



**Being A Critical Consumer**  
**(Buying a Car)**

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Lesson One:

**Buying a New  
or  
Used Car**

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**Budgeting for a Car Purchase**

- Know Your Budget
  - What are your fixed expenses?
  - How much can you afford for a vehicle?
    - Recommend no more than 10% of monthly income.
- Down Payment or Trade-In?
- Double-check your estimate by prequalifying for a loan at a:
  - Bank
  - Credit Union

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### Vehicle Expenses

- Cost of the Vehicle
- Sales Tax
- Routine Maintenance
- Insurance
- License & Registration
- Unexpected Repairs
- Gas
- Depreciation



All of these add up quickly!

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### New vs. Used

- How much is a new car worth 5 years from now?
  - Most Cars: 22 -25% of the original value
  - Honda Accord or Toyota Camry: 60% of original value



Source: Kelly Blue Book

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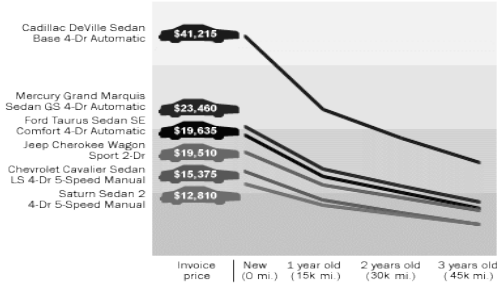
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### The Shrinking Value of Automobiles

A new car drops sharply in value once you buy it and drive it off the lot. This chart shows the price of six 2001 models and how they depreciate over time.



Source: Runzheimer International, Edmunds Automobile Buyer's Guide

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### A Big and Important Purchase

- New Vehicle is the 2<sup>nd</sup> most expensive purchase in life.
  - 1<sup>st</sup> is a home
  - A car is a long-term commitment
- Average price:
  - New vehicle: \$25,206.
  - Used vehicle: \$15,568
- Know the Basics
  - VIN, Manufacturer, Make, Model, Year, and Type



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### Vehicle Identification Number

- VIN is a 17-character number
- Where is it?
  - Left side of the dash
  - Inside of driver's doorjamb
  - Vehicle's title card
- Information specific to the vehicle



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### Manufacturer & Make

**Manufacturer:** The company that builds the car. The manufacturer builds *makes* of cars.

- Ford manufacturers Mercury and Lincoln cars.
- General Motors manufacturers Pontiac, Buick, Cadillac, Oldsmobile, Hummer, Saturn, and Chevrolet cars.
- Honda manufactures Acura cars.



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### Model

- Specific type of make
  - Taurus (Ford)
  - Accord (Honda)
  - Altima (Nissan)
  - Corrola (Toyota)
- The model year
  - Not necessarily the year it was built



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### Type

- Pickups
- Sport Utility Vehicles
- Sport Utility Trucks
- Compact Cars
- Mid-size Cars
- Full-size Cars
- Mini-vans
- Full-size Vans
- Sports Cars



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### Car Buying: 4-Step Process

1. Research
2. Check out the cars
3. Set a target price
4. Shop for financing



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**Step 1: Research**

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**Sources to Compare Models**  
Step 1: Research

- The person who does their research always gets a good deal.
- Online Sources:
  - Auto Manufacturers
  - Pricing sites
  - Consumer Reports
  - Fuel Economy sites
  - Safety sites




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**Auto Manufacturer Websites**  
Step 1: Research

- Good for:
  - Basic Information
  - Models & Trim Levels
  - Retail Pricing
  - Warranties
  - Dealership Locations
  - Search of Certified Used Cars
- Main purpose of auto sites is to promote their own vehicles.

Manufacturer Name	Website
Daimler Chrysler	www.daimlerchrysler.com
Ford Motor Company	www.ford.com
General Motors	www.gm.com
Honda Motor Company	www.honda.com
Hyundai Motor Company	www.hyundai-motor.com
Isuzu	www.isuzu.com
Kia Motors America	www.kia.com
Mitsubishi Motors	www.mitsubishi.com
Toyota Motor Corporation	www.toyota.com
Volkswagen	www.vw.com

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### Pricing Websites

Step 1: Research

- Good for:
  - New-Car Retail Prices
  - Used-Car Retail Prices
  - Dealer Invoices
  - Incentives
  - Other Pricing Variables

Name	Website
AutoTrader	www.autotrader.com
Edmunds	www.edmunds.com
IntelliChoice	www.intellichoice.com
Kelley Blue Book	www.kbb.com
National Automobile Dealership Association	www.nada.com
VMR (used cars only)	www.vmintl.com

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### Consumer Reports

Step 1: Research

- Consumer Reports:
  - Vehicle Ratings
  - Model Reviews
  - Reliability Ratings
  - Fuel Economy
  - Safety Ratings
- Subscribe online
  - 1 month (\$5) or 1 year (\$26)
  - Last 4 years of data



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### New & Used Car Buying Guides

Step 1: Research

Comprehensive Ratings • Reliability • A safety information

**2004 & 2005 models**

**Consumer Reports**


**New Car BUYING GUIDE**

226 Cars • SUVs • Minivans • Trucks

• Which cars are safer?

• Money-saving tips

• Best & worst in owner satisfaction



Unbiased Ratings & reviews from America's #1 auto-testing program

THE EDITORS OF CONSUMER REPORTS

The most comprehensive reliability • Damage • Mileage

Updated for 2005


**Consumer Reports**

**USED CAR BUYING GUIDE**

256 Used cars • SUVs • minivans & pickups

Best & worst used cars

How to avoid a lemon



Reviews • Safety info • Money-saving tips

America's #1 auto-testing program

THE EDITORS OF CONSUMER REPORTS

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**www.fueleconomy.gov**  
 Step 1: Research

- Lists MPG for:
- City, Highway, and combined
- Compare MPG for 4 models side by side
- Customize an annual fuel estimate based on the cost of gas in your area, and the percentage of highway to city driving.



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**Safety and Crash Tests**  
 Step 1: Research

- Insurance Institute for Highway Safety  
[www.hwysafety.com](http://www.hwysafety.com)
- Tests and rates off-set frontal crashes:
  - Good
  - Acceptable
  - Marginal
  - Poor
- National Highway Traffic Safety Administration  
[www.safercar.gov](http://www.safercar.gov)
- Tests and rates full-frontal & side impact crashes on a 5-star scale:
  - 5-star rating is the safest(\*\*\*\*\*)




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**Cool Cars = Costly Repairs**

Average Repair Bill is \$3,912

- Repairs Costs have increased 60% since 1992

- 2005 BMW 5 Series
  - Adaptive headlight \$2,035
  - Parking Sensor \$372
  - Adaptive Cruise Sensor \$2,222

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**Step 2: Check out the Cars**

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**Where to Purchase a Car**  
Step 2: Check out the cars

- Dealerships
  - Take your Time: only look at 3 -4 cars a day.
  - If you are tired at the end of the day, and just want to get it over with, a salesman will be able to sell you anything.
- Other Sources:
  - Private-Party Sellers
  - Internet



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**Test Drive**  
Step 2: Check out the cars

- Normal Travel Routes
- Listen for noises
- Drive variety of roads:
  - Windy
  - Bumpy
  - Steep
- Drive for at least 10 minutes and 10 miles

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### Types of Used Cars

Step 2: Check out the cars

- Program Factory Cars
  - Fleet-leased (Rental) Cars that may have 10,000 miles on it but they are still under warranty.
- Certified Used Car
  - Certified cars come with warranties
  - Must past inspection



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### Check out a Used Car

Step 2: Check out the cars

- Even if the car is a dealer-certified used car:
  - Get a Carfax report
  - Take the car to an independent mechanic for an unbiased, second opinion.
    - Cost: \$50 - \$70
    - ASC certified mechanics are best.



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### CarFax

Step 2: Check out the cars

- [www.carfax.com](http://www.carfax.com)
- Need VIN
- \$24.99 unlimited vehicle reports for 30 days(\$19.99 single report)
- Free Lemon Check will give you any buyback or lemon records



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**Used Cars: Things to Check on the Exterior**  
 Step 2: Check out the cars

- Body Condition
  - Prior work will reveal paint and bolts
- Glass
- Paint
- Rust or Damage
- Tires



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**Used Cars: Things to Check While the Car is on the Floor**  
 Step 2: Check out the cars

**Under Hood**

- Oil Leaks
- Water Pump Play
- Battery & Connections
- Belts, Hoses & Clamps
- Radiator & Coolant
- Carburetor Air Filter
- Engine Oil
- Power Steering, Pump Oil

**Safety Items**

- Lights
- Horn
- Windshield Wiper
- Windshield Washer



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**Used Cars: Things to Check While the Car is on the Lift**  
 Step 2: Check out the cars

- Brake Fluid Leaks
- Exhaust System
- Engine & Transmission Leaks
- Rear Axle Leak
- Frame or Structure Damage

**Suspension**

- Tie Rod Ends
- Idler Arm
- Shock Absorbers
- Springs
- Tires
- Brakes (Front)
- C.V. Boot



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**Step 3: Set a target price**

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**Pricing Terms**  
Step 1: Research

- Invoice Price
- Base Price
- Monroney Sticker Price (MSRP)
- Dealer List Price
- Beware of Bait & Switch
  - Advertise one low-priced car and then switch you to another.
- Beware of 30-day Return



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**Making an Offer**

- Armed with research, you can make a firm and reasonable offer to the dealer.
- A reasonable offer is **2% - 8%** above the dealer's cost.
- Get the price in writing.
- The salesman will sell you the car at your reasonable offer with hopes that they'll make more profit with the financing and extras.

**Calculating a Reasonable Offer**

Dealer Invoice Price

- Factory-to-Dealer Holdbacks
- Factory-to-Dealer Incentives

= Dealer Cost

Dealer Cost

$\times 1.02 - 1.08$

= Your Reasonable Offer

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### Separate Transactions

- Don't combine transactions:
  - Trade-in
  - New Car
  - Financing
- You will get a better deal if you negotiate each one individually.



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### Lesson Two:

## Financing a New or Used Car

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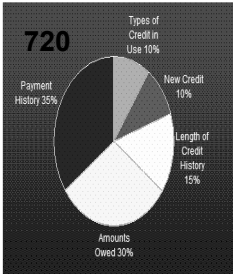
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### Know Your Credit Score

- Your credit score determines your interest rate
  - High Score = Low Rate
- Can buy score from:
  - [www.transunion.com](http://www.transunion.com)
  - [www.experian.com](http://www.experian.com)
  - [www.equifax.com](http://www.equifax.com)
  - [www.myfico.com](http://www.myfico.com)
- Get pre-approved from your bank



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### Number of Years to Finance?

- Recommend 3 1/2 - 4 years.
- Average loan is 5 years
- Interest rate increases after 5 years because risk is greater
- More years will increase the cost of the loan and the amount of interest you pay.
- Upside down-when you owe more on the car than it is worth. Usually happens with longer loans.



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### Low APRs vs. Rebates

- Usually only have the option on new cars to receive a rebate or low APR
- Get a \$4,000 rebate or 0% APR
- If you take the 0% APR, you give up the \$4,000 rebate

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### Compare Multiple Finance Quotes

- Get quotes from:
  - your bank or credit union
  - online lenders
  - dealerships
- Compare the APR and the length of the loan.
- Think beyond the monthly payment.
  - Remember the total cost of the car is the base amount plus interest that you pay over the life of the loan.

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### All of the Finance "Extras"

- Be prepared to hear about the extras:
  1. Credit Insurance
  2. GAP Coverage
  3. Extended Warranty
  4. Extended Service Contract
  5. Exterior & Interior Finish Protection
  6. Undercoating or Rustproofing
  7. VIN Etching
  8. Dealer Prep Fees



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### Credit Life Insurance

- If you die or are disabled and unable to work, the insurance will pay the balance of your loan.
- Averages \$30 per month
- Does your life insurance policy already cover this?
- Not required by federal law.



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### GAP Coverage

- New cars quickly depreciate within the first 1-2 years of ownership.
- You can owe more on your car than it is worth (upside down) as soon as you drive off the lot.
- If your car is totaled or stolen, your collision/comprehensive insurance will only cover the market value of the car.
- Gap insurance covers the "gap" between the loan value and the market value.



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### Extended Warranty

- Takes effect after the factory warranty expires.
- You don't have to buy an extended warranty on the same day you buy a new car.
- **No** if vehicle has above-average reliability rating.
- **Yes** if car has below-average reliability rating, and you plan on keeping it well past the factory warranty period. Used cars beyond warranty.



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### Extended Service Contract

- May duplicate warranty.
- Doesn't cover common repairs like brakes or clutches.
- Requires routine maintenance.
- Look out for exclusions that deny coverage.



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### Exterior & Interior Finish Protection

- Not worth the extra \$\$\$.
- It is a paint sealant for the exterior.
- Sometimes called Polyshield.
- Fabric protection protects cloth seats from stains & fading.
- Cost example: 6-years protection for \$498



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### Undercoating or Rustproofing

- Not worth the extra \$\$\$.
- Undercoating protects the parts below your car.
- May also be sold as rustproofing.
- Rust is extremely rare in modern vehicles.



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### VIN Etching

- Not worth the extra \$\$\$.
- Places the VIN number on the vehicle's window to deter theft.



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### Dealer Prep Fees

- Not worth the extra \$\$\$.
- Charge from the dealership to you to prepare the vehicle.
- Cross out on bill of sale.
  - Manufacturer pays dealership to prepare car.



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### The Benefits of Financing

- You establish credit
- Once 18, take out at least a 2-year loan and make on-time, in-full payments.
- Before the age of 18, you will have to finance the vehicle in another person's name.

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### Leasing

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### Pros & Cons of Leasing

<ul style="list-style-type: none"> <li>• Pros           <ul style="list-style-type: none"> <li>– Lower Payments usually lower               <ul style="list-style-type: none"> <li>• Pay for depreciation + rental fee</li> </ul> </li> <li>– Option to Buy</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Cons           <ul style="list-style-type: none"> <li>– You are renting-not buying-and you have to return the car</li> </ul> </li> <li>• Annual mileage limits           <ul style="list-style-type: none"> <li>– Usually 12,000 – 15,000</li> <li>– Must pay 10 to 25 cents for each additional mile above the annual agreement</li> </ul> </li> <li>• Must return all items in car</li> </ul>
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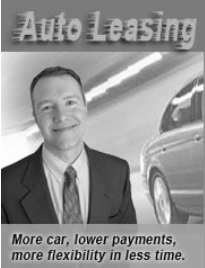
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### Tips for Leasing

- Ask for an itemization of the capitalized cost.
- Get all terms in writing.
- Ask about standards for wear and use.
- Ask for examples of early termination charges.
- Understand your end-of-lease options, such as:
  - turning in the vehicle and walking away
  - purchasing the car
  - rolling into another lease



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### Tips for Leasing

- Get every item of equipment listed on the lease so you aren't charged for "missing" equipment.
- Take the contract home and review it carefully away from any dealer pressure.
- Understand the conveyance, disposition, and preparation fees.
- Get GAP Insurance
- Remember that "lease rates" or "money factors" do not have the standardized definitions and are not equivalent to an APR



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### Lesson Three:

## Insuring a New or Used Car

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### Auto Insurance

- Based on Risk & Loss
- Why do you need it?
  - To financially protect yourself, others, and your car in the case of an accident.
  - State Law
- What we'll cover:
  - Types
  - Pricing & Discounts



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### Types of Auto Insurance

- Liability
- Collision & Comprehensive
- Medical Payment, Personal Injury, and No-Fault
- Uninsured or Underinsured Motorist
- Rental, Towing, and GAP Coverage



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### Liability Insurance

- Covers bodily injury or property damage that **YOU** cause to another **person** and/or **vehicle**.

100/300/50  
 \$100,000 bodily injury coverage per person  
 Limit of \$300,000 bodily injury coverage per accident  
 Property Damage Limit of \$50,000

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### Collision & Comprehensive

- Required if you finance your car
- Covers the cost to repair **YOUR car** if **YOU** are at fault in an accident.
- Don't need this insurance if the cost (premium & deductible) exceeds the value of the car.
- Comprehensive covers the costs to repair your vehicle for damage that might occur from:
  - Natural disasters
  - Vandalism
  - Theft
  - Fire
  - Animal hitting the vehicle (i.e. deer)
  - Falling Object
  - Glass Coverage

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### Medical Payment, Personal Injury, and No-Fault

- Medical Payment covers **YOU** and **YOUR passengers** if you were at fault in an accident.
- Personal Injury covers lost wages if you can't work as the result of an accident.
- No-Fault allows policyholders to submit a claim to their insurance company for reimbursement, instead of waiting to see who's fault it is.

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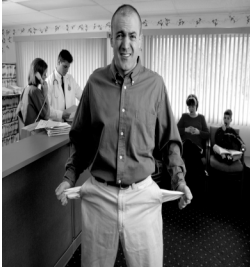
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### Uninsured Motorist

- Covers **YOU** if someone injures you or damages your car and they either:
  - Are a hit-and-run driver
  - Don't have any insurance
  - Cause you injury/damages beyond their policy limits (Underinsured Motorist)



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### Rental, Towing, and GAP Coverage

- Rental covers the cost of renting when your car is in the shop for a covered loss.
- Towing will pay for towing
  - Limits apply
- GAP Coverage will pay for the loan balance on your car if it is totaled and you owe more on it than it is worth.



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### How Insurance is Priced

- Coverage as a % of Premium
  - 40% - 50% of Premium: Liability
  - 30% of Premium: Collision
  - 12% of Premium: Comprehensive



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### Good Student Discount

- Good grades correlate with good driving habits.
- > 3.0 for the most recent quarter (doesn't have to be cumulative GPA)
- 17 - 20% discount on insurance.

29	CPT-170 B07 Microcomp Applications	A	3.00
30	CWE-111 B80 Coop Work Exp I-CPT	A	1.00
31	CPT-105 B01 Event-Driven Programming	A	3.00
32	CPT-364 B01 Systems and Programs	A	3.00
33	BUS-130 A02 Business Communications	B	3.00
34	IST-271 E01 Computer and Information Technologies	A	3.00
35	MAT-122 C02 College Math	A	3.00
36	IST-270 E01 Computer Systems	A	3.00
37	CPT-247 B01 Windows Operating System	A	3.00
Total Earned Credits		24.0	
Total Grade Points		84.0	
Cumulative GPA		3.50	

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### Save on Insurance

- Choose a higher deductible and pay a lower monthly premium.
  - Try a \$500 or \$1,000 deductible.
- Choose a safe car
  - Sports or muscle cars with a low weight to high horsepower ratio cost more to insure.
- Take a Driver's Ed course
- Apply with good credit

Paying too much for your car insurance?



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### Your Parent's Policy

- Can't own a car until you are 18 years old.
- Parents will be registered owners.
- On your parent's policy you'll get:
  - Long-term credits
  - Multiple-car discount
  - Multiple-policy discount



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### Getting a Quote

- Give the insurance agent specific information to get a quote:
  - VIN # is the best
  - Year, make, model
  - Features like anti-lock breaks and airbags will lower your insurance premium.



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### Monitoring Driving Habits

- Event Data Recorders (EDRs) aka Black Boxes
- Parents can monitor their kids' driving
- Connects to vehicles' On-Board Diagnostics II port
- Records
  - Acceleration
  - Braking
  - Cornering Forces
- Sounds alarm to driver at preset limits.
- Information downloads to computers

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### Lesson Four: Maintaining a New or Used Car

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### Lesson Four: Maintaining a New or Used Car

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### Routine Maintenance

- Oil changes
- Tune-ups
- Brake Service
- Replace
  - Windshield wipers
  - Battery
  - Timing belt
- Routine maintenance will help prevent more costly and unexpected repairs!
- Information in your owner's manual.



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### Unexpected Repairs

- When the new car bumper-to-bumper warranty expires, you must pay for:
  - Engine problems
  - Drivetrain damage
  - Internal engine repairs
  - Replace
    - Suspension
    - Alternator
    - Starter
    - Water pump



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### Find and keep a Reliable Mechanic

- Find a mechanic before you need one.
- Do your friends and family recommend the mechanic?
- Is your mechanic reliable? ASE Certified?
- Go to one place consistently
- Does the repair shop have complaints filed with the Better Business Bureau or the Consumer Protection Office?
- Think of your car as a long-term investment



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### Get Written Estimates

- Describe the symptoms to the mechanic, instead of trying to diagnose the problem
- Get the estimate in writing.
- Get more than one estimate.
- Don't sign a blank repair order



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### Frequency of Oil Change?

- Oil-change store will always suggest 3,000 miles
- What does your manual say?
- If you do a lot of driving around town, more often is better.
- If you do mostly highway driving, you can change the oil less often.



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### But it costs more to repair the car!

- Does the cost of repairs exceed the cost of a new car?
  - Probably Not!
- Compare the cost of a new transmission vs. the cost of a new car:
  - Total Cost
  - Monthly
  - Annual

	Repair Old Car	Buy New Car
<b>Total Cost</b>	\$1,500	\$21,000
<b>Monthly (if financed)</b>		\$350
<b>Annual (if financed)</b>		\$4,200

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