to get as much car as you can for as little as you can. There are many stories about dishonest salespeople and tactics; do not let them influence your behavior. Keep in mind that not all salespeople are dishonest. Treat the sales force and anyone else at the dealership with the dignity you would expect for yourself, but learn how to negotiate and do it effectively.

Remember, the No. 1 rule for all deals is “everything is negotiable!”

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

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 check (even without your knowledge or permission). You need only give them your first name to look at and start discussing vehicles.

Trade: Do not forget that there are three elements to the car deal: the purchase price, the financing and the trade-in. The dealer will try to combine them and you need to keep them separate. Practice saying the phrase, “That’s not important right now.”

Down payment/deposit: Do not 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 do not feel pressured.

Discounts: If the salesperson offers a discount, ask whether it will apply a week later (in many cases, it will). If they do not bring up the subject, ask for one. Even “one price/no haggle” dealers might discount options, etc. You never know unless you ask.

Like the car: One of the goals of the salesperson is to get you to say you like the car. The sooner an emotional connection can be established between you and the car, the more likely you are to buy it.

Shop twins: Some models have identical twins on other car lots with different nameplates on them. If a car you are interested in is one of them (for example, the Hyundai Accent and Kia Rio are same or “twin” vehicles, as are the Dodge Charger and Chrysler 300), be sure to consider its twin and choose the one for which you can get the best deal.

Paying with cash: Stating up front that you intend to pay by cash could work against you. The dealership and the salesperson make more money when they find the financing for you and lose this profit if you pay cash. If you tell the dealership that you will use 100 percent financing, they may give you a better deal on the sale because they plan to make up the profit on the back end of the deal. This gives them more of 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.

Options: Dealer-installed options are frequently available at other sources and much cheaper than buying through the dealer. Often, they are unnecessary (such as rustproofing), cheaper when done yourself (such as fabric and paint protection) and sometimes can even void your warranty (such as undercoating). If there are options already on a car that you do not need, ask them to remove the options. Many times, they will just leave them on and not charge you.

Test drive: This is one of the most overlooked steps in buying a car (particularly a used car). When you test drive a car, really test it. Drive it as closely as you 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 and check every light. You might even consider running the car through a car wash to check for leaks (especially with a convertible or when a car has a sunroof or moonroof). Leave the salesperson behind, if possible; if not, ask him or her to be quiet and even sit in the back seat. Try to minimize any distractions; for example, you may want to consider leaving any children at home with a baby sitter. If you are considering buying a used car, be sure to have a trusted, independent mechanic check it out before you make the purchase.

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

Take your time: Never buy the first vehicle you see. Sleep on such a major decision overnight. There will always be others to choose from if “your car” is sold.

180-degree turn: If you do not like what you hear, do not be shy about turning around and leaving. Remember, it is your money and your decision.

DEAL NO. 2: THE FINANCING

Remember to negotiate three separate deals: The purchase price of the new car, the financing and the deal on the trade-in. As mentioned earlier, this alone will save you hundreds, if not thousands, of dollars. Things to consider in the financing deal include where to finance, finance charges and contracts.

WHERE TO FINANCE

Trainer's note: Refer learners to the *Common Dealership Financing Pitfalls and Questions to Ask Car Dealers* handouts for additional information on dealer financing.

Credit unions: Credit unions are a good place to look for financing 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.

Banks: Banks, like credit unions, are a good place to look, with the only big difference being that banks are for-profit institutions. They are, however, usually the next-best option and still require fairly good credit to get approved for a loan.

Auto dealerships: 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. Consumers who agree to finance a car through the dealer frequently find themselves making payments to a finance company, not the dealer. By choosing to use one finance company over another, dealers are frequently paid a percentage of the loan as a commission. This is passed on to you, the purchaser, along with the normal cost of financing the loan.

There are some benefits to financing with the dealer, however. It can be convenient, and since the dealer probably has multiple finance relationships, they may be able to get an especially good deal. Ideally, you should arrange your financing ahead of time and get pre-approved for a loan at your credit union or bank. But in the interest of shopping around, it does not hurt to see what the dealer has to offer.



Finance companies: Finance companies 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 for certain models.

Internet: Many Internet sites that deal with car buying also deal in financing or have links to financing alternatives. To protect yourself, be sure to check the legitimacy of these sites and companies before you apply for a loan online.

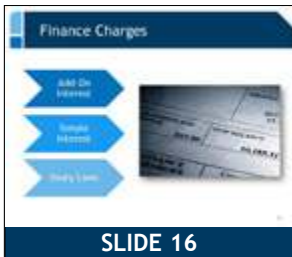
FINANCE CHARGES

So that you can talk knowledgeably about your financing terms, let's discuss the different types of interest. Interest is expressed as an annual percentage rate but is computed in several different ways.

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

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

Usury laws: State usury laws limit the amount of interest that can be charged on a loan. Know what the limits are in your state and read contracts thoroughly before signing. The federal Truth in Lending law requires that the annual percentage rate be disclosed in the financing documents. Read the fine print and have contracts checked by your installation Legal Service Office or an attorney before signing.





CONTRACTS

Trainer's note: Refer learners to the handout *Installment Sales Contract for Titled Vehicle and Equipment*. Review the relevant areas of the contract as you progress through this portion of the course. You should be thoroughly familiar with the information and how it is written into the contract in order to adequately explain it to the class. Explain that the Truth in Lending box must be easily readable on all financing contracts and completely filled in. Also, point out that this customer opted to purchase Optional Mechanical Repair for \$720.86. Not only did he purchase it, but he also opted to finance it with his loan. If the buyer did not buy the Optional Mechanical Repair, the total amount financed would have been \$5,789 rather than \$6,509. The total interest paid would have been \$1,147, rather than \$1,290, and the monthly payment would have been \$289 rather than \$325.



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 profit-making extras will be when negotiating the contract.

Here are some other things to look for when reviewing a contract:

Federal Truth in Lending disclosures: Federal law requires the Federal Truth in Lending disclosure boxes to have a certain appearance and to include the annual percentage rate, total finance charge, total amount financed, total of payments and the sale price.

Physical damage insurance: This is required but can usually be obtained at a lower cost from an insurance company than from your dealer. The property liability insurance offered by some dealers is only for their protection and not yours. In the event the car is totaled, it will compensate the dealer for their loss and do nothing for you.

Mechanical repair coverage: This is where automotive dealers make the most money. Remember that often these are pure profit for the dealer and overpriced. If you purchase an extended warranty or service contract, be sure you understand the term or the mileage coverage (whichever occurs first and the deductible you are responsible for paying) as well as what is covered or excluded. To receive the covered repairs, you may be required to bring the car to the same dealership; this is not only inconvenient but may be impossible if you have moved several states away.

Car protection packages: Examine these aftermarket items and make sure that, if you really need them, they cannot be obtained more cheaply elsewhere (they usually can).

Credit life or disability insurance: If you are covered by other life or disability insurance, is credit, life or disability insurance really necessary? Often it is expensive for the amount of coverage involved and protects the dealer or finance company. If you believe you need this coverage, you are better off looking for coverage through your insurance company.

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 may include sales and use taxes, title fee, registration fee and property taxes. Be on the lookout for junk fees such as advertising fees or delivery and handling (D&H) fees. Although many fees are not negotiable, duplicate fees added by the dealer, such as D&H when you are already paying a destination fee, can be negotiated.

There are some strategies to remember when you are reviewing your contract:

Read the fine print: Someone once said, “The big print giveth, and the small print taketh away!” Read every word on the contract, front and back, and be sure you understand what it says. Get help from your Legal Service Office if you need it.

Power of the pen: If you do not understand or approve of something in the contract, strike through it and initial it and have the salesperson initial it. This legally removes the item. Better yet, demand a new contract with the offending items removed.

Do not 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.

Talk to your Legal Service Office before signing: If you are not 100 percent sure of every word in the contract, take it to your Legal Service Office for an explanation before you sign. Again, if the dealer refuses to let you take the unsigned contract with you, walk away – this is an indication that something is wrong.





DEAL NO. 3: THE TRADE-IN

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

Trade-in versus private sale: In many instances, you can get more for your trade-in if you sell it yourself. The dealer cannot give you full retail value in most cases because they must resell the vehicle and make a profit. On the other hand, trading your car in at the dealership can make for a quick transaction and could save you some tax dollars. If you buy a new car at \$20,000, and you trade in a car that costs \$12,000, in most states you will only pay sales tax on the difference, \$8,000, rather than the full \$20,000 (at 6 percent sales tax, that results in a savings of \$720.)

What is a fair price? The same methods used in determining what to pay for the car you are purchasing can be used to get a fair price for your trade. Price your used car using resources like the NADA Book, Kelley Blue Book or Edmunds Used Car Guide. These resources will provide you with a price range (not a specific price) for your vehicle, from trade-in value to loan value to retail value (aka “blue book value”).

What is the dealer willing to pay? Many people choose to trade in their vehicle to avoid the hassle and delay of selling it themselves and accept some loss in the price of the exchange. The pricing guides list trade-in values for each model, which are reliable guidelines in determining whether the dealer is offering a fair price. Note, however, that the condition of the vehicle will affect the pricing.

What if you owe more than the car is worth? This is called being “upside-down” on your trade or having “negative equity” and can be common in the first couple of years of a new car loan, since much of the depreciation takes place in the early period of ownership. If you really want to trade in such a vehicle, the deficit amount will be added to the price of the car you are purchasing. This will probably leave you even more “upside-down” in the new vehicle. You can see the importance of ensuring the affordability of a new car as a first step in the process, to make sure the last step is not repossession.

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

- If you have the means, try paying down your loan as much as possible so that you do not finance more than you absolutely have to.
- Re-examine your reasons for purchasing a car at this time. If you can wait, it might save you many future dollars.

- When choosing the car you will be purchasing, try to pick the least-expensive one that still meets your needs and lowers your overall loan amount.
- Consider a private sale, where you might get more for your vehicle.

KNOW YOUR RIGHTS

YOUR LEGAL RIGHTS

Trainer's note: Check with the Better Business Bureau (<https://www.bbb.org/autoline/bbb-auto-line-state-laws>) to research the lemon laws in your state and have the information readily available for the discussion on this slide.



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

State lemon laws: Most states have a lemon law, which enables consumers to get a new vehicle or get their money back when the vehicle cannot be repaired to conform to the standards of the warranty. This is for new cars only.

Consumer Leasing Act: A 1976 amendment to the federal Truth in Lending Act requires disclosure of the costs and terms of consumer leases and also places substantive restrictions on consumer leases.

Odometer reading: It is illegal to turn back or reset an odometer, even if a new engine is installed on the car. A statement of the odometer miles is required with every purchase. Average mileage per year is approximately 15,000 miles, and it is estimated that one-third of all vehicles have had its odometer tampered with. 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.

Used Car Rule Buyers Guide, “As Is” versus Implied/Expressed Warranty: This sticker is required by federal law to be placed in the window of all used cars sold by dealers. For your protection, an outside mechanic should inspect any used car before you buy, and any promises made by a dealer should be put in writing. Few assurances are provided by “implied” warranties, and you want everything to be “expressed.” The Buyers Guide sticker states:

- If there is a warranty and what protection the dealer provides.
- If there is no warranty, that the car is bought “as is” and the dealer will not be responsible for any subsequent problems.

- That any car can be subject to major problems and lists them.
- A warning against reliance on spoken promises that are not confirmed in writing.

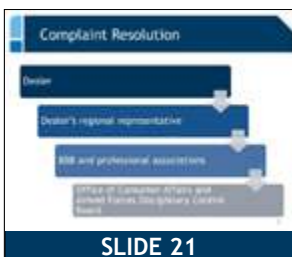
Magnuson-Moss Warranty Act: A federal law that protects the buyer of any product that costs more than \$25 and comes with an express written warranty. This law applies to any product you buy that does not perform as it should, including cars. This law guarantees a car buyer that certain minimum requirements 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.

State automobile repair facilities act: Many states have enacted laws that deal specifically with businesses that repair vehicles. The laws, which vary from state to state, may deal with issues such as required disclosures on written estimates, unauthorized charges, invoices, disposition of replaced parts and unlawful acts and practices. To find out whether your state has an auto repair facilities act, contact your state attorney general, consult the Consumer Action Handbook or use a search engine on the Internet.

COMPLAINT RESOLUTION

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

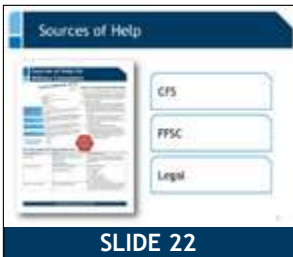
- Speak to the dealer first. In many cases, they have a reputation to protect and may be willing to quickly resolve problems at this level.
- If the dealer is part of a chain, speak next to the company regional representative, because they also have an interest in preserving the reputation of their good name.
- If the dealer is a member of a professional association like the Better Business Bureau, NADA, NIADA, local area automobile dealers association, etc., they have dispute-resolution processes to assist you.
- If these steps fail, contact your state's office of consumer affairs and the Armed Forces Disciplinary Control Board for investigation and possible prosecution.





SUMMARY

Trainer's note: Refer learners to the *Car-buying Sources of Help* handout and remind them that there are extensive resources on this handout. They should use them in their car search. If they are not planning to buy a car anytime soon, suggest they keep the handout filed someplace where they will remember it when the time comes.



SOURCES OF HELP

This class has mentioned numerous resources to help you with your next vehicle purchase. Drop by your local library or check the online sources to look over Consumer Reports, Edmunds, the NADA Book or Kelley Blue Book and the many other resources available. Additional resources are listed on the handout, *The Three Deals of Car Buying* and *Car-Buying Sources of Help*.



OPTIONAL LEARNER ACTIVITY: *Car-Buying Jackpot Review Game*

(See “Introduction to the Courses: PowerPoint Games” for information on how to conduct this review activity.)

Question Bank for Car-Buying Jackpot

Categories: Your Money, Deals, Tricks of the Trade, The Trade-in, Legalese

YOUR MONEY

- 100 Q: What is the first step in The Purchase Deal?
A: Determine how much you can afford.
- 200 Q: Name the financial tool used to figure out how much car you can afford.
A: A budget or spending plan (Also acceptable would be the Financial Planning Worksheet, Budget Bottom Line and/or Determining Car Payments.)
- 300 Q: What is the recommended debt load for the average household?
A: 15 to 20 percent
- 400 Q: What is the best method for the consumer for calculating interest?
A: Simple interest
- 500 Q: What is the recommended maximum percentage of your monthly income that should be spent on the maintenance, insurance, operating expenses and taxes for your vehicle?
A: 25 percent

DEALS

- 100 Q: Which deal is where most of the homework and negotiation happens?
A: The Purchase Deal
- 200 Q: In this deal, options are to sell it to the dealer, privately or at auction.
A: Trade-in Deal
- 300 Q: Considerations for this deal include where to go, interest rates and contracts.
A: The Finance Deal
- 400 Q: Name the people who are professionals, trained and experienced in the art of sales.
A: Dealers (“Salesmen” would also be an acceptable answer.)
- 500 Q: What is the No. 1 rule for all the deals?
A: Everything is negotiable.

TRICKS OF THE TRADE

- 100 Q: In this practice, the dealer includes unnecessary charges such as undercoating, protections packages and dealer-installed options that increase the dealer’s profit.
A: Padding or dealer add-ons
- 200 Q: This practice is when you are switched from the advertised, stripped-down model to the well-equipped one with a higher price tag.
A: Bait and switch
- 300 Q: This occurs when a high trade-in allowance for the trade or low price for the new vehicle is offered to get you to return for negotiations.
A: Highballing and lowballing
- 400 Q: What is it called when the customer takes the car home and the salesperson hopes that they will fall in love with it like a warm puppy?
A: Put to ride
- 500 Q: What is it called when the salesman and manager play “good guy/bad guy” for dramatic effect to win the confidence of the customer?
A: Mutt and Jeff routine

THE TRADE-IN

- 100 Q: What is the commonly used quote for market value for a used vehicle?
A: Blue Book value
- 200 Q: Which popular magazine has an in-depth April auto issue?
A: Consumer Reports
- 300 Q: What is it called when you owe more than what the car is worth?
A: Being “upside-down” on your car loan.
- 400 Q: What is the difference between trade-in value and retail price in used car publications, why the dealer cannot give full retail value in most cases, and why it is worth selling the car yourself?
A: Dealer profit
- 500 Q: Name the key websites for finding fair new and used car prices.
A: www.edmunds.com or www.nada.com and www.kbb.com

LEGALESE

- 100 Q: What is the “As Is” sticker required by federal law?
A: The Used Car Rule Buyers Guide
- 200 Q: Name the state laws that protect buyers from defective new vehicles that cannot be repaired and conform to the standards of the warranty.
A: Lemon laws
- 300 Q: If you bring in one of these, many Legal Service Offices will give head-of-the-line service.
A: An unsigned contract
- 400 Q: What is the federal requirement that ensures key financial information is highlighted in a contract?
A: The federal Truth in Lending Act
- 500 Q: True or False: State laws regarding automobile issues are uniform across the 50 states.
A: False

FINAL JACKPOT

Q: In order to know your credit rating, what is one of the most important personal financial documents you should review before you purchase a car?

A: Your credit report

OPTIONAL SHORT COURSE

Trainer's note: The following instructions and topic allow you to facilitate a car-buying brief in approximately 30 minutes. This shortened course content can be used as a marketing brief or when presentation time is limited. The instructions note what parts of the content to use for this shortened course and how to modify existing content. If you are using the PowerPoint slides as part of your brief or presentation, you may wish to hide unused slides.

Time: 15 to 30 minutes

Handouts:

- *Car-buying Sources of Help*
- *Car Sales Tricks of the Trade*
- *Common Dealership Financing Pitfalls*
- *Determining Car Payments*
- *Leasing vs. Buying*
- *Questions to Ask Car Dealers*
- *Three Deals of Car-buying*

Topics:

WELCOME AND INTRODUCTION

Slide 1: Start with a brief introduction of yourself and the topic. Pass out the course handouts and inform learners that the handouts provide a review of content covered in this course (or brief) as well as additional content not covered.

DEAL NO. 1: THE PURCHASE

Slides 2 to 5: Discuss what to do before stepping onto a car lot. This should be a brief overview to inform learners of the importance of knowing what they can afford before they purchase a car by creating a spending plan and determining their

overall credit worthiness. Refer learners to the *Determining Car Payments* handout and the websites on the *Car-buying Sources of Help* handout in lieu of facilitating the determining payments aspect of the course. You may want to refer learners to the *Developing Your Spending Plan* and *Credit Management* courses for additional information.

Slides 6 to 8: Cover the content on these slides to illustrate the different purchase options (i.e. new cars or used cars) and discuss the importance considering insurance, performance and reliability in making informed choices on which vehicle to purchase. Be sure to highlight relevant resources on the *Car-buying Sources of Help* handout.

Slides 9 to 10: Briefly discuss the different places to purchase a vehicle. Cover the websites where learners can research the cost of vehicles to ensure they get a fair price. Make sure to point out that the websites discussed are on the *Car-buying Sources of Help* handout. Do not cover fair pricing terminology except to answer specific questions. If there are any questions concerning leasing, refer learners to the *Leasing vs. Buying* handout.

Slides 12 to 13: Use these slides to cover an overview of negotiation tactics and strategies. Refer learners to the *Car Sales Tricks of the Trade*, *Common Dealership Financing Pitfalls* and *Questions to Ask Car Dealers* handouts for additional information.

DEAL NO. 2: THE FINANCING

Slides 14 to 18: Discuss the options for where to finance a vehicle purchase and provide a brief overview of finance charges and contracts. Refer learners to their local Legal Service Office to review an unsigned contract.

DEAL NO. 3: THE TRADE-IN

Slide 19: Briefly discuss the main points concerning vehicle trade-ins using Slide 19.

SUMMARY

Slide 22: Go over the *Car-buying Sources of Help* handout and end by inviting learners to the full *Car-buying Strategies* course and to visit their CFS or FFSC financial counselor for additional car-buying information and assistance. You may also want to suggest other FFSC financial programs such as *Developing Your Spending Plan*, *Credit Management* and *Your Insurance Needs*.

The Budget Bottom Line

MM2 Paul Jones and his wife, Connie, are thinking about buying a new car. They have figured out their basic income and expenses and have a pretty good idea about the type of car they want and what it will cost. Connie works part time while their 7-year-old daughter is in school. They currently own one car, which is paid off. They live in base housing. They have an emergency fund of \$1,000.

Calculate the Jones' monthly bottom line and figure out whether they can truly afford this car purchase.

Total (after tax) Income	\$2,536
--------------------------	---------

Total Monthly Living Expenses:	\$1,845
--------------------------------	---------

Paul and Connie have picked out a vehicle that suits their needs. They have calculated that their total monthly car payment will be approximately \$357.

Using the following guidelines, determine whether Paul and Connie can afford this vehicle.

1. Financial advisers usually suggest keeping total car expenses to within 25 percent of your net income (what remains after taxes).

Paul and Connie's total net income: _____ x 25% (.25) = _____

2. Total car expenses includes the car payment plus maintenance, insurance, operating expenses (fuel, oil, etc.) and taxes. These operating expenses can sometimes total up to one-third of the monthly payment. To avoid spending more than you can afford, multiply the amount you figure you can afford to spend each month on your new vehicle by .66. The product will give you a good idea of what the car payment max is for your current financial situation.

25% of net income x .66 = _____ (Estimated car payment max based on net income.)

3. Paul and Connie have _____ left over each month. Can they afford the maximum payment calculated above?

YOU BE THE JUDGE OF THEIR BUDGET "BOTTOM LINE."

Adapted from the "Keys to Vehicle Leasing" brochure (in English and Spanish), available from www.federalreserve.gov/pubs/leasing, or Publications Fulfillment, MS-127, Board of Governors of the Federal Reserve System, Washington, DC 20551, Telephone: (202) 452-3244 or 3245.

Car Sale Tricks of the Trade

PUT TO RIDE:

When a salesperson cannot persuade you to buy today, they may insist that you leave your trade-in at the dealership, keep the new car overnight and drive it home. This way, no other dealership can see your trade-in, your neighbors and relatives see the car, you fall in love with it and have a hard time saying no to purchasing the car when you have to bring it back the next day.

BAIT AND SWITCH:

When a dealership runs an ad with a picture of a well-equipped car and the price of a stripped-down model to entice you to come in. You are then shown the stripped-down model and quickly switched to the well-equipped one with a higher price tag.



LOWBALLING:

This occurs when the salesperson quotes you a price on a car that is lower than the current market price. This is done to assure that you will return before signing with anyone else just to see if the offer still stands. At this point, the salesperson will tell you that they cannot sell the car for that low a price because the sales manager will not allow it.

HIGHBALLING:

This is the same as lowballing, except that a high trade-in allowance figure is offered to you. Again, you come in later and the manager will not allow it.

PADDING:

Adding charges that increase the dealer's profit at the time you sign the contract (e.g., undercoating, protection packages, dealer-installed options, credit life insurance, disability insurance, extended warranties).

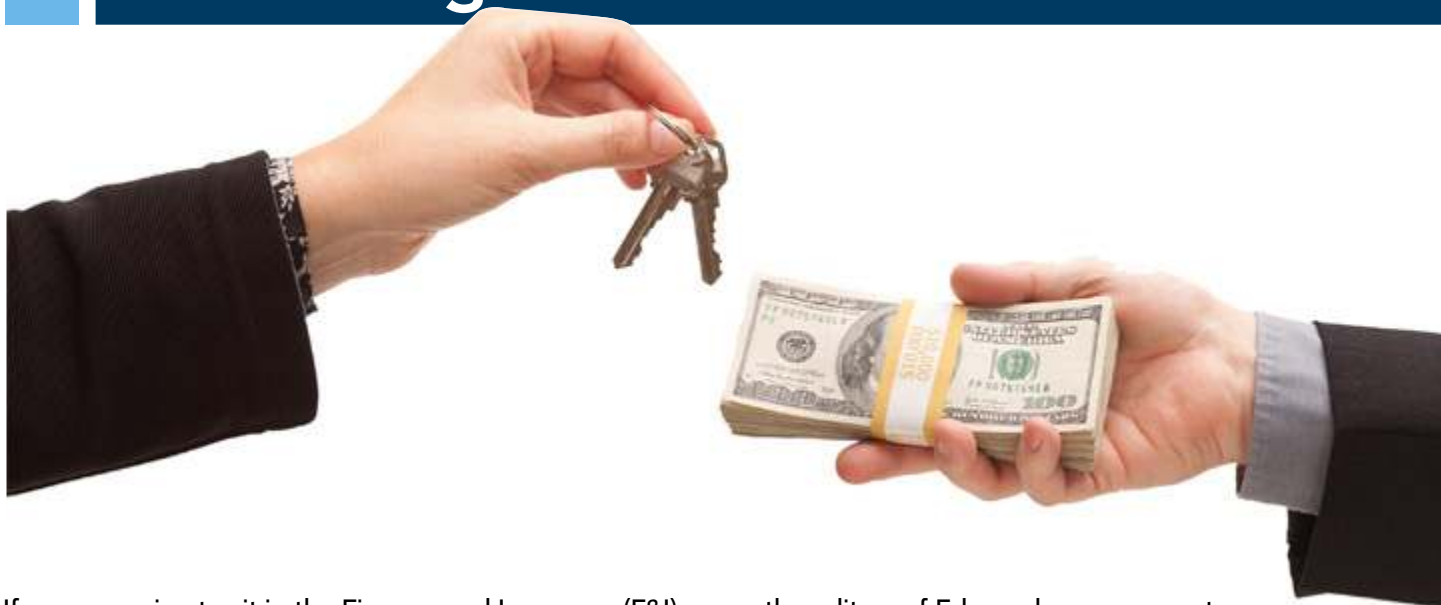
GOOD GUY/BAD GUY (MUTT AND JEFF ROUTINE):

When the salesperson plays the role of the good guy and the manager plays the bad guy to enhance the image of the salesperson. The salesperson and manager may even stage an argument in front of you, with the salesperson trying to persuade the manager to give you a lower price. Once you believe that the salesperson is on your side, you drop your guard and become an easy mark.

"YOUR CAR":

This refers to when the salesperson keeps referring to the car as "your car" to get you subconsciously to accept ownership of the car. Once accomplished, it is easier to get you to sign the contract.

Common Dealership Financing Pitfalls



If you are going to sit in the Finance and Insurance (F&I) room, the editors of Edmunds.com suggest you watch out for these common pitfalls:

Pitfall No. 1:	Many consumers do not know what their credit rating is when they apply for an auto loan. The strength of their credit score largely determines what kind of interest rate they will receive. Therefore, it is critical to make sure your credit report is in the best shape possible before shopping for a car.	Solution:	Order a copy of your credit report and look for items that may stand in the way of you getting a good rate. Correct any issues or errors promptly. Are all of your lines of credit in good standing? Are there any signs of identity theft? The credit bureaus will tell you how to correct errors when you get your report.
Pitfall No. 2:	Many consumers are tempted to overspend once they get to the dealership.	Solution:	Bring a printout of your budget to the dealership as a reminder of what you planned on spending. Be sure to bring any printouts of pricing you have done.
Pitfall No. 3:	Most consumers arrive at the dealership without having researched the current interest rates being offered in the marketplace, so they have no idea if they are being offered a competitive rate.	Solution:	Use the Internet as a research tool to compare rates. Check out websites such as bankrate.com for national averages, and the website of your own financial institution for their current rates.
Pitfall No. 4:	Most consumers arrive at the dealership without approved auto financing in hand. This is either because they are not aware of all the financing options available or they assume they will qualify for a low rate at the dealer. This approach deprives the consumer of bargaining power when it comes to negotiating the lowest possible interest rate.	Solution:	Become an “empowered buyer” by getting a no-obligation loan before visiting the dealership. Having your own loan could save you significant money. For example, a 60-month \$26,000 loan at 4.49 percent can save the consumer about \$1,500 over the life of the loan, compared with a loan at 6.56 percent.

Pitfall No. 5: Many dealers offer a choice between discounted (or zero percent) financing or a rebate, but not both. Consumers may erroneously assume that the zero percent loan will deliver the most savings.

Solution: Sometimes it is better to take the cash rebate and apply it against the purchase price of the vehicle – and then use your own preapproved car loan to finance the vehicle. The savings chart below shows how a low-interest rate and a rebate can “beat” a zero-percent deal.

36-Month Car Loan Comparison *		
APR	0%	3.99%
Cost of car	\$20,000	\$20,000
Less equity in trade	\$4,000	\$4,000
Less rebate	\$0	\$2,000
Amount to finance	\$16,000	\$14,000
Monthly payment	\$444.44	\$413.27
Total cost	\$16,000	\$14,877.85
Savings	\$0	\$1,122.15

*Source: Capital One Auto Finance

Pitfall No. 6: The F&I officer may try to confuse you by intertwining different elements of your deal. For example, they may say, “We’ll give you an extra-low price on the vehicle, but this interest rate is the best we can do.”

Solution: Consumers should unbundle the deal and keep it three separate transactions: the purchase, the trade-in, the financing. Avoid discussions that can take you off this track, such as how much you can afford to spend per month. With financing, focus on the APR, not the monthly payment.

Pitfall No. 7: By the time they get to the finance department, many consumers are mentally worn out and do not review the contract thoroughly before signing. As a result, they may agree to buy things they did not plan to buy (such as an extended warranty, rust-proofing, etc.).

Solution: Before you sign any papers or hand over any money, check the figures in the contract and understand all of the charges. The sudden appearance of extra fees should be questioned. Sometimes, dealers add extra fees – “junk fees” – to retake profit they have lost by selling cars at invoice.

Pitfall No. 8: The consumer feels rushed, pressured and confused by the dealership’s staff. In some cases, these buyers have second thoughts about completing the deal but sign the documents anyway.

Solution: Consumers who feel out of their comfort zone should walk away. The buyer – not the seller – should be the one in control of the process. Remember, the federal “cooling off” law does not apply to cars.

If you do your homework ahead of time and know what to expect before entering the F&I room, the paperwork process can go quickly and easily. More importantly, you will receive a deal on your auto loan that you can feel good about for the life of the car.

Debt-to-Income Ratio

Follow the instructions below to calculate your debt-to-income ratio.

1. Write down your net income (gross monthly pay minus taxes only; i.e., federal taxes, state taxes and Social Security). 1. _____
2. List your monthly installment credit payments (Include charge accounts, car payments, advance pay, overpay, etc. Do not include rent, mortgage, utilities or insurance payments.)

Creditor Monthly Payment

A.	_____	\$ _____
B.	_____	\$ _____
C.	_____	\$ _____
D.	_____	\$ _____
E.	_____	\$ _____
F.	_____	\$ _____
G.	_____	\$ _____
H.	_____	\$ _____
I.	_____	\$ _____
J.	_____	\$ _____

2. _____
Total Payments

Divide the total payments in Step 2 by the net income in Step 1 and multiply by 100.

$$(2) \div (1) \times 100 = \frac{\text{Total Payments}}{\text{Total}} \%$$

Percent

Less than 15%

15–20%

21–30%

Greater than 30%

Status

Some additional credit may be used with caution.*

Fully extended.

Overextended.

Seriously overextended. Seek help!

* Will the additional monthly payment put you over 20 percent? Large families may have a difficult time with 16 percent or more.

Determining Car Payments

When purchasing a vehicle, the most commonly asked question is:

“How much will my monthly payments be?”

The answer, of course, will depend on the amount financed, the number of months financed, and the interest rate.

Remember, the larger your down payment, the less your monthly payment.

To use the chart, the following steps apply:

1. Cross the interest rate with the number of months you wish to finance for and locate your multiplier. For example:
6.5% at 36 months is .0306490,
6.5% at 48 months is .0237150,
and 6.5% at 60 months is .0195661.
2. Multiply the total amount you plan to finance by the multiplier and you will have your monthly payment. For example:
\$10,591.00 at 6.5% for 36 months =
 $\$10,591.00 \times .0306490 = \324.60 per month,
\$10,591.00 at 6.5% for 48 months =
 $\$10,591.00 \times .0237150 = \251.17 per month,
\$10,591.00 at 6.5% for 60 months =
 $\$10,591.00 \times .0195661 = \207.22 per month.

	36 Months	48 Months	60 Months	72 Months
0.50%	0.0279926	0.0210471	0.0168794	0.0141016
1.00%	0.0282079	0.0212614	0.0170938	0.0143159
1.50%	0.0284251	0.0214777	0.0173100	0.0145321
2.00%	0.0286422	0.0216948	0.0175281	0.0147503
2.50%	0.0288613	0.0219139	0.0177471	0.0149806
3.00%	0.0290813	0.0221301	0.0179690	0.0151940
3.50%	0.0293022	0.0223558	0.0181919	0.0154188
4.00%	0.0295240	0.0225791	0.0184165	0.0156454
4.50%	0.0297469	0.0228035	0.0186430	0.0158739
5.00%	0.0299709	0.0230293	0.0188712	0.0161052
5.50%	0.0301959	0.0232565	0.0191012	0.0163375
6.00%	0.0304219	0.0234850	0.0193328	0.0165726
6.50%	0.0306490	0.0237150	0.0195661	0.0168096
7.00%	0.0308771	0.0239462	0.0198012	0.0170494
7.50%	0.0311062	0.0241789	0.0200379	0.0172902
8.00%	0.0313364	0.0244129	0.0202764	0.0175328
8.50%	0.0315675	0.0246483	0.0205165	0.0177783
9.00%	0.0317997	0.0248850	0.0207584	0.0180257
9.50%	0.0320329	0.0251231	0.0210019	0.0182750
10.00%	0.0322672	0.0253626	0.0212470	0.0185261
10.50%	0.0325024	0.0256034	0.0214939	0.0187792
11.00%	0.0327387	0.0258455	0.0217424	0.0190341
11.50%	0.0329760	0.0260890	0.0219926	0.0192909
12.00%	0.0332143	0.0263338	0.0222444	0.0195506
12.50%	0.0334536	0.0265800	0.0224979	0.0198112
13.00%	0.0336940	0.0268275	0.0227531	0.0200736
13.50%	0.0339353	0.0270763	0.0230098	0.0203390
14.00%	0.0341776	0.0273265	0.0232683	0.0206062
14.50%	0.0344210	0.0275780	0.0235283	0.0208743
15.00%	0.0346653	0.0278307	0.0237899	0.0211453

Financial Planning Worksheet

Date _____ Rate _____

Name _____ Age _____

Pay Grade _____ Yrs. in Svc. _____ Date Reported/PRD (Transfer) _____

Marital Status _____ Spouse's Name _____ Age _____

Spouse's Place of Employment _____

Number of Children and Ages _____

Home Address _____

Work Telephone _____ Home Telephone _____

Command & Referred By (Self, CMD, NMCRS, FFSC, etc.) _____

Amount of SGLI Elected _____ Amount of FSGLI Elected _____

TSP Monthly Contribution _____ MGB Monthly Contribution _____

STATEMENT OF NET WORTH

ASSETS

Cash on hand \$ _____

Checking Accounts \$ _____

Savings Accounts \$ _____

Certificates of Deposit \$ _____

Cash Value of Life Insurance \$ _____

U.S. Savings Bonds \$ _____

Mutual Funds/Money Market \$ _____

Stocks/Bonds \$ _____

College Funds \$ _____

401(k)/403(b)/TSP \$ _____

Other (IRAs, etc.) \$ _____

Real Estate (Market Value)

Home \$ _____

Rental Property \$ _____

Other (vacation home/trailer/time share) \$ _____

Personal Property

Vehicles/Motorcycles/Boats \$ _____

Furniture \$ _____

Jewelry \$ _____

Other (collectibles, etc.) \$ _____

Counseling Provided By: _____

Counselor Phone #: _____

Appointment Date: _____ Time: _____

Place: _____

LIABILITIES

Signature Loans \$ _____

Auto Loans or Leases \$ _____

Consolidation Loans \$ _____

Student Loans \$ _____

NEX/AAFES (Star Card) \$ _____

Department Store Credit Cards \$ _____

Other Credit Cards \$ _____

NMCRS (loan) \$ _____

Other (friends, relatives, etc.) \$ _____

Advance/overpayments \$ _____

Mortgages-Balances Due

Home \$ _____

Rental Property \$ _____

Other (vacation home/trailer/time share) \$ _____

TOTAL ASSETS \$ _____

TOTAL LIABILITIES \$ _____

NET WORTH

(Assets - Liabilities) \$ _____

MONTHLY INCOME

MONTHLY INCOME					
ENTITLEMENTS	ACTUAL		PROJECTED		REMARKS
* Base Pay					
Basic Allowance for Housing (BAH I or II)					
Overseas Housing Allowance (OHA)					
Basic Allowance for Subsistence (BAS)					
Family Separation Allowance (FSA)					
* Flight Pay/Diving Pay/Flight Deck Pay					
* Submarine Pay					
* Other Hazardous Duty Pay					
* Sea Pay					
Taxable COLA					
Other (tax exempt/allowance eg. COLA/FSSA)					
TOTAL MILITARY COMPENSATION (A)					
* Taxable pay ()					Excludes pretax ded for TSP/MGIB
DEDUCTIONS	ACTUAL		PROJECTED		REMARKS
ALLOTMENT					For/ends?
ALLOTMENT					For/ends?
ALLOTMENT					For/ends?
ALLOTMENT					For/ends?
ALLOTMENT					For/ends?
Family SGLI (for spouses)					
Servicemembers' Group Life Insurance (SGLI)					
Uniform Services TSP					
MGIB					
FITW Filing Status Actual					Proj. Status:
FICA (Social Security)					Base Pay Only, Excludes MGIB
FICA (Medicare)					Base Pay Only, Excludes MGIB
State Income Tax					State Claimed:
AFRH (Armed Forces Retirement Home)					
TRICARE Dental Plan (TDP)					
Advance Payments					Ends:
Overpayments					Ends:
TOTAL DEDUCTIONS (B)	\$		\$		
CALCULATE NET INCOME	ACTUAL		PROJECTED		REMARKS
Service Member's Take Home Pay (A-B)	\$		\$		Divide by 2 for Payday Amount
Service Member's Other Earnings (less taxes)					
Spouse's Earnings (less taxes)					
ALLOTMENT					
ALLOTMENT					
ALLOTMENT					
ALLOTMENT					
ALLOTMENT					
Family SGLI (For Spouses)					
Servicemembers' Group Life Insurance (SGLI)					
Uniform Services TSP					
MGIB					
TRICARE Dental Plan (TDP)					
Advance Payments					
Overpayments					
Child Support/Alimony (received/income)					
Other Income (e.g. SSI, rental income)					
TOTAL MONTHLY NET INCOME	\$		\$		

*Note: Pay Entitlements are taxable. Allowance Entitlements are non-taxable.

MONTHLY SAVINGS AND LIVING EXPENSES

Note: Actual or Projected figures can be carried forward to spending plan.

SAVINGS		ACTUAL	PROJECTED	REMARKS
SAVINGS	Emergency Fund (1-3 months)			Monthly Contribution Amount
Goal: 10% of Net Income	Reserve Fund			
Actual	Goal-Getter Fund			
Projected	Investments/IRAs/TSP/etc.			
\$		\$		
TOTAL SAVINGS AND INVESTMENTS (10%)		\$	\$	
LIVING EXPENSES		ACTUAL	PROJECTED	REMARKS
HOUSING	Furnishings			
	Maintenance/Repairs			
	Mortgage/Rent			
	Taxes/Fees			
FOOD	Dining Out			
	Groceries			
	Lunches			Include school and work lunches
	Vending Machines			
	Meal Deductions			
UTILITIES	Cable/Satellite/Internet TV/Gaming subscriptions			
	Cellular/Phone Cards			
	Electricity			
	Internet Service			
	Natural Gas/Propane			
	Telephone			Local=\$ _____ Long Distance=\$ _____
	Water/Garbage/Sewage			
CHILD CARE	Allowances			
	Daycare			
	Support			Include other dependent care
AUTOMOBILE	Gasoline			
	Maintenance/Repairs			
	Other			
CLOTHING	Laundry/Dry Cleaning			
	Purchases (\$50 monthly per person)			
INSURANCE	Automobile			
	Health/Life			
	Homeowners/Renters			
	SGLI/FSGLI			Both service member/Family SGLI
	TRICARE Dental			
HEALTHCARE	Dental			
	Eye Care			
	Hospital/Physician			
	Prescriptions			
EDUCATION	Books			
	Fees (Other/Room & Board)			
	Tuition			
	MGIB			Montgomery GI Bill (MGIB)
CONTRIBUTIONS	Charities (CFC/NMCRS)			
	Club Dues/Association Fees			
	Religious			
LEISURE	Athletic Events/Sporting Goods			Include spectator sports
	Books/Magazines			
	Computer Products (software/hardware)			
	Movie/Music/Game Rentals or Downloads			
	DVDs & CDs			
	Entertainment			
	Lessons			Dance, music, self-defense, tutor
	Toys & Games			
	Travel/Lodging			
PERSONAL	Beauty Shop/Nails			
	Barber Shop			
	Cigarettes/Other Tobacco			
	Vending Machines			
	Liquor/Beer/Wine			ABC, package store, etc.
	Other (toiletries, supplements, etc.)			
GIFTS	Holidays			
	Birthdays/Anniversaries			
PET CARE	Food/Supplies			
	Veterinarian/Service (boarding/grooming)			
MISCELLANEOUS	ATM Fees/Stamps/etc.			
	Other			Recommend \$50-\$150 buffer
TOTAL MONTHLY LIVING EXPENSES (70%)		\$	\$	

INDEBTEDNESS 20%

CREDITOR	PURPOSE	MONTHLY PAYMENT	BALANCE	PROJECTED PAYMENT	REMARKS (Mos Behind, Pd by Allotment, etc.)	APR %
1. US Govt.	Advance Pay				Automatic Deduction	
2. US Govt.	Overpayments				Automatic Deduction	
3.						
4.						
5.						
6.						
7.						
8.						
8.						
10.						
11.						
12.						
13.						
14.						
15.						
16.						
17.						
18.						
19.						
20.						
21.						
22.						
23.						
24.						
25.						
	TOTAL					

SUMMARY

	ACTUAL	PROJECTED
NET INCOME (Bottom of Page 2)		
SAVINGS AND INVESTMENTS (Page 3) -		
LIVING EXPENSES (Page 3) -		
AMOUNT LEFT TO PAY DEBTS =		
TOTAL MONTHLY DEBT PMTS (Page 4) -		
SURPLUS OR DEFICIT =		
DEBT-TO-INCOME RATIO =		

(Total Monthly Debt Payments ÷ Net Income x 100 = Debt-to-Income Ratio)

ACTION PLAN

INCREASE INCOME

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____

DECREASE LIVING EXPENSES

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____

DECREASE INDEBTEDNESS

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____

REFERRALS/RECOMMENDED TRAINING

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____

SETTING YOUR GOALS (Short and Long Term)

GOAL	COST	DATE WANTED	= MONTHLY SAVINGS TO REACH GOAL
1. _____			
2. _____			
3. _____			
4. _____			
5. _____			
6. _____			

MONTHLY SPENDING PLAN

<input type="checkbox"/> TOTAL NET INCOME <input type="checkbox"/> TOTAL TAKE-HOME PAY	MONTH		MONTH		MONTH	
BY PAYDAY	1st	15th	1st	15th	1st	15th

*If using take-home pay amount, do not include any savings, expenses or debt payments that are deducted from pay or paid by allotment.

[illegible]

DAILY EXPENSES

Keep track of your daily expenses for two weeks

Keep a record of how you spend your money for the next two weeks. The secret is to record it when you spend it. Using a “stickie” note in your wallet or purse will help you track your expenditures. When you go for your money, make a note on your “stickie” (write the amount and the item). At the end of the day, transfer the recorded amounts to this record. Be sure to include bills paid, along with sodas, lunches, etc.

Remember, this is for tracking your take home pay. Do not include allotments.

TAKE-HOME PAY FOR TWO WEEKS

Dates

DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		Take-Home Pay: \$ _____ Amount Spent: \$ _____ Balance: \$ _____ (+ or -)	
Item:	Amount:	Item:	Amount:	Item:	Amount:		
Item:	Amount:	Item:	Amount:	Item:	Amount:		

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TAKE-HOME PAY FOR TWO WEEKS

Dates

DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		Take-Home Pay: \$ _____ Amount Spent: \$ _____ Balance: \$ _____ (+ or -)	
Item:	Amount:	Item:	Amount:	Item:	Amount:		

Installment Sale Contract for Titled Vehicle and Equipment

Account No.	Dealer No.
Buyer (and Co-Buyer) Name(s) and Residence Address(es) John Dough USS Always Sail FPO AE 09557-1516	Creditor (Seller) - Name and Business Address Fib's Auto 9603 Shore Drive Anywhere, USA

After thorough examination, Buyer hereby buys from Seller, grants Seller a security interest in, and acknowledges delivery and acceptance of the following described property ("Property") at the price and upon conditions herein stated, this Contract being valid only upon purchase and acceptance by assignee. This sale is not contingent upon financing on terms satisfactory to the parties hereto.

DESCRIPTION OF PROPERTY					
New or Used	Year	Make and Model	Body Type	Vehicle Identification Number	Primary Use Intended
Used	02	Ford Focus St Wagon	4 DR Wagon	4G3RF1234BB567890	X Personal Business
<input checked="" type="checkbox"/> Air Conditioning <input type="checkbox"/> Radio <input checked="" type="checkbox"/> 4-5 Speed Trans. <input type="checkbox"/> Power Steering <input checked="" type="checkbox"/> Other <input type="checkbox"/> Sun Roof <input checked="" type="checkbox"/> Stereo <input checked="" type="checkbox"/> Automatic Trans. <input type="checkbox"/> Custom Wheels <input type="checkbox"/> Other (describe) <input checked="" type="checkbox"/> CD					Odometer Miles
					86,905

THE FINANCE CHARGE IS CALCULATED ON A ☐ Precomputed ☒ Simple Interest Basis

FEDERAL TRUTH-IN-LENDING DISCLOSURES				
ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate.	FINANCE CHARGE The dollar amount the credit will cost you.	AMOUNT FINANCED The amount of credit provided to you or on your behalf.	TOTAL OF PAYMENTS The amount you will have paid after you have made all payments as scheduled.	TOTAL SALE PRICE The total amount of your purchase on credit, including your down payment of:
18%	\$ 1290.00	\$ 6509.00	\$ 7800.00	\$ 1300.00 \$ 9100.00

YOUR PAYMENT SCHEDULE WILL BE		
NUMBER OF PAYMENTS	AMOUNT OF PAYMENTS	WHEN PAYMENTS ARE DUE
24	\$ 325.00	Monthly Beginning 6 mos. ago
A Final Payment of	\$	Due On

Late Charge. If a payment is not paid in full within 7 days after it is due, you will pay a late charge of 5% of amount of payment due.
Prepayment. If you pay off early on a Contract with a precomputed finance charge, you will be entitled to a refund of part of finance charge. If the finance charge is calculated on a simple interest method, you may have to pay a prepayment penalty.
Security Interest. You are giving a security interest in the Property and related equipment being purchased and in our right of setoff.

ITEMIZATION OF AMOUNT FINANCED	
1. Cash Price (including any accessories, services, and taxes)	\$ 5997.00
2. Total Downpayment = Net Trade-in \$ 0.00 + Cash Downpayment \$ 1300.00	
Your trade-in is a (YEAR) (MAKE) (MODEL)	\$ 1300.00
3. Unpaid Balance of Cash Price (1 minus 2)	\$ 4697.00
4. Other Charges Including Amounts Paid to Others on Your Behalf:	
A. Cost of Required Physical Damage Insurance Paid to the Insurance Company Named Below - Covering Damage to the Vehicle	\$ 710.00
B. Cost of Optional Mechanical Repair Coverage for Certain Mechanical Repairs	\$ 720.86
C. Cost of Optional Credit Insurance for the Term of this Contract	
Life \$ 0.00 Accident and Health \$ 0.00 Total	\$ 0.00
D. Official Fees Paid to Government Agencies	\$ 19.52
E. Taxes Not Included in Cash Price	\$ 198.62
F. Government License and/or Registration Fees (itemize)	\$ 125.00
G. Government Certificate of Title Fees	\$ 38.00
H. Other Charges (Seller must identify who will receive payment and describe purpose)	
to Road USA for Car Club	\$ 0.00
to for	
Total Charges and Amounts Paid to Others on Your Behalf	\$ 1812.00
5. Amount Financed — Unpaid Balance (amount of credit you will receive) (3+4)	\$ 6509.00

Insurance. If any insurance is checked below, coverage will become effective only if insurer issues a policy or certificate which will describe the terms and conditions of coverage.

Optional Credit Insurance. Credit life and accident and health insurance are not required to obtain credit and will not be provided unless you sign below and agree to pay the additional cost(s).

TYPE	PREMIUM		SIGNATURE OF INSURED PARTY	BIRTH DATE
Credit Life Insurance	\$	I want Credit Life Insurance		
Joint Credit Life	\$	We want Joint Credit Life Insurance		
Accident & Health Insurance	\$	I want Accident & Health Insurance (Buyer only)		

Required Physical Damage Insurance. Physical damage insurance is required, but you may obtain it from anyone you choose who is acceptable to the Creditor. If obtained through Creditor, the following applies.

Insurance Company: Guaranteed Expense Term: 15 months Cost for Term: \$ 710

☒ \$ 500

Deductible Collision and either

☒ Full Comprehensive including Fire, Theft, and Combined Additional Coverage

☐ \$ _____ Deductible Comprehensive including Fire, Theft, and Combined Additional Coverage

☐ Fire, Theft, and Combined Additional Coverage

Optional, if desired

☐ Towing and Labor costs

☐ Rental Reimbursement

☐ CB Radio Equipment

Optional Mechanical Repair Coverage. If Buyer selects this optional coverage, the cost will be listed on line 4B on reverse.

INSURANCE CO. Broke-N-Down

TERM ☒ 36 months or 36,000 miles, whichever occurs first

TERM ☒ _____

DEDUCTIBLE ☐ \$25 ☒ \$50 ☐ \$ _____

NO LIABILITY INSURANCE INCLUDED

Receipt of Goods and Promise to Pay. You agree that you have received the vehicle and/or services described above and have accepted delivery of the vehicle in good condition. You promise to pay the Creditor the Total Sales Price shown above by making the Total Downpayment and paying the Creditor the Total of Payments in accordance with the Payment Schedule shown above and all other amounts due under this contract.

DO NOT SIGN THIS CONTRACT BEFORE YOU READ IT OR IF IT CONTAINS BLANK SPACES.

YOU ARE ENTITLED TO AN EXACT COPY OF THE CONTRACT YOU SIGN.

Buyer acknowledges receipt of a filled-in copy of this Contract and agrees to all terms and conditions hereof.

BUYER'S SIGNATURE

John Dough

CO-BUYER'S SIGNATURE

ACCEPTED

Fibs Auto
CREDITOR

BY

Fred Salesman
SIGNATURE AND TITLE

[FOR DEMONSTRATION PURPOSES ONLY]

Note: Actual documents will contain fine print on reverse. READ ALL THE FINE PRINT. Be sure to ask questions if you need clarification.

Leasing Vs. Buying

	Leasing	Buying
Ownership	You do not own the vehicle. You get to use it but must return it at the end of the lease unless you choose to buy it.	You own the vehicle and get to keep it at the end of the financing term.
Up-front Costs	Up-front costs may include the first month's payment, a refundable security deposit, a capitalized cost reduction (like a down payment), taxes, registration and other fees and charges.	Up-front costs include the cash price or a down payment, taxes, registration and other fees and charges.
Monthly Payments	Monthly lease payments are usually lower than monthly loan payments because you are paying only for the vehicle's depreciation during the lease term, plus rental charges (such as interest), taxes, and fees.	Monthly loan payments are usually higher than monthly lease payments because you are paying for the entire purchase price of the vehicle, plus interest and other finance charges, taxes, and fees.
Early Termination	You are responsible for any early termination charges if you end the lease early.	You are responsible for any pay-off amount if you end the loan early.
Vehicle Return	You may return the vehicle at lease end, pay any end-of-lease costs and walk away.	You may have to sell or trade the vehicle when you decide you want a different vehicle.
Future Value	The lessor has the risk of the future market value of the vehicle.	You have the risk of the vehicle's market value when you trade or sell it.
Mileage	Most leases limit the number of miles you may drive (often 12,000 to 15,000 per year). You can negotiate a higher mileage limit and pay a higher monthly payment. You will likely have to pay charges for exceeding those limits if you return the vehicle.	You may drive as many miles as you want, but higher mileage will lower the vehicle's trade-in or resale value.
Excessive Wear	Most leases limit wear to the vehicle during the lease term. You will likely have to pay extra charges for exceeding those limits if you return the vehicle.	There are no limits or charges for excessive wear to the vehicle, but excessive wear will lower the vehicle's trade-in or resale value.
End of Term	At the end of the lease (typically two to four years), you may have a new payment either to finance the purchase of the existing vehicle or to lease another vehicle.	At the end of the loan term (typically four to six years), you have no further loan payments.

Adapted from the "Keys to Vehicle Leasing" brochure (in English and Spanish), available from www.federalreserve.gov/pubs/leasing, or Publications Fulfillment, MS-127, Board of Governors of the Federal Reserve System, Washington, DC 20551, Telephone: (202) 452-3244 or 3245.

Questions to Ask Car Dealers

ABOUT SPECIAL DEALER PROMOTIONS:

Does the advertised trade-in allowance apply to all cars, regardless of their condition?

Does a large trade-in allowance make the cost of a new car higher than it would be if you did not have a trade-in?

Is the dealer who offers high trade-in allowances and free or low-cost options actually giving you a better price on the car than another dealer who does not offer such promotions?

Does the dealer's invoice reflect the costs of options, such as rustproofing or waterproofing, that have already been added to your car? What are other dealers charging for these options?

Does the dealer have other cars in stock without expensive added features? If not, can the dealer order one?

Are the special offers available only if you order rather than buying it off the lot?

Can you take advantage of all special offers simultaneously?

ABOUT LOW-INTEREST DEALER FINANCING:

Will you be charged a higher price for the car to qualify for the low financing?

Does the low-rate financing require a larger-than-usual down payment? Say 25 percent to 30 percent?

Are you required to pay the loan off in a shorter period of time, say 12 or 24 months, to qualify for the low-rate financing? If this is the case, your monthly payments will be higher.

Do you have to buy extra merchandise or services to qualify for the low-rate financing?

Is the financing available for a limited time only, and does it require that you take delivery of the car by a specific date?

Does the low interest rate apply to all cars or only to certain models in stock?

If a manufacturer's rebate is offered, are you required to give it to the dealer to qualify for the financing?



Car-buying Sources of Help

WHERE TO GET INFORMATION AND HELP

- Command Financial Specialist (CFS)
- Fleet and Family Support Center (FFSC) financial counselors
- Armed Forces Disciplinary Control Board
- Legal Service Office
- Better Business Bureau
- Consumer magazines
- Consumer protection agencies
- Financial institutions (banks, credit unions)
- National Automobile Dealers Associations (NADA)
- New car pricing guides (Edmund's, Intellichoice)
- State attorney general
- Used car pricing agencies (Kelly's Blue Book, NADA)

USEFUL WEBSITES

<https://www.annualcreditreport.com>

www.autobytel.com

www.autotrader.com

www.bankrate.com

www.bbb.org

www.caranddriver.com

www.carfax.com

www.carmax.com

www.cars.com

www.consumerreports.org

www.edmunds.com

www.epa.gov/greenvehicles

www.fueleconomy.gov/

www.highwaysafety.org

www.intellichoice.com

www.internetautoguide.com

www.kbb.com

www.motortrend.com

www.naag.org

- Kbb.com: <http://www.kbb.com/new-cars/total-cost-of-ownership/?r=494167664772180350>

REMEMBER TO...

- Do your homework.
- Prepare a budget to know what you can afford.
- Keep it three separate transactions: the purchase, the financing, the trade-in.
- Have used cars checked by a trusted mechanic before purchase and do not forget to get a CARFAX report.
- Have the Legal Service Office review the contract before signing.
- Beware of the “tricks of the trade.”

www.nada.org

ONLINE AUTO LOAN CALCULATORS

- Autotrader.com: <http://www.autotrader.com/calculators/>
- BankofAmerica.com: <https://www.bankofamerica.com/auto-loans/car-payment-calculator.go>
- Bankrate.com: <http://www.bankrate.com/calculators/auto/auto-loan-calculator.aspx>
- Edmunds.com: <http://www.edmunds.com/calculators/car-loan.html>
- NavyFederal.org: <https://www.navyfederal.org/calcs/autoloan.php>
- USAA.com: https://www.usaa.com/inet/pages/bank_loan_quick_calculator_auto_page?akredirect=true

ONLINE “COST OF OWNERSHIP” INFORMATION AND CALCULATORS:

- Edmunds.com: <http://www.edmunds.com/tco.html>



Three Deals of Car Buying

DEAL NO. 1: THE PURCHASE

HOW MUCH CAN YOU AFFORD?

- Total amount
- Down payment
- Monthly amount
- Prepare a spending plan
- Calculate debt-to-income ratio
- Check your credit report

WHAT TYPE OF CAR SHOULD YOU BUY?

- New or used
- Size and style
- Safety and performance
- Cost to insure

WHERE SHOULD YOU BUY?

- Dealership
- Private seller
- Internet
- Car-buying service

WHAT IS A FAIR PRICE?

- Invoice versus MSRP
- Library and Internet
- New and used car cost guides

EXERCISE YOUR LEGAL RIGHTS

- Read all the contract details
- Do not leave any blanks
- Do not buy unnecessary and unwanted items
- Use the power of the pen
- Have Legal Service Office review the contract before signing
- Take action if you have a complaint

DEAL NO. 2: THE FINANCING

WHERE WILL YOU FINANCE?

- Credit unions
- Bank
- Dealership
- Finance companies

HOW MUCH WILL THE MONEY COST?

- Simple interest
- Add-on interest

AVOID COMMON PITFALLS

- Know your credit rating
- Know what current interest rates are
- Get pre-approved
- Know the best deal available
- Do not be rushed or pressured

NEGOTIATE A GREAT DEAL

- Do your homework
- Take your time
- Limit the information you give out
- Shop twins
- Ask for discounts
- Take a road test
- Avoid unnecessary add-ons
- 180-degree Turn

KNOW THE 'TRICKS OF THE TRADE'

- Put to ride
- Lowballing and highballing
- Bait and switch
- Padding
- Mutt and Jeff routine
- "Your car"

DEAL NO. 3: THE TRADE-IN

TRADING VS. SELLING

WHAT IF YOU OWE MORE THAN THE CAR IS WORTH?

WHAT IS A FAIR PRICE?

- What is the dealer willing to pay?
- Only negotiate after you are done with your purchase and financing on your new vehicle.



You Tell Me

1. What should you do before you go to a dealership?
2. Name as many sources as you can for researching a vehicle.
3. List the pros and cons of purchasing new cars versus used cars.
4. List the pros and cons of purchasing from a dealership versus from a private owner.
5. List things that you would want to avoid doing at the dealership.