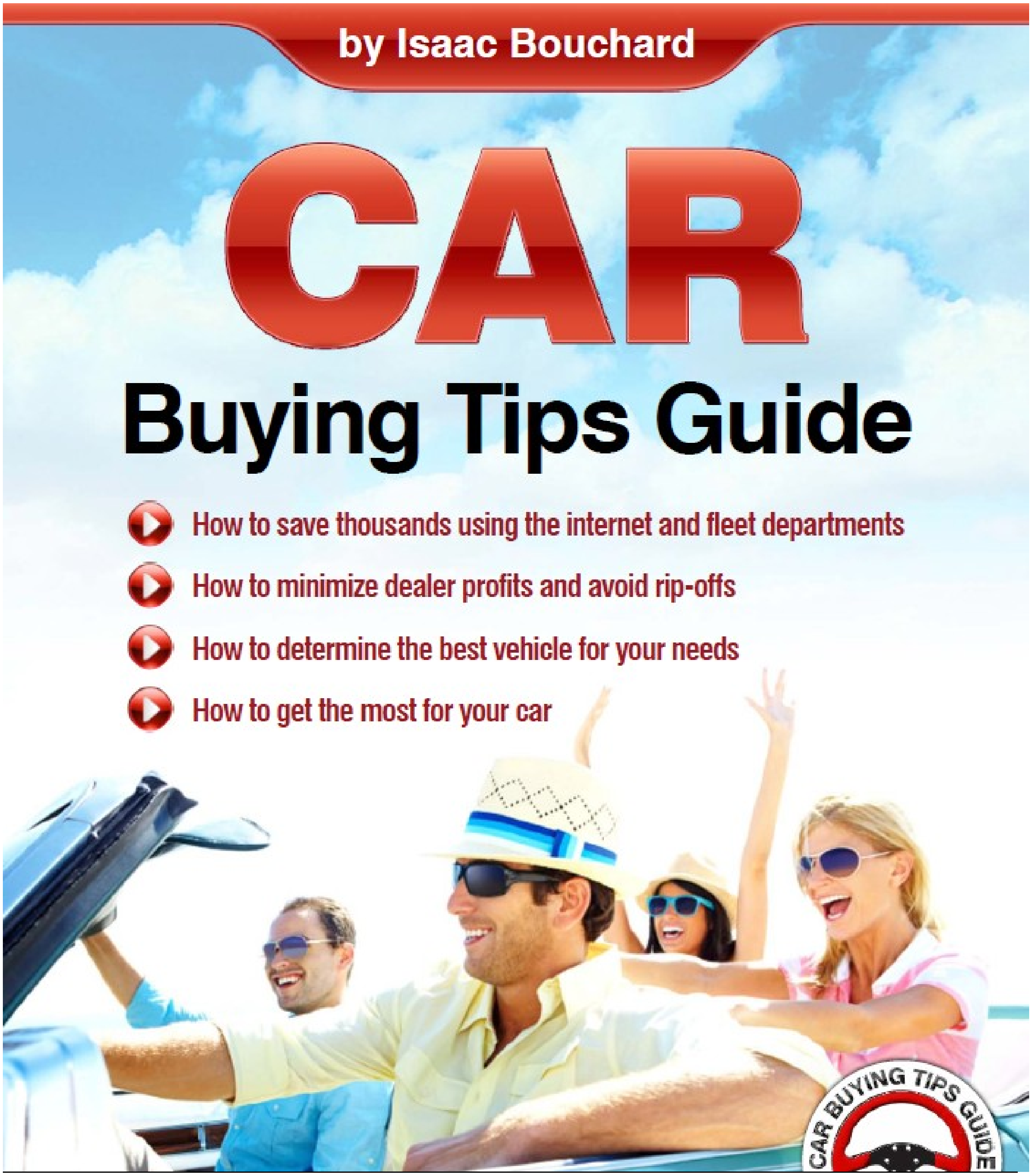
Car Buying Tips Guide



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Chapter 1 - Preface

Every year, almost 50 million vehicles are sold in the United States. Based on statistics, the majority are negative experiences. There's the false advertising, the misrepresentations, the game playing, and, of course, the outright lies. But it doesn't have to be that way.

Since 1991, I've been helping regular people wade through the minefield of car buying. As an auto broker, I serve as their agent, helping them save time, money and hassles. Over the two decades I've been doing this, I structured literally thousands of transactions, and have saved these folk ***over $3 million***. It has been very rewarding, and many of my 500-plus clients have become good friends, which makes me feel great. And as a car enthusiast, it's been wonderful to leverage my passion for automobile to help others.

Unfortunately, I can only help about 10 to 15 people per month personally. As I've accumulated such a wealth of knowledge over the years, it seems crazy not to get it out there to help the millions of other car shoppers.

That's the purpose of the *Car Buying Tips Guide*: to disseminate all that I've learned through the decades to help others save time, avoid hassles and get a better deal when the time comes for a new set of wheels.

Car Buying Tips Guide

Unlike other books written about the subject by consumer advocates, this one is from a true insider's point of view. And, because a broker such as myself handles every aspect of the transaction—including buying at auction, helping sell any trade-in, leasing or financing, and the sale or installation of products such as service contracts (also called extended warranties) and accessories—the *Guide* covers more ground than those books written by typical dealership salespeople or managers. Here are some of the topics I'll cover:

- How to determine the best vehicle for your needs
- Whether you should buy a new or used car
- How to use the Internet and fleet departments to save money
- How dealers make their profit and how to minimize it
- How to not get taken in the finance office, where dealers make the most profit
- Leasing versus financing
- Determining whether to trade your car in or sell it retail
- How to get the most for your car

- How service contracts work and how to find a good one

If you follow the advice in the *Guide*, you can expect to save anywhere from an absolute minimum of $1,000 to several thousand dollars when buying or leasing. I base that on actual transaction prices, provided to brokers such as myself by banks and credit unions. They report back on what people actually pay when they buy at a dealership, versus using someone such as me. I've also tracked what my transaction prices are compared to those released by such sites as TrueCar.com, which tracks these both regionally and nationally. And that savings includes the broker's fee, which averages $500-$700. Since you've only spent $47 on this guide and you can skip the broker fee, you can expect to do even better.

While the *Guide* works great as a stand-alone resource, the car business can change very quickly. Which is why my blogs, both at CarBuyingTipsGuide.com and NiceDrivesGuide.com exist [links]. Here you'll find the latest industry news, car reviews, and even more detail on how to save time, money, and hassle when you're actively searching for a car. They all work together to arm you with enough useful tips—and the context with which to understand them—to make you the most knowledgeable consumer a dealer or private party seller has ever seen. This will help insure your next car buying experience is more streamlined, less emotionally draining, and nets you a vehicle that meets your needs better—and saves you money.

-Isaac Bouchard

Chapter 2 - ABOUT THE AUTHOR

I've spent almost my whole professional career working with cars. Ever since I could remember, I've had an affinity for them, along with most all things mechanical. I grew up on a farm in upstate Connecticut, and began driving earlier than most. My first car, a '67 Volvo, came out of a barn and didn't run until I'd basically rebuilt it. In high school, I worked for a couple of mechanics, and at 17, I secured a job with one of the top racing and driver training schools in the country, Skip Barber. While there, I was lucky enough to be given some informal race training, which I practiced by sliding that old Volvo around on our rain-slicked, fallow grass fields.

I began racing at an amateur level while at college in Colorado and found I had a decent amount of skill at it, too. I began teaching the type of racing I was involved in and was soon recruited by an amazing local company, MasterDrive, as an instructor. It was very rewarding to teach, but as the pay wasn't that great, I always had to have other sources of income for college costs and fun. So I learned how to professionally detail cars and started a successful business doing so, which supported my motorsports activities and helped pay for school.

I would frequently hear from family and acquaintances that I should go into business selling cars, but as my own dealership experiences had been so bad, I never seriously contemplated the idea. Fate reached out to me one day, though, when I met a friend of one of my professors, who was an "auto broker." Helping people get a good deal on any type of car sounded very interesting, even though I was terrified of actual sales. But, when I needed to raise some real money to pay for graduate school, it seemed worth pursuing, fears or no.

I got myself hired at one of the best brokerages in Denver, which was a bit of a coup, as they'd never brought in anyone who hadn't sold cars before. The first month was a huge struggle; in 20 days I hadn't sold a single car! I vividly remember thinking that I just wasn't cut out for this line of work. But I kept at it and helped three people get vehicles before month's end.

Within 90 days I was salesman of the month, and super excited. I stayed with the company until they changed management—and cut the pay plan, something that happens all the time in sales. I decided to leave and went to work for one of the oldest brokerages in the industry, which afforded more autonomy. I began leasing undercover cars to local law enforcement and grew that business until it was one of the largest in the state.

In the process, I learned a tremendous amount about how leasing works, as we created custom, in-house lease products for these entities. I stayed with that firm for almost 11 years, only leaving in 2005, when (you guessed it) a new pay plan was implemented that required more work to make the same money.

The company I ended up moving to was smaller, and I took on many new responsibilities: I bought cars at auction, gained more knowledge about financing, and learned a great deal about service contracts (also known as extended warranties).

I continued to race cars and through another unusual set of circumstances, in 2003 I got a chance to begin writing about cars for a magazine, something I had always wanted to do. That has blossomed into a very satisfying part-time career writing for print and Web outlets both here and abroad, and making videos for Web and TV. I get to meet the movers and shakers in the industry, plus I drive many of the new cars even before they hit showrooms.

By 2009 I was setting up and running an Internet operation and helping to manage operations at my newest brokerage, along with helping my 500-plus clients. But I had reached the limit of the number of people I could help in any given month, and it got me thinking that there had to be some way to get all my accumulated experience out to the millions of people I'd never be able help. So here we are! I have created this *Guide* to help you save time, money, and hassle, just as I do personally for my clients, and all without the brokerage fees!

Chapter 3 -INTRODUCTION TO AUTO BROKERING

Just what is an automotive broker? If he or she is like me, they're basically a buyer's agent—a personal shopper who helps to arrange every part of the vehicle transaction, watching out for the best interests of the client.

The three major parts of this role are:

- Finding and securing of the appropriate new or used car, truck or SUV
- Shopping any trade-in vehicle to maximize its value
- Arranging the finance or lease package.

We also often help with things such as accessories, service contracts, shipping, servicing, and cosmetic and mechanical upkeep.

If someone has enough time, they can do much of this for themselves. However, the bottom line is that dealers negotiate hundreds of deals per month. Normal folk do it on average once every three to four years, putting them at a disadvantage, despite all the information available on the Internet.

A professional broker does enough volume to negotiate deep discounts through the fleet departments of new car franchises, and can make sure the savings are enough to cover their fee ($500-$700 in my experience) and still deliver a great deal to their client. And, since they work in the business on a daily basis, they are often intuitively aware of changes in the market and how these can affect people’s transportation needs—not just at the time of purchase but when it’s time to trade in, as well.

Another advantage to using a broker is the comfort and certainty that come of a long-term relationship. Many auto brokers have been in business for five, 10 or even over 20 years; they often work with generations of the same family. Normally, the chance that a consumer will ever work with a salesperson they actually like and trust (even if they can find one) more than once are slim, especially if they change the brand of car they are shopping for. As a result, every transaction is a new chance to be taken advantage of.

Finally, because a broker isn’t employed by a specific new car manufacturer and isn’t limited to a certain used car inventory, they can obtain most any type of vehicle. Therefore, their interest is in what car is most appropriate for their client. Top auto brokers are good enough to work exclusively on a repeat and referral basis.

Chapter 4 - GETTING STARTED

In this chapter I'll cover a lot of the basics, such as how the Internet has affected car buying, dealer Internet departments and buying services, and how to choose the right vehicle for yourself. You should consider this essential background upon which to base your buying or leasing decisions. In subsequent chapters we'll delve into specifics, such as how the dealer makes profit—and how to minimize it, new versus used, leasing, finance, and how to get the most for your car.

RESEARCH AND THE INTERNET

I've seen a lot of changes in the two decades that I've been helping people get their cars. The biggest have been due to the Internet. While it hasn't (yet) reached the point of making salespeople or dealers redundant, the Internet has dramatically impacted how consumers shop. When I started as a broker in 1991, the average gross profit per car sale at dealerships was 7 percent, according to the National Automotive Dealer Association (NADA); now it is less than 4.5 percent. That progress is because shoppers are much more informed.

As there are so many great tools to help you research your choice online, I don't want to try to duplicate them in the *Guide*. However, I will refer to various Internet resources I trust and feel are useful, with hyperlinks to bring you right there.

Taking the time to do your research *before* setting foot in a dealer or calling private parties is some of the best advice I can offer; the emotional turmoil that goes hand in hand with the actual transacting of business leaves little time for the clarity of mind that can come when it's just you, a spouse or partner, and the computer.

What you want to figure out before shopping begins is what car, truck or SUV that fits into your budget is best for ***you***. A dealer's favorite customer is one who doesn't know what they want—making them easy prey. And almost guaranteeing the shopper will end up in the vehicle that has the most profit in it, not the one that will serve them best.

If you do your research first, when the time comes time to pull the trigger, you'll be armed and dangerous. You can also use the Internet to get preapproved on a loan, fix your credit, [links] and even shop your car around to get the highest trade-in bids possible from multiple dealers. In the appropriate chapters, I cover these topics.

Right now, the percentage of purely Internet-only vehicle sales (where you don't even see the car before you pick it up) are in the low single digits. That's expected to hit 10 percent to 12 percent by 2014. But even then, over half of shoppers will still have a car or truck to sell or trade in—which means there are other complexities to deal with—and more money to be saved by maximizing what your trade-in is worth, as I'll discuss later.

TIP: Just because it is on the Internet, doesn't mean it is true.

This advice comes from someone who reviews cars online, and it should be obvious, but I still see that odd psychology where people feel that if they read it online, it must be gospel. It's almost like the 1950s, when TV was new, and anything people saw on was taken as truth, almost without question. Online commentators have many motives for what they post on the web, and not all are in your best interest.

I was completely amazed as I got more and more into the field of automotive journalism and found out that the vast majority of my so-called colleagues knew little about cars, and next to nothing about driving. But the free use of cars—many of which most of them couldn't even afford—expensive trips and other indulgences help keep the glowing reviews coming. On the other hand, even some of the most well respected sources (I'm talking about you, *Consumer Reports* and "60 Minutes") occasionally indulge in witch-hunting stunts that smack of yellow journalism and a need to raise ratings and increase readership. Perhaps the biggest challenge is that there isn't that much easily accessible ***context*** for opinions online, especially if you aren't well versed in the subject matter.

TIP: Mix your sources for gaining automotive knowledge in order to get the context you need.

Find two or three you really gel with, ones that hopefully represent different points of view. That'll make uncovering the motives of the commentators easier. And remember: these are largely for-profit enterprises.

TIP: Almost all automotive websites will sell your information to dealers and get paid well for doing so.

This can be one of the largest sources of revenue for them; as an example, TrueCar.com, which lists actual transaction prices of car sales on its site, gets $300 for every lead they provide that turns into a sale at one of their contracted dealers. Since their leads resulted in over 122,000 sales in 2010, they grossed over $36 million from this. Other sites that seem very consumer-oriented also sell leads to dealers for profit.

INTERNET DEPARTMENTS & BUYING SERVICES

Over the past decade, about half of the franchise (new car) dealerships have established dedicated Internet departments. These can be a great resource, but don't expect that you'll necessarily get the best price (or the best service) possible just because you go through them.

TIP: Many Internet department folk are just glorified salespeople

The biggest issue is that many dealers don't give their Internet department personnel enough autonomy to set prices, negotiate deals or handle finance and accessories. You'll end up having to negotiate with a manager anyway. At others, the Internet people just set appointments for you to meet a regular salesperson.

Many of the smaller dealers I work with give a dual role to their Internet manager, having him or her also handle fleet business. In my experience, the prices they quote aren't as good as I can get dealing directly with the sales manager. But these folk are often more forthright than the normal sales people, giving straightforward answers on pricing and layering on less bull.

TIP: One of the best uses of an Internet department is to get written price quotes via email or fax, so you only visit the dealers likely to offer the best deal.

Some Internet departments do handle most everything. Some questions from you via email (make a template of what you want to ask) will help you determine what kind you're dealing with. Here's what you need to know:

- Who is authorized to negotiate pricing and make final decisions?
- Who bids any trade-in?
- Who handles financing?
- Do you deal only with them, or will you still need to meet with a sales or finance manager to complete the deal?

Based on the answers you receive, you'll know whether you're talking to a glorified salesperson or someone who can actually make a deal. You can determine whether to continue with this dealership and you'll have a preview of how they're likely to treat you if you go in person.

BUYING SERVICES

There are a few nation-wide buying services that do some of the things a broker such as me does. Some are run by car insurance companies and some by national retailers such as Costco. They handle new and Certified Pre-Owned (CPO) vehicles.

TIP: You should be able to get a better deal yourself, using the info in the Guide.

Sometimes I compete with these services for a client's business. I've noticed that I beat these services about 70 percent of the time, as I can save money on parts of the deal (trade-in, financing or leasing) that they're either not well versed in or unwilling to tackle. Also, they only contract with certain dealers, and often other dealers are unwilling to trade inventory with them when the vehicle in question is in high demand, limiting a consumer's selection—which is getting more common these days, because of lower overall inventory levels. And you'll still end up dealing with some type of salesperson at the dealer.

TIP: If you have no trade-in and have already secured financing, buying services can be a great way to save on a new car.

One nice thing about these services is that you can leverage the price quotes they give to use at other dealers. But with the exception of CPO [link] vehicles, they don't handle used cars, and they won't insure you're getting the most for your trade-in.

FLEET DEPARTMENTS

As a broker, most of my new car contacts are in the fleet departments of franchised dealers. These started out handling big orders of multiple vehicles for larger companies; over the years many have begun to work with brokers such as myself. Fleet deals are usually lower margin than retail, but the volume they create (a good fleet manager sells 25-40 cars a month) gets the dealer sales bonuses and more inventory allocated from the factory. Not all fleet departments will work with the general public, but many will. An Internet search and a few phone calls will determine which dealers might have ones that will work with regular consumers.

TIP: Many of the biggest fleet operations are located in secondary markets.

When a dealership in a smaller city decides to compete from a distance with franchises located closer to the heart of a major metropolitan market, they will often do it through a fleet department. It is worth seeing what they might be willing to offer you. Though the drive there to complete the deal may be long, all subsequent servicing and warranty work can be done at a dealer closer to home.

PICKING THE RIGHT VEHICLE

I'm going to spend a bit of time on context here, as it is so important to making good buying decisions. If you want to get right into the buying sections, you can go there first and always come back. But if you want to know more about the ***why***—and how it can save you money—stay with me.

First, the good news: For the level of complexity they represent, modern cars are literally the most reliable devices ever built by man. A well-engineered, mass-produced car, truck or SUV can be driven through temperatures ranging from minus 10 to 100-plus degrees, year in, year out for a decade or more. All in the absence of the kind of loving care your home PC often needs just to run without crashing.

Density-wise, a car is filled with more parts, computers, and complex systems than most people would ever imagine, which continue to operate in harmony for over 100,000 miles—over four times around the Earth. All of this while the vehicle protects its occupants from the most violent types of impact most folk will ever experience. And without unduly polluting its surroundings with noxious fumes and poisons.

Modern vehicles are indeed a wonder. This makes it easier for a buyer to choose what they want, without worrying about the kind of issues that would once have left you, two or three decades ago, stalled with vapor-lock on a hot day, or freezing on the road's shoulder in winter, or sent to the hospital with injuries after a fairly minor crash. Open markets, fanatical competition and easily accessible information via the information age have all contributed to making newer vehicles so amazing.

The not-so-good news is that cars and trucks ***do*** still break, and there are lots of vehicles out there that aren't what they seem. But between online sources and the information in this *Guide*, you should be able to recognize these hidden disasters and avoid most of the common buying mistakes.

NEW VERSUS USED

Perhaps the biggest challenge in our consumer-driven culture is choosing between what you ***want*** and what you really ***need***. I know I've sure let the heart rule the head and rued my emotional decision-making. Realistically, the majority of the people who buy or lease a new car from me don't really need it. Yet most of us love that new car smell and the knowledge that you're the first one to have really driven your four-wheel baby.

Interestingly, the economic meltdown of the past few years has forced people to make more logical car buying decisions—and they've largely chosen used vehicles. While new car sales plummeted almost 40 percent in 2009, used car sales barely budged, dropping only 3 percent. But now that the economy is picking up steam, new car sales numbers are recovering. Let's face it—most of us just plain like the idea of a new set of wheels. But if you're willing to indulge me, I'll take a few moments to explain why used is still usually is the most logical choice.

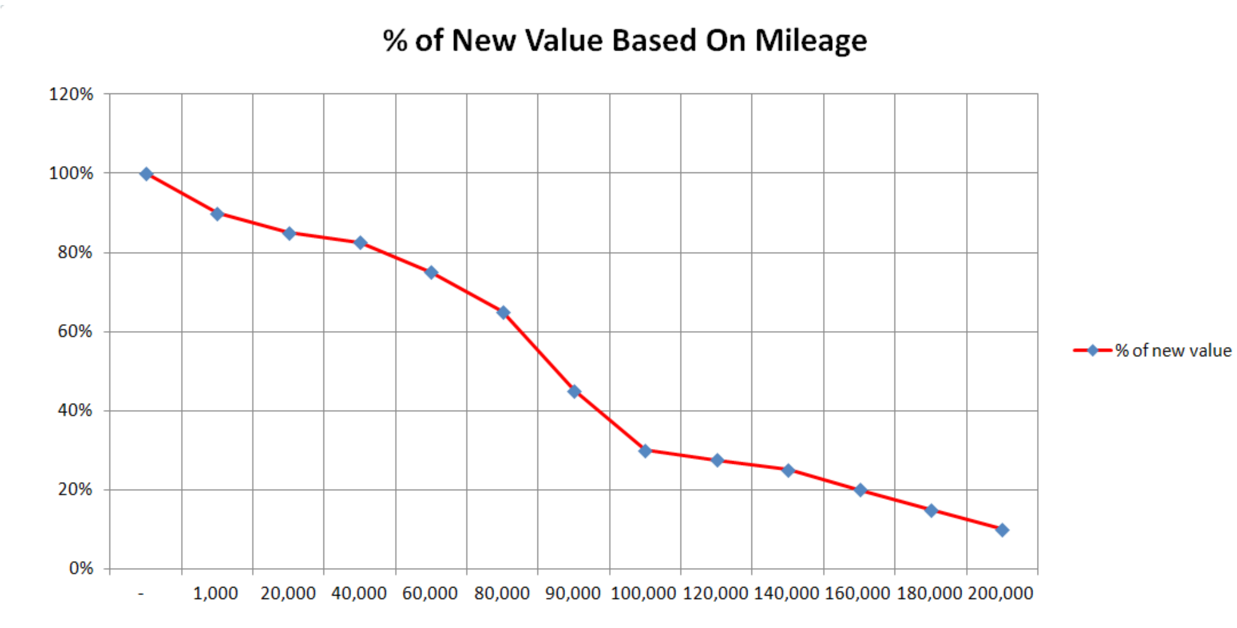
COST OF OWNERSHIP

The most accurate measure of the financial impact of a vehicle on your pocketbook is Cost Per Mile (CPM). It can be broken down into just its depreciation component, or it can include maintenance, fuel and other expenses as well. For 2009, the average cost per mile was 56.6 cents, according to the Bureau of Transportation Statistics. Many independent sources like AAA show higher numbers, and go into more depth. While there are varying numbers used—and even if all the data aren't 100 percent accurate—they do show certain trends. Amongst these are that used cars almost always beat out new ones when it comes to CPM.

Another interesting finding is that CPM goes down (on average) the longer you keep your vehicle, or the farther you drive it. Now, if Joe the mechanic just told you that your 96,000-mile-old car needs a $1,400 service, what I'm saying may strike you as absurd, but—assuming we're talking normal upkeep, the occasional broken part, and that your vehicle is owned free and clear—it almost makes more sense to spend the money and drive it another year or two than buy new. The math is simple: If you can get another year out of the old beater, the amortized cost of that repair will have been $117 per month. What kind of new car do you think you can get for that?

TIP: In general, the CPM is lower on used cars, and the longer you keep a vehicle, the lower its cost per mile will go.

Depreciation is one of the largest factors in CPM, and it is based on many factors. It is also non-linear—see chart (create). By that I mean that it usually starts out quite steep (hence the old saying that a car loses thousands of dollars of value when you drive it off the lot), then it levels out till about 70,000-80,000 miles. It steepens again as the car approaches six-figure mileage. Once past 100,000, however, it begins to level out again. In fact, it can end up that there's almost ***no*** depreciation for a fairly long period of time, or such a slight amount it's not really worth worrying about, on high-mileage vehicles.



As you can see from the graph, it really pays off to keep a car longer. Here's a simple example: You buy a new car for $25,000 and you drive it 12,000 miles per year. Maybe its value drops to $20,000 in that first year. Your cost per mile in depreciation would be 42 cents. If you're the average person, you'll keep it 3 ½ years. Its mileage will then be 42,000, and if we use a conservative residual value of $15,000 (60 percent), your cost per mile will now be 24 cents.

If you pay it off in six years (the length of the average car loan at the time of this writing), it will have 72,000 miles on it, and it will be worth approximately 40 percent of what it was when new. That is a depreciation of 21 cents per mile based on current used car prices—which is just before the depreciation curve steepens from 80,000 to 100,000 miles. And if you keep it another year or two and have no car payment, things start to get ***really*** good…

My dad was one of those rare people who did this. I helped him get a new Mitsubishi Montero SUV in 1994. He drove it 175,000 miles with only two minor repairs and normal upkeep and maintenance, then sold it to my younger brother, who took it past 200,000 miles before the vehicle rusted out (they both live in snowy climates). Dad's depreciation CPM was an absurdly low 11 cents per mile—even though he bought the Montero as a new vehicle, for around $22,000.

EXCEPTIONS

There are some exceptions to these general rules on depreciation. Here in the Rocky Mountains, where I live, Toyota Tacoma pickups, 4Runners and Land Cruisers hold their value so well after 100,000 miles that you can buy one after that point and virtually run it for the cost of fuel and maintenance

—they barely depreciate. I've also found that I can get new Tacoma for clients at such a good price that they're barely a thousand dollars more than one a year or two old, meaning most people choose to go new.

Other, more fashionable vehicles such as coupes and convertibles can suffer much larger amounts of depreciation, due to the whims of the market and changes in peoples' style and taste preferences. These are best bought 2-3 years old, often for 40 to 50 percent of their new sticker price.

Because they cost so much when new, most high-end cars like Porsches and large Mercedes and BMWs simply ***have*** to drop substantially, just so a bank will finance them once they're used. Finally, the frequency and cost of repairs is very large factor in more exotic cars' CPM; a Ferrari can usually be expected to cost someone $10,000 or more per year in depreciation and annual maintenance—even though they're driven an average of just 2,000 miles per year!

As you can tell, I could go on for a very long time about depreciation. The point is to be aware of the logic behind it when you're contemplating whether to buy new—or used or simply to hold onto your current car a bit longer.

TIP: Aftermarket work and accessories depreciate more than the car.

Another thing in favor of used cars is that any accessories they have, such as cool aftermarket wheels, or toppers on pickup trucks, are rarely worth more than 30 percent to 40 percent of what they cost new, increasing your bang for the buck when you shop used.

FREQUENCY OF REPAIRS

Beyond the question of new or used, there comes your tolerance for repairs and breakdowns. Simply put, Asian-made automobiles are the most reliable and durable. American brands from what used to be known as the “Big Three” (Chevrolet, Chrysler and Ford) have massively closed the gap in short-term reliability over the first year, though they tend to lag a bit over the longer haul. European brands are, in general, a distant third. If you’re covered by a warranty or service plan, the panache and driving pleasure served up by a Benz or BMW can be hard to beat. But for day-in, day-out trustworthiness, it’s hard to beat products from the Far East.

My own personal experiences back this up: I’ve owned something close to 50 cars (yeah, I know, it’s a sickness). Of those, I’ve had Hondas that never needed anything but routine maintenance, even at large six-figure mileage figures, to various European exotica that almost ate me alive with repairs and depreciation.

Thankfully, consumers are demanding and cars just keep getting more and more reliable. JD Power and other firms measure the number of problems cars have both when new and a few years old—and, in general, the statistics are better most every year.

TIP: If reliability is really important to you, go Asian—especially on used vehicles.

FUEL ECONOMY

Fuel costs are roughly one quarter of total CPM on newer cars; on older vehicles that aren't depreciating much, they're obviously a greater percentage of the whole. But I've seen people make incredibly shortsighted decisions to either buy or sell based on the cost of gasoline. While it ***is*** shocking to pump $100 into your tank when fuel prices spike, it is critical to figure out how much extra per year that gas is costing you, especially before you take thousands of dollars less on trade for your SUV or pickup. Here's a quick calculation you can do:

______miles driven per month ÷ miles per gallon x cost per gallon = total fuel cost per month.

Multiply by 12 for annual numbers. You can use this two ways: First, to compare how much more fuel is costing you as pump prices increase; and secondly, to see how much more or less different vehicles will really cost you to run. You will often find that a "gas guzzler" will only cost $30 or $40 more per month than a vehicle that gets better real-world mileage—meaning you'd be foolish to trade it in and loose thousands of dollars. A great source to compare both government data and those from real people can be found at fueleconomy.gov.

TIP: Don't make knee-jerk buying or selling decisions based on the cost of fuel.

WHEN TO BUY

When a new model debuts—especially if it is in demand—it usually sells at a higher transaction price (what consumers actually pay), often close to—or at—sticker. Incentives and rebates are lower as well. As a model goes through its life cycle, demand often slows, and better deals emerge.

TIP: The best value new cars are usually "face-lifted" models.

A facelift, also called a mid-cycle refresh, is a thorough updating of a car or truck that has been around a few years, and is only a year or two away from being replaced with a newer model. Outside, the bumpers and lights are often different; inside there'll be more standard equipment; and underneath there might be more powerful and efficient engines and transmissions. Most importantly, these vehicles have been in production long enough that they are generally more reliable than brand new models. They are also the ones that often carry the biggest rebates and incentives—making them the best bang for your buck in new cars.

TIP: Dealers are paid bonuses on monthly and yearly new car volume, so the last week of any month is a great time to shop.

There is truth in the old adage about buying near the end of the month. At month’s end, interest on the floor plan financing, which is the bank loan dealers use to pay for their inventory, comes due, motivating them to move the merchandise—either new or used.

At the end of the calendar year, the savings are usually even bigger, as the dealers, whether privately held or publicly traded, have profit targets and sales goals they want to hit. The manufacturers can also pressure them to squeeze out as many as they can, just for sales-volume bragging rights.

Offsetting this to some degree, on new cars there are typically 3-4 price increases on a model throughout the year, based on increases in raw material costs, etc. These are passed on to dealers. So a vehicle built earlier in the year, called an “old price unit” will actually have a lower cost than a more recently assembled car.

TIP: “Old stockers” can often be the best used buys.

With regard to used cars, banks want interest on used car inventory, especially those that are 60 or 90 days old. The dealer often has to either pay 10 percent of the car's value (called curtailment) or dump it at auction at a loss, so they'll be motivated to let these old-stock units go.

Next, I want to explain more about how dealers work and how that impacts the shopping experience and what people pay.

Chapter 5 - DEALER PROFIT AND HOW TO MINIMIZE IT

Dealer profit comes from several sources. Most obvious is the gross profit built into the sale price of the car—new or used. But this actually may be one of their smaller profit centers. Some comes from the service and parts departments, if the dealer has them. Profit can also be made on any trade-in. Other ways for of making money include the sale of products such as service contracts and interest-rate markup that happens in the finance office. I'll go into detail about each of these in the appropriate section, with tips on how you can dramatically reduce the amount the dealer makes. First, let's cover some general dealer background information.

It is important to understand that you and the dealer have fundamentally opposed goals. Yours is to get the best vehicle to meet your needs at the lowest price possible. If you're financing, you want the best interest rate in order to obtain the lowest payment possible, and if you have a trade-in, you want to get the most you can for it. A dealership, being a profit-driven enterprise, seeks to make the most gross profit possible on the sale or lease of a new or used car, take any trade-in for the lowest price possible (so they can maximize gross on it when they sell it) and mark up any interest rates.

And, it doesn't stop there. As we'll discuss, they also make a large percentage of their money selling you various products in the finance office. Each of the areas of the dealership are run by different people, each of whom has to maximize his or her department's profits—meaning you're facing off against not just one person whose needs don't align with yours, but several.

DEALERSHIP SALESPEOPLE AND MANAGERS

It's a cliché that the dealership experience is riddled with innuendo, misrepresentations and outright falsehoods. To help understand why the game is played that way, put yourself into the shoes of the typical salesman (or woman, but for the sake of this example, let's assume a male) at a dealership for a moment.

He's "on the floor" five or six days a week, for eight hours or more. If he's working on a deal, he'll often go home at nine or 10 at night, and then show up the next morning to complete paperwork or follow up with other leads. Working "bell to bell" is incredibly fatiguing; the frustration level is compounded when times are slow and all he has to do most of the day is pace the lot.

The salesman's compensation is commission-based at most dealers; in general, he's paid about 20 percent to 35 percent of the gross profit (called "gross" for short) on each sale. With the exception of a few more enlightened dealerships, if he even has a salary, it's minimal and certainly not enough to sustain any sort of lifestyle. For him, it's sell or die.

While he may make several hundred—or even a thousand—dollars selling an expensive SUV or pickup truck, many of his deals are "minis" where he'll make $50 or $100 selling a low-profit, small car. Note that some dealers ***claim*** they don't pay salespeople on commission, but they do offer bonuses based on sales volume, which—from the perspective of sales pressure to complete the deal—means basically the same thing.

When a prospect does show up, the salesman knows the chance of them buying something from him are only about 20 percent to 30 percent ***on that day***. If he lets them walk out the door, his close ratio can slip into the single digits. He also doesn't like Internet leads, as he closes only six out of 100 of them and makes less money in so doing, as the profit margins are usually smaller.

He knows a prospect is almost certainly shopping his deal against others—both locally and, thanks to the Internet, perhaps a thousand miles away.

He's usually not given enough authority to structure the deal, bid the trade, handle financing or do anything else, other than run back and forth to the managers in the sales "tower," while you sit there and get more and more annoyed. After all that, what he'll end up making on a deal isn't really even in his control. There are a myriad of reasons why things are usually done this way, but for now, just be glad that it isn't ***your*** existence.

Managers make more, of course—though not often the $200,000-$250,000 they did a decade ago. Savvy shoppers have whittled away at gross profits enough that dealership owners, especially the big national companies that own lots of franchises, can't justify that anymore. But the managers are still the brains of the outfit (if you want to call it that), in that they bid trade-ins, structure the deal, and handle the finance and after sales products. Their turnover is very high; I can't think of too many sales managers or general managers I've seen last more than five years at mainstream dealerships. Typically, anytime the ownership of a store changes hands, out go all the managers. They also work really long hours—60-80 per week is typical.

Combine that with the simple fact that they aren’t trying to build a long-term client base, and it is no surprise why they’re often so adversarial to deal with.

Hopefully this will help you understand why dealer staff can be so aggressive and so likely to play fast and loose with the facts. Now, let’s take a look at the rest of the typical retail experience and sales process.

ADVERTISEMENTS

When people come in based on an advertisement, the chances of them buying the vehicle in the ad are less than 20 percent. That’s the reason behind the old industry advertising practice, the “loss leader.” Whether it’s a low, low, low price or an unbelievable lease, it’s all about ***getting customers in the door***. If the salespeople can’t get face time, the chances of moving the metal are slim to none. So the advertised loss leader is often either a new, basic car without the options buyers will really want, or it’s a hard to find vehicle that won’t last long, but will bring in traffic.

TIP: Advertisements serve only one purpose: <u>to get you to the front door.</u>

People don’t usually read or remember the fine print. Things like “price good only on stock No. 3256,” “tax, title and license fee not included” or “lease acquisition fee and capital cost reduction of $2,387.90 required for $199 payment” just don’t stick in the brain when you see your dream car or truck at a “too-good-to-be-true” price. Though there are rules governing auto advertising, it can still be hard to drill down enough to get to the bottom line—especially with lightning-quick TV ads. The Internet has helped a lot here, as you can take your time to read the fine print.

TIP: Print out any advertisements that apply and bring them with you.

SALES TACTICS AND TOOLS

The sales process at a dealer—for both new and used cars—is designed, in almost all cases, to both keep you off balance, and give you as little information as possible until near the sales “close” begins in earnest. Once you know all the factors of a deal, it is easy for you to shop it at competitors. There are two basic sales structures used at dealers to enable this: the Four Square and Menu-Based Pricing.

THE FOUR SQUARE

The classic is the Four Square; many larger dealer groups have moved away from it but enough still use it that it is worth covering. The Four Square actually is based on a turn-of-the-20th Century psychological tool used to profile schizophrenics; therefore it should come as no surprise that it is quite manipulative. It is designed to help a salesperson figure out your hot button(s), and to keep you off balance.

The four moving parts to a deal, as illustrated by the Four Square, are:

1. Selling price
2. Trade-in value
3. Monthly payment
4. Down payment

A salesperson's training is to ask enough qualifying questions to determine which ***one*** of these parameters is your hot-button issue. He then "opens" or "closes" each square to give you the illusion of options—like a shell game. Once he has determined which square you are most focused on, all other numbers are moved around to make that one box the most attractive (chart)—though often little actually changes behind the scenes. Below this example, in detail, is each part:

CRAZY LARRY'S USED CARS
1234 Anywhere St.
Screwdover, MA 03311

MAKE/MODEL:________________________
VIN:______________________________

I WILL BUY TODAY IF NUMBERS ARE AGREEABLE TO THE PARTIES:__________

WORKSHEET

YOUR TRADE VALUE	PRICE
DOWN PAYMENT	MONTHLY PAYMENT

The Selling Price: A maximum profit first offer. Don't forget: they'll probably add "dealer handling" or a "documentation" fee to it. With new cars, it is usually Manufacturer's Suggested Retail Price (MSRP) plus some silly add-ons like "Market price adjustment" or "Paint protection", listed on an "addendum" sticker, placed next to the MSRP on the vehicle's window. With used cars, old-school dealers set their asking price at $2,000-$3,000 above cost, or more.

TIP: Don't forget about D&H!

Ah, the fine print … most new car dealers have some type of dealer handling (D&H), document or administration fee. No matter what they call it, it's just profit. Make sure you know that the price you've negotiated includes D&H; otherwise be prepared to have that little sign in the corner, that says something like: "To the negotiated sales price, add $498.99 for dealer preparation and documents," brought to your attention after you've gone through your negotiations.

The typical D&H range is $199 to $399 on low- to mid-priced cars and trucks, and $499 to $999 on luxury vehicles. This is pure profit, but in most states, if a dealer prints it on their documents, it cannot be crossed off, as it must be shown as having been charged to all customers equally. However, the D&H fee can always be "backed out of" the sale price. It will still show on the documents, but you won't have paid it on top of what price you thought you'd negotiated. Just make sure you bring this up early in the sales pitch.

The Trade-In: The dealer will usually start with an insultingly low offer for your car. If your hot button is trade-in value, the dealer will adjust it during the negotiations near (or nearer) to what you tell him you want/need from your car. Then, they'll move all other numbers around to compensate for this "over-allowance" (showing you more than they are ***really*** paying for the trade).

For example, say you owe $10,000 on a trade-in that is only worth $8,500 to the dealer, but the salesperson and manager know this is your focus. They'll eventually say, "Oh, we should be able to give you that much." Then, they move the $1,500 difference into the price of the car you're looking at—or try to hide it by increasing the loan term, or other shenanigans on any financing or leasing they arrange. What they'll really give you is "Actual Cash Value" (ACV), which is the amount the dealer actually is willing to take your trade-in into inventory for.

TIP: To find out what your car is actually worth to them, ask for a written "Trade Bid," even if you decide not to purchase something there.

The nationwide used car retailer CarMax has always done this; until recently most others wouldn't. But post-2010, many dealers are happy to get any good used inventory they can, and will indeed give you a Trade Bid in writing. This will also help eliminate one of the primary areas of control for the dealer. They won't like it, of course, but you're not there to make friends.

TIP: It is critical to stay focused on Selling Price and Trade-in, not the next two.

Down Payment: Don't be surprised if the dealer writes out a 20 percent down payment when they first fill out the Four Square. They know that most people don't have one that big, but want you focused on that—not the fundamentals detailed above. If you are preapproved on your financing, know the selling price, and the ACV of your trade-in, ***you*** determine the down payment to suit your needs, not the dealer.

Most lenders don't require downpayments anymore, as long as you are at or under Blue Book on what you're buying, have decent credit, and don't owe more than your trade-in (if any) is worth. If you find that you owe more on your car than the ACV, you can negotiate money off the car you're looking to buy in order to "absorb" it. In the worst case, at least you'll know how big a down payment you really need.

Monthly Payment: Dealers absolutely love to get people talking payment. They will do what they can to focus you on this section of the Four Square. Payment is determined by:

1. Purchase price
2. Trade-in ACV and payoff (if there *is* a trade)
3. Interest rate and the term of the loan (or lease)

Because there are so many components, it is easier to manipulate a buyer focused mainly on payment. Before you go in, read Chapter 7: Financing, to figure out the payment you want, and the dollar amount and term of the loan that will get you there.

TIP: Get pre-approved on a loan before you go shopping.

At a minimum, find out your credit scores, and check online to see what interest rates these would get you from various lenders. This will put you in a much stronger position to negotiate. Listed here is a great resource for competitive, online preapprovals. You can also get your credit scores here. Changes in lending laws over the past few years mean that you can try more than one lender without your credit score dropping 1-3 points (temporarily) each time, as used to happen. I cover this in more detail in the Financing chapter.

TIP: Beware of interest rate markups.

Interest rates are based on your credit scores. Knowing what yours are will help to minimize (or even eliminate) any mark up the dealer tries to add to the “buy rate” the dealer is offered by lenders. Like in a mortgage, banks and credit unions offer the dealer a chance to mark up the interest rate on the vehicle lease or loan; this profit is called “participation.” The buy rate is the interest percentage rate the dealer starts at, before marking it up to the consumer. It is typical for a dealer to mark up all buy rates that aren’t advertised specials. The average markup in 2009 was 2.74 percent! This is a big source of revenue for them—over $700 on each deal, on average.

TIP: If you go in to a dealer with pre-approved financing, beware that they don’t run the payment using your pre-approved interest rate at a shorter term than their financing option.

It’s another trick to get you to go with their lender, so they can “make rate” (interest rate markup, another term for participation). The normal gambit is to give you the payment using your preapproved financing at a term six or 12 months shorter than that for ***their*** financing. As long as you keep from focusing too much on payment, and ask the right questions, such as “On what term is that payment based?” you’ll be fine.

On the Four Square, the first payment you’ll normally be shown (the “first pencil,” as they call it) is based on a shorter term like 36 or 48 months, rather than the more traditional loan lengths of 60 months (used) or 72 months (new). This gives a very high payment. Back in the day, most clients would just accept it and continue negotiating. People are savvier now, and they often get a bit outraged when they see a monster payment on the Four Square.

But this doesn't bother a sophisticated salesperson—it's intentional. It is a ***test***. After you calm down, and they've "scraped you off the ceiling," as the saying goes, they've not only set a high payment that makes all subsequent ones look better, but they have learned something about your tolerance level and how reactionary you are.


TIP: Be a bottom line buyer, and have them show you the math on how the bottom line and payment correlate.

In fact, you don't really need to spend much time on the Four Square at all. Due to changes in lending disclosure and consumer protection laws, you can short-circuit the its use altogether.


TIP: If the Four Square is laid out for you, politely stop the salesperson and ask for <u>full disclosure</u>.

When you request this, dealer is then supposed to stop using the Four Square and lay out the deal parameters in a clearer and more easily understood way. If they won't, I would suggest you get up, and get ready to walk out. Don't be surprised if this "power move" on your part is enough to elicit cooperation. If it is not, I think you are better served doing business elsewhere, as this dealer will probably continue to try to take advantage of you.

TIP: Standing up and walking towards the door is one of your strongest plays.

But it can't be used more than a couple times, so save it for when you ***really*** need it. And just threatening to leave doesn't work nearly as well.

MENU-BASED PRICING

Many more progressive dealers have eliminated the Four Square and gone to what is alternatively called a Menu-Based or Full Disclosure sales strategy. While it doesn't tell you everything, it does cut through a layer of manipulation and get you a bit closer to the truth right away.

Why would dealers do this? Like other companies, car dealers are coming to realize that their reputation—especially online—is very, very important; surveys show that those dealers with the highest customer satisfaction scores (CSI) and the most "brand equity" not only get the most repeat and referral business, but also make higher gross profits—twice as high as dealers with the lowest scores.

This focus on CSI is especially important at larger dealer groups, which sell a multitude of brands of cars. They know that their “own” brand is more important to customer retention than the kind of car you purchased. If you had a good experience buying a Chevy from a Sonic Automotive-owned dealer, when the time comes for a Toyota, they’d like you to come back to one of their stores. But remember: just because they’re nice doesn’t mean that they’re not making a lot of profit on you. Dealers with higher CSI make ***more*** profit on average.

A menu based deal structure looks like this:

Prepared For:

Date & Time: 04/14/11 04:42PM
ID:
Manager:
Salesperson:

VEHICLE INFORMATION

1T401722 - 2T3DK4DV2B
11 TOYOTA RAV4 UP 5DR LTD 4X4 3.5L
BARCELONA RED 6CYL 5SPD-AUTO

Vehicle Selling Price	$31,159.00
- Preferred Customer Discount	-1,022.00
	============
Sale Price	$30,137.00
- Trade Value	-7,900.00
	============
Difference	$22,237.00
Tax Estimate	1,755.21
Tag/Title/Reg/Other	27.20
Administration Fee	499.00
	============
Balance Due:{Cash Required}	$24,518.41

TRADE-IN INFORMATION

04 TOYOTA PRIUS SD SEDAN 2WD
BLUE 4CYL AUTO
Vin: JTDKB20U740 Mileage: 78341

Base Value	$7,900.00
Reconditioning	0.00
Miles Adjustment	0.00
Market Adjustment	0.00
Other	0.00
Trade Allowance	$7,900.00

FINANCE OPTIONS

Cash Down	48 Months @ 1.90 APR	54 Months @ 1.90 APR	60 Months @ 1.90 APR
$0.00	$532	$475	$430
$1,000.00	$510	$455	$412
$2,000.00	$488	$436	$394

LEASE OPTION

Please ask about
our Leasing Specials!

This menu is provided to you, our customer, to assist you in better understanding the financial options available. Amounts above are ESTIMATES ONLY and may vary based on approved credit, applicable taxes, vehicle selection, trade value(s), estimated payoff, eligibility for rebates and other factors particular to your transaction. Final payments and terms may vary. Customer agrees to pay the difference, if any, in the amount of the trade lien payoff.

X
Buyer **Date**

X
Sales Manager **Date**

As you can see, this is basically just a slicker version of the Four Square. It lays out more information right up front, yet allows the salesperson to ask questions to figure out what your hot button(s) are and then focus there.

The factors that will change here are basically the same: sale price, trade-in bid and interest rate. But because you can see the various loan (or lease) terms, it makes your job easier. Note also that the fourth box is for leasing; this menu is designed to get you thinking hard about a lease, as its payment will always be ***lower*** than the finance option next to it—and, as I discuss in the Leasing chapter, a lease's interest rate isn't disclosed, so dealers can make more mark-up.

So just what isn't disclosed with menu pricing?

1. Profit margin on the new car
2. Trade-in ACV
3. Interest buy rate

Legally they don't have to disclose these, which is why this can still be referred to as Full Disclosure, even though they don't tell you everything you might want to know. They ***do*** need to tell you the interest rate that they are charging to ***you***, the term of the loan, the selling price of the vehicle you're looking at, and what they're willing to show you for your trade-in (remember that the amount they are ***really*** paying for it can differ from the ACV). They cannot fake an answer to any of these, and you can legitimately fight them on such grounds should they do so and things get really nasty. The main benefit is that the Full Disclosure format gives you more information, which is your ammunition in the negotiating battle.

TIP: Once you've gotten to Full Disclosure, you'll have to be logical about what you ask for.

If you've done your homework on what the car you're looking at is selling for on average for in your area, researched both the NADA and Kelly Blue

Book values on your trade-in, and are preapproved on a loan, you'll be in a very strong position to whittle away at any remaining extra margin.

If you find you've been given a fair shake by the dealer, feel free to ask for a bit more, but don't be insulting—save that angst for the huge number of unscrupulous dealers out there. Everyone deserves to make ***some*** profit (at least in my opinion) and buying a car or truck shouldn't have to be a negative experience. You can actually leave happy and excited about your new wheels!

TIP: While the average gross profit on cars is shrinking, other dealer profits are up.

Much of a dealer's profit is made in other ways than gross these days, such as D&H, interest rate markup, and things they'll sell in the finance office (as I cover in next chapter). Many of the more successful dealers advertise their cars using what's called "market based pricing," where they use complex software to track what cars and trucks are selling for both locally and nationally. Then they set their ad prices to within \$3-\$500 of what they expect to sell for after negotiations. These lower, more accurate ad prices generate more showroom traffic.

I try to do the same (without the software), and I am always happy to try to meet realistic demands from clients new to me, who might have come in to buy one of our cars via Internet ads. But I do ask them why they think I should shave off more money. If they can point out that a similar car (year, miles, equipment, condition, etc.) is priced better than mine, I'll try to make the numbers work. But if they just throw out some arbitrary amount, or think I have added a $4,000 or $5,000 mark-up, I will quickly become very firm.

THE BUBBLE

If you leave a dealer without buying, chances are they will "Put you on the bubble." This is industry parlance for throwing out a statement that will make it appear that they will meet your conditions ***if you come back to them***.

The reason it's called that is that if you do return, they will pop the bubble, deflating your expectations, making them vanish like the fantasy they were all along. In other words, not doing what they ***implied*** they would. Dealers are masterful at this; when putting a client on the bubble, the way they will phrase things will be something like this:

"***If*** we could get $________(what you wanted all along) for your trade, would you do the deal?"

"I ***should*** be able to get to that number…"

"***If*** I can get it to you for $________(the payment you had wanted), would you take it?"

"I think it ***might*** be possible; let me see what we can do…"

These will be said as you're leaving. Otherwise, negotiations are ongoing and you're still considered a potential buyer, so there's no reason to put you on the bubble. The logic behind the bubble is to have you remembering a great (imaginary) deal in the back of your mind as you shop at other dealerships.

TIP: The bubble isn't real.

The dealer will ***not*** meet your expectations when you return; if they had, you'd never have left in the first place! But if you come back, they can take another crack at you. In the meantime, you'll be out, trying to match that false "mind deal" at competitors, most likely without success. The dealer that put you on the bubble will look stronger in comparison.

SUMMARY

If you follow these tips, your time in the dealer at this point should be only 30 to 90 minutes, of which half or more should have been spent on the test drive and looking the car(s) over. You will have gotten the gross margin down to the lowest amount and maximized the amount your trade-in is worth (read Chapter 11: Getting the most for your car for details) and made sure any dealer handling or other fees are included in the negotiated price. Now you need to be ready for the real fun to begin…

Chapter 6 - THE FINANCE & INSURANCE OFFICE

WHAT HAPPENS IN “THE BOX”? Despite all the progress made by consumers using tools such as the Internet and the gradual switch to Menu Based pricing, dealers are still making lots of profit off consumers. And much of it is made in “The Box,” which is what they call the Finance and Insurance (F&I) office.

“Making gross” (gross profit) on new cars is harder than used vehicles; margins continue to shrink, it is easier to compare like-for-like models, and people are also willing to shop out of town for the best deals. On used cars and trucks it can be easier for a dealer to hold gross; no two are the same and margins are higher to begin with on many models. But the Box is still the number one profit center for them.

TIP: The best salespeople in the dealership work in the finance office.

You need as much ammo as possible against them. If the average salesperson sells somewhere between 10 and 20 cars a month, the average finance manager does 75 to 100 in the same time period. As most consumers shop for a vehicle once every 36-42 months, there is a massive discrepancy in real-world negotiation skills and experience here. Also, dealer groups and the manufacturers themselves spend tens (if not hundreds) of thousands of dollars optimizing their sales systems through surveys, psychological profiling, and training.

Your weapons are your knowledge of your credit worthiness (and hopefully the pre-approval you got); knowing the market value of your trade-in and the average transaction price of the car you're buying; and knowing the facts about the things they like to sell in the Box, such as service contracts and the products listed below. Plus, you can always get up and walk out.

TIP: They'll begin to soften you up before you enter the Box.

These days, things often begin before you even enter the F&I office. The finance manager—or "business" manager, as they're sometimes now called—will come out while you're in the closing stages of your negotiations with the salesperson (and sales manager, who is really running the show behind the scenes from the "sales tower") and introduce themselves. At this point—especially if you've never heard of the tips in the *Guide*—you'll have been at the dealership two or more hours, and will be worn down with all the negotiations. Don't forget: That's intentional.

TIP: No matter how friendly, the finance manager is the one most likely to get the deepest into your pocket.

Remember this! The finance manager will say something soothing like "I just want you to know that you're almost done; none of the numbers will change. I just want to ask a few questions." This begins what's called the interview. Its purpose is to figure out what strategies will work best in the closing, based on the type of customer you are. Maybe you're a "just the facts" gal, or a "more info" guy. These managers undergo training on a regular basis to analyze you and your weaknesses.

Some leading questions are:

1. How many miles a year do you drive?
2. Who will be the primary driver?
3. How long do you keep your cars?

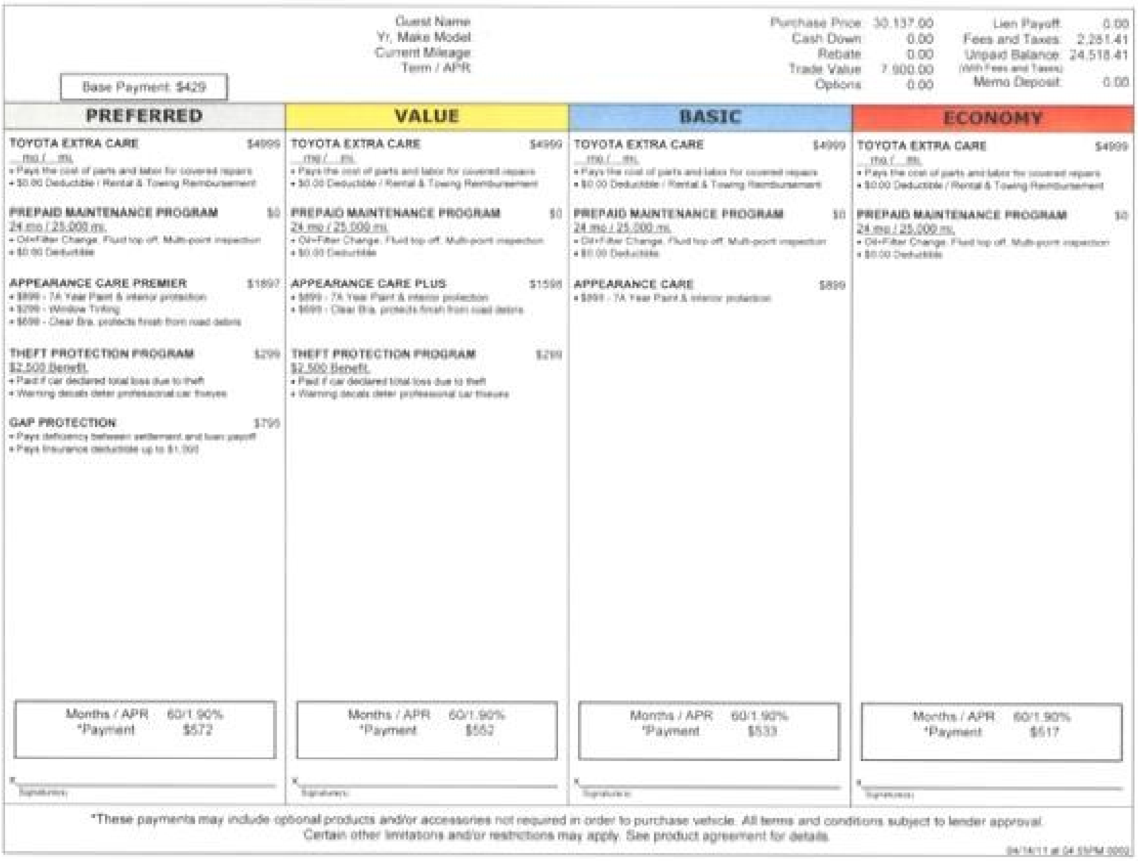
These will seem innocuous enough, but they are part of a finely calibrated system whose purpose is to separate you from your money. A really good F&I manager will subtly flatter your ego about how wise you are to have chosen a certain vehicle or to have arranged your own financing. They'll try to instill the feeling that the time to make decisions is over, and that you're in the home stretch.

Usually the next thing will be to have you wait a bit more, or perhaps give you a tour of the service department and introductions to other dealership personnel. But at some point they'll escort you into the finance office. In the Box, you'll be given the full-court press for things ranging from quite useful to totally worthless. It can be hard to tell them apart—and they keep adding more each year.

They will be presented in a Menu-Based format like this one below. The whole thing is designed to avoid any flat “no” from you; it’s all choices. This is Sales 101—make choices “either/or,” not “yes/no.” And it ***works***.

There will typically be various levels or packages to choose from, each incorporating different products, each of which has profit in it. Even the package names get researched for maximum impact.

TIP: Know what—if any—products you want <u>before</u> you enter the box.



Guest Name
Yr, Make Model
Current Mileage
Term / APR

Purchase Price 30,137.00
Cash Down 0.00
Rebate 0.00
Trade Value 7,900.00
Options 0.00

Lien Payoff 0.00
Fees and Taxes 2,281.41
Unpaid Balance 24,518.41
(With Fees and Taxes)
Memo Deposit 0.00

Base Payment: $429

PREFERRED

TOYOTA EXTRA CARE $4999
__mo / __mi.
• Pays the cost of parts and labor for covered repairs
• $0.00 Deductible / Rental & Towing Reimbursement

PREPAID MAINTENANCE PROGRAM $0
24 mo / 25,000 mi.
• Oil+Filter Change, Fluid top off, Multi-point inspection
• $0.00 Deductible

APPEARANCE CARE PREMIER $1897
• $899 - 7A Year Paint & interior protection
• $299 - Window Tinting
• $699 - Clear Bra, protects finish from road debris

THEFT PROTECTION PROGRAM $299
$2,500 Benefit.
• Paid if car declared total loss due to theft
• Warning decals deter professional car thieves

GAP PROTECTION $795
• Pays deficiency between settlement and loan payoff
• Pays insurance deductible up to $1,000

Months / APR 60/1.90%
*Payment $572

VALUE

TOYOTA EXTRA CARE $4999
__mo / __mi.
• Pays the cost of parts and labor for covered repairs
• $0.00 Deductible / Rental & Towing Reimbursement

PREPAID MAINTENANCE PROGRAM $0
24 mo / 25,000 mi.
• Oil+Filter Change, Fluid top off, Multi-point inspection
• $0.00 Deductible

APPEARANCE CARE PLUS $1598
• $899 - 7A Year Paint & interior protection
• $699 - Clear Bra, protects finish from road debris

THEFT PROTECTION PROGRAM $299
$2,500 Benefit.
• Paid if car declared total loss due to theft
• Warning decals deter professional car thieves

Months / APR 60/1.90%
*Payment $552

BASIC

TOYOTA EXTRA CARE $4999
__mo / __mi.
• Pays the cost of parts and labor for covered repairs
• $0.00 Deductible / Rental & Towing Reimbursement

PREPAID MAINTENANCE PROGRAM $0
24 mo / 25,000 mi.
• Oil+Filter Change, Fluid top off, Multi-point inspection
• $0.00 Deductible

APPEARANCE CARE $899
• $899 - 7A Year Paint & interior protection

Months / APR 60/1.90%
*Payment $533

ECONOMY

TOYOTA EXTRA CARE $4999
__mo / __mi.
• Pays the cost of parts and labor for covered repairs
• $0.00 Deductible / Rental & Towing Reimbursement

PREPAID MAINTENANCE PROGRAM $0
24 mo / 25,000 mi.
• Oil+Filter Change, Fluid top off, Multi-point inspection
• $0.00 Deductible

Months / APR 60/1.90%
*Payment $517

*These payments may include optional products and/or accessories not required in order to purchase vehicle. All terms and conditions subject to lender approval.
Certain other limitations and/or restrictions may apply. See product agreement for details.

I'm a big fan of certain extended service contracts, as I explain in that upcoming chapter, but I would never try to buy one on the spot. Other things like paint or upholstery treatments ("mop 'n slop" in dealer parlance) I can say for sure to avoid. Others fall into a gray area. Here is a partial list of the most popular—and profit-laden—ones:

Service contracts (extended warranties): I cover these in more detail in the appropriate chapter, but the bottom line is that they are high profit, and vary in quality and value. *Average markup: $750-$1,500 (on good ones)*

Prepaid maintenance: Remember those interview questions? Here's where a good finance manager will use them, playing on fears of roadside breakdowns or the high costs of future repairs—especially if you're a woman. Prepaid maintenance contracts ***can*** be excellent value; I make sure to include them on many expensive European cars, as they cost less than the recommended maintenance if you follow the manufacturer's schedule, mainly because they lock in current labor rates, which tend to go up every year.

For the majority of these plans, it's best if you research the cost of maintenance first. Call a service manager or writer at a dealer of the brand you're interested in and ask what the total cost of the recommended services the ***manufacturer***—not the dealer—recommends (dealer service departments routinely recommend lots of services that aren't necessary). Based on this, you'll know if the prepaid maintenance plan is actually saving you any money. They run anywhere from $300 to over $1,000. *Average markup: $150-300*

Aftermarket accessories: These usually carry substantial markups. But remember: ***all*** super-duper paint sealants and upholstery protectors are basically worthless from a monetary standpoint. *Average markup: 30-50 percent on most offered at a dealer*

Credit life & disability: This used to be a big seller, but I hardly see it offered any more. It isn't a high-profit item, but if offered, I would suggest declining it. *Average markup: $100-300*

Ding & dent repair: These policies cover door dings and minor dents. I feel you can get them fixed cheaper yourself, but if you live in a city like New York or San Francisco where parking is really tough, they might make sense. *Average markup: $50-150*

Excess Wear & Tear: Especially for leasing, some of these insurance products are worth considering. The key determinant is who backs the plan (the manufacturer, the dealer group or a 3rd party). If it doesn't restrict you to a certain dealer, it could make sense. *Average markup: $75-$250*

GAP: This stands for Guaranteed Automotive Protection and is a type of insurance that pays off the entire loan (or lease) balance if your car is totaled or stolen and the amount you owe to the lender is more than your own auto insurance company will pay. It is an excellent product if the total of your ***loan*** balance (including such things as sales tax and other extras) is above the Blue Book value of vehicle—or even close to it. If you have a large down payment, it isn't necessary. It is ***essential*** if you lease, since you will be upside down (owe more than the vehicle is worth) for the first year or two, and car insurance companies won't give you enough to pay off the lease. It has a fixed base cost, usually around $175, and is routinely sold at either two percent of the total loan amount or somewhere between $400-$600 (many states cap the amount). The F&I manager keeps a percentage of the profit, so you can negotiate. *Average markup: $100-$300*

LoJack theft recovery systems, etc: There are all kinds of tracking devices available to help recover stolen cars, keep an eye on teenage driver and more. I never add them, but there's nothing wrong with the concept; check online ahead of time if important to you. *Average mark up: $250-$500*

Key replacement: Modern keys and remotes are very expensive to replace; at dealer cost, I pay an average of $300 for both. If you tend to lose your keys, and the cost of the policy is less than that, this is worth considering. *Average markup: $25-$100*

Paint & fabric protection: Near worthless. I paid for much of college detailing cars, and no paint treatment last much longer than 3-6 months. Fabric guard might last a bit longer, but not by enough to justify buying.

Tire and Wheel packages: Modern low-profile tires offer little protection to wheels from potholes and other road damage that can bend the rims, or blow out a tire itself. If you live in an area with poorly maintained roads, this coverage might be worth considering on a purchase. If you're leasing, and the policy covers the cost of replacement tires—almost always needed by the time the lease expires and you turn the car back in—for a sum that's substantially less than the cost of a new set of tires, it could make sense to get. *Average markup: $100-$300*.

TIP: Research these online before going to the dealer and see if your auto insurance offers a discount for any of them.

As mentioned, a key in sales is to avoid "yes" or "no" questions such as "Would you like to consider a service contract?" Instead, salespeople like to ask the customer "either/or" questions, where all the answers lead towards a close, as in: "Which would suite you better, the 75,000-mile or the 100,000-miles service contract?" or, "Do you want the service contract and the maintenance package, or just the service contract?" The interview questions tell a good F&I manager what to ask and how to ask it. They can even customize the menus they'll show you based on your answers these questions these days.

TIP: Pay attention to each product's price, not its affect on payment.

The menu will often show the price of each item in small print, and more boldly, what your monthly payment increase is if you choose it. That's because it's much easier to sell $10/month than $600 up front. ***Keep both in mind***.

Sometimes the manager will run into resistance from an astute customer. They'll set the menu aside, perhaps print some of your sales documents, and then approach it obliquely, using what's called the "step sell," wherein they incrementally suggest things that will have only a minor impact on your payment. They can be very, very good at this; a subtle expression of surprise that you don't see the value in something they're selling is a common—and successful—tactic often employed.

TIP: Which products the manager will try hardest to close you on is based mainly on the profit it will make him or her—not on its inherent benefit.

Some low-cost items have high profit; others are the opposite. Don't just pay attention to the various items' cost. Think of their value to you. Another great F&I tactic is referred to as the "Space Shuttle" or "Titanic" close. Perhaps you're buying a Honda, which is usually a very reliable vehicle. So you tell the manager you don't need a service contract, since it'll be "bulletproof." The savvy manager will respond that thousands of engineers worked for years and years to design and build the Space Shuttle, yet we still lost two—or alternatively, that the Titanic sank. It may sound cheesy on paper, but it is a very, very successful tactic.

If you've studied the section on the costs and value of the various menu items, you'll have decided in advance which you might really want—and what you'll pay.

TIP: Now it is time to negotiate.

In a non-confrontational way, ask or offer a discounted price for the item(s) that interest you. A good F&I person will either agree, or continue to negotiate.

Often, they'll offer the discount(s) you ask for, ***if*** you let them do the financing. As long as the terms of their loan are the same as what you're already pre-approved for (you ***are*** pre-approved, aren't you?), take it. The incentive for them to do this is that a lender will pay them some type of bonus for securing the financing. Even if they don't mark up the interest rate at all, they'll still be paid a "flat" which is a fixed amount typically ranging from $100-$300, depending on the amount of the loan.

As Full Disclosure selling becomes more and more prevalent, many F&I managers are relying on these (legal) kickbacks from banks. On a "superflat" they can make anywhere from $300-$1,000. The amount depends on the lender and the size of the loan—the more you finance, the higher the amount. Figure a flat will be 1 percent of the amount financed, a superflat will be 2 or 3 percent.

TIP: As long as the rate is the same or better than what you can get, take it.

But make sure you get something in return—discounts on one or more of the legitimate products listed above, free oil changes or ***something*** of value to you.

TIP: Your goal in the Box is to get out with only what you want.

The dealer's is to sell you everything on the menu. Weak F&I folk sell 0-1 items and don't last long; solid finance people sell 1-2 products on average, and top ones rarely let someone walk out without selling up for 2-3 profit-making items. If you follow the tips in this chapter, you won't be that average customer who gives away over a thousand dollars to the F&I manager in product profit and interest rate markup.

This is the other major profit source in the Box. The average markup in 2009 was 2.74 percent, which equated to $714 per customer! I'll talk more about this in the chapters on Finance and Leasing.

TIP: The ultimate power move is to be silent.

At ***any*** point that that a dealership salesperson or F&I manager asks you to do something, or makes an offer, the strongest play you can make is to not say anything right away. Even experience sales folk have trouble not filling in a silent moment. The longer you stay quiet, the stronger your position. They'll usually start jabbering, or sweeten the offer, if you just wait long enough. Try it!

Finally, remember: Whoever asks the questions controls the conversation. I learned that the first week I was a broker. You can make it work for you in a myriad of ways, including just to interrupt their sales spiel and keep ***them*** off balance.

Chapter 7 - FINANCING

The majority of cars over $10,000 are financed. While car loans are a bit simpler than leases, there are still complexities to be aware of. The first thing to know is that the interest rates you receive are predominantly based on your credit worthiness. A FICO score over 700 on at least one of the major credit bureaus (Experian, Equifax and Trans Union) is considered to be “prime.” Below that begins the “nonprime” and “subprime” sectors that often includes higher interest rates, various stipulations (called “stips” for short) and sometimes exorbitant bank fees. Subprime accounts for about 40 percent of all car loans.

TIP: Before you go shopping, find out what your credit scores are.

I say “scores” because they can vary from one bureau to another by a large amount; I usually see variances of 20-30 points, but it’s not unusual to see 60-100 point spreads from high to low. You can get a free copy once a year from AnnualCreditReport.com or the individual credit agencies.

Tighter regulations on lenders have made it not only easier to get your scores, but also to correct inaccurate information on your bureaus. You can do this yourself or pay to have it done. The field of credit repair is full of sketchy characters, so you must be careful if you decide to go that route.

The 800-pound gorilla in the field is Lexington Law, who gets generally positive reviews from watchdog agencies and outfits like the Better Business Bureau, which make them the number one choice for credit repair if you don't want to do it yourself.

No matter what route you take, it is critical that you know what your credit scores are before you go out shopping. I can't tell you how many times I've had people who ***thought*** they had prime credit, only to find out that their scores were subprime. This can so dramatically affect interest rates and payments that I usually try to help my newly referred clients get their scores first—before car shopping begins. And with my repeat customers I always ask if there have been any changes to their credit since our least transaction.

TIP: Do not allow dealers to pull your credit scores without your permission.

While this happens less than it used to, it can still take place. To avoid this, don't give them your Social Security number unless you decide to use their financing or buy the vehicle with cash (in which case you're required to provide it when signing the purchase documents). To pull a credit bureau, they need what's referred to as a "five-liner"—your name, address, phone number, birth date and Social Security number—and sometimes they'll ask for this information as if it's necessary for a test drive. It is ***not***; a valid license (and maybe proof of insurance) is the requirement. Thanks to the new laws that are part of the Consumer Financial Protection Act of 2010, dealers now can be fined heavily for pulling credit without written permission.

It used to be that every time someone pulled your credit, your scores would go down 1-3 points for a period of 30-60 days. Thankfully, changes in the way bureau scores are arrived at mean you can have multiple inquiries from different banks or dealers without it affecting your scores.

WHAT AFFECTS CAR LOAN INTEREST RATES

The most common factors that can affect your score and the interest rate you'll be offered include the following: any late payments or collections; any tax liens or bankruptcies; how much of your available credit you have used; and how much credit history you have.

Also possibly affecting the interest rates you'll be given is your debt-to-income (DTI) ratio. Finally, some lenders care about the amount of down payment and the year of the vehicle. I'm only going to cover these factors in brief here, as there are great online resources that go into much more detail.

LATE PAYMENTS

Generally if you're more than 30 days late on a house or car payment (and some other loans), you can expect your late payment to show up on your credit bureau reports and lower your credit scores. Other creditors, such as your cable and electric companies, may not report you late to the credit tracking agencies until you're 60 or 90 days behind. But they often will then retroactively report 30-day-late payments. Then there's the big one: almost one third of all negative items on credit bureaus these days are from some type of medical bill. All these affect your credit scores to varying amounts.

TIP: Make sure you are current with all lenders before trying to get a car loan.

If you try to get a car loan with currently late accounts showing on your bureau reports, it will be much worse than if you have late payments in your past. A lender will think, "Geez, if they can't even pay their ***current*** bills, why should we give them a loan?"

COLLECTION ACCOUNTS

None of us like collection agencies. Especially when they track you down five years after you've moved, to tell you about some bill you don't remember getting in the first place—that you now owe penalties and interest on! But it happens, especially with medical bills. If some old $50 unpaid collecting is on your bureau reports, take care of it—no matter how exasperating it may be. Right and wrong don't enter into this, only getting the best loan terms possible. Unpaid collections make getting a decent rate on a car loan nigh on impossible.

TIP: You can negotiate to pay a lesser amount on collections and most agencies will accept it.

Sadly, if you want to try to get them to take any collection report off your bureaus, get it in writing, or count on them never doing it once they've gotten your money.

TAX LIENS

I've gotten people approved on car loans, even with current tax liens from the government, but seldom at prime rates. These customers have to put substantial money down on the purchase, as much as 20 percent to 40 percent of the loan amount.

BANKRUPTCIES AND FORECLOSURES

Neither bankruptcies nor foreclosures are the kiss of death they used to be, especially after the economic and housing crisis. But a bankruptcy must be "discharged" before ***any*** lender will extend your car credit, or they risk the car loan being discharged and you never having to pay for the vehicle. Expect higher, subprime rates until three or four years after a bankruptcy or foreclosure.

REPOSSESSION

Lenders care more about car repossessions than bankruptcy and foreclosures, as they indicate a history on your part that you may repeat with the new vehicle. It will usually be four to five years or longer before most will extend your car credit, except some of the true, sub-subprime lenders. Don't expect even them to offer you a loan if you're less than a year out from repossession. Pay cash for a cheap car (using the tips in Chapter 10: Buying a used car), and wait.

PERCENTAGE OF CREDIT AVAILABLE

This is a funny one: Lenders don't want you to have a bunch of credit cards and lines of credit that have no loan balances on them and are completely available for you to use. They worry that you'll suddenly max them out due to a job loss or something similar, and become unable to make your payments. At the same time, they want you to have used some—but not too much—of any available credit. The rule of thumb is that they want the balances on your credit cards (and perhaps home equity loans) to be below 40 percent of the maximum.

Perhaps the strangest thing I've seen is that if someone pays cash for most everything, their scores will actually be lower than those who have some loans. In my opinion, the whole credit thing is a bit of a racket, designed to get people to borrow money—but not too much money—and make the lenders lots of profit off of interest.

DEBT-TO-INCOME

Debt-to-income is moderately important if you have credit scores over 700, and very important if you're below that. Lenders assume that those with prime credit can be trusted not to get in over their heads on car payments;

below that, they're more careful. DTI is the percentage of your gross income that will be consumed by your big bills such as a mortgage or rent payment and loans, including the car loan you're trying to get.

TIP: Using the payment estimator below, try to aim for a loan payment that isn't over 15 percent of your gross income.

As an example, if you make $4,000 a month gross, they'll want the payment to be $600 or less. They'll probably also have minimum monthly gross income requirements (for at least the primary applicant) of $3,000 or so.

LENGTHS OF EMPLOYMENT AND RESIDENCY

Stability in your job and where you live matter to lenders, though slightly less than they used to, post-recession. But these are still important and may affect your likelihood of getting a loan, though probably not the interest rate. Lenders like you to have been on your current job for over two years and have lived in the same place for at least that long.

THE COST OF MONEY

This is key to know before you go shopping. Each thousand dollars you borrow will cost you a certain amount every month, based on the interest rate and the term of the loan. The cost of money is expressed in terms of a monthly payment in dollars, per thousand borrowed, as in “$20 (payment) per $1,000 (borrowed).” It is based on interest rate and the length of the loan.

At 6 percent interest, for a 60-month loan, this means that each $1,000 you borrow will cost you about $20 per month in payment. It’s easy to then figure out that $10,000 will cost you $200/month or that $25,000 will give you a $500/month payment. Here are the basic terms and the payments you’ll get at 6 percent interest, per $1,000 borrowed, and rounded to the easiest dollar amount to work with:

24mo	36mo	48mo	60mo	72mo
$45	$30	$24	$20	$17

This will help make things more clear when negotiating, especially when you’ve been preapproved on a loan and know your monthly budget maximum. There are also a slew of online loan calculators and smartphone apps that will calculate to the penny the cost of money.

FIRST TIME BORROWERS

It is very tough—especially after the financial meltdown of 2008—to get a bank to take on a first-time car loan borrower. Expect to need a cosigner when dealing with most banks, credit unions and captive finance companies. Some ***do*** run first-time-buyer programs, so it pays to research online. They’ll be looking at the number of “trade lines” you have; each one represents a loan. If you’ve only had a credit card or phone bill, understand that you’re a poor risk to an auto lender. A substantial down payment—at least 20 percent—will make your chances substantially better.

TIP: There are often first time programs for new car buyers.

If you’re buying a new or Certified Pre-Owned (CPO) car, many manufacturers offer first time borrower programs through their in-house, “captive” lenders. Read the fine print online or call and ask a finance manager at the dealer(s) you’re planning to visit what the stipulations are, both regarding your credit, and if you need to be a recent graduate or such. This will help you avoid wasting time if you wouldn’t qualify anyway. But ***don’t*** let them pull your credit bureau or take any personal info.

COSIGNERS

A cosigner can make all the difference on getting a good interest rate on a car loan—or getting one at all. Cosigners can be a spouse, significant other or close relative. Lenders look much more closely at cosigners than they used to before the meltdown, so they need to have good debt-to-income ratios and high credit scores to be helpful. The cosigner is an equal in the eyes of lenders and credit reporting agencies, so a car loan affects their DTI ratio too. And any late payments you make will affect ***their*** credit. Because of these factors, it is harder in my experience to get someone to cosign than it was a decade or more ago. Banks are especially leery of so-called “straw purchases” where there’s no stable relationship between the cosigner and prime borrower.

TIP: A cosigner doesn't have to be locked into the car loan forever.

If the first six to 12 payments are all made on time, it is usually possible to find another lender (or even the same one) to refinance the original loan without a cosigner, assuming that person hasn't damaged their credit and still has an adequate DTI ratio. Contact the original lender and some new ones; those on-time payments will make all the difference.

WHERE TO FINANCE

The usual financing sources are:

1. At the dealer, using the "captive" finance companies (owned by the manufacturers, such as Toyota Motor Credit) and manufacturer-affiliated banks such as Ally (General Motors).
2. Nation-wide banks with strong auto lending arms like Wells Fargo and Chase (who also finance at dealers through their indirect-lending arms).
3. Credit unions (who now finance almost as many cars as banks).
4. Local banks.
5. Subprime lenders (more on this later).
6. Large lending institutions such as Capital One.

7. Home equity: During the peak of the real estate bubble I saw up to a third of my clients use home equity loans or lines of credit to finance a car. While I don’t think we’ll ever see those kinds of numbers again, some may still be able to take advantage of this source and the tax deductions that it allows.

When you go through the dealer to use a certain lender, it is called “indirect” lending; when you deal with the bank directly, it is “direct” lending. This can be a bit confusing. As an example, you could get preapproved with your credit union as a direct loan, but then go to the dealer and complete the loan paperwork at the same interest rate using a preapproval code provided by the credit union, just like an indirect deal.

In a direct lending scenario, banks and credit unions will give you their “buy rate,” which means there’s no additional interest rate markup in the loan (though they may pay bonuses to a loan officer). Many of these same lenders also work with dealers. The buy rates they offer the dealer can be the same as what they’d give you, less, or more. There isn’t any clear pattern to this, so it worth getting preapproved with a lender (direct loan) first.

TIP: Getting pre-approved is essential if you’re to know when a dealer is marking up the buy rate.

According to a recent independent study by the nonprofit Center for Responsible Lending, the average rate markup at dealers in 2009 was 2.74 percent, which equates to ***$714 per customer!*** If you're not preapproved, it will be very hard to know how much the dealer is marking up the rate.

But if you've gotten a preapproval, and want to simplify things by closing the loan at the dealer and not going back to the bank or credit union, you can still do so. Just make sure the dealer is giving you the same rate as the lender was offering to you directly. The dealer will probably get paid a fee called a "flat," for doing the loan, you won't pay any extra interest, and you won't spend extra time running around. The flat is generally one percent of the amount of the loan. The dealer gets this flat as a reward for the large loan volume they do. Some lenders offer "super flats" of two percent to three percent ($600-$900 on a $30,000 loan).

TIP: Interest rate doesn't affect payment on a car loan as much as a mortgage.

On a house, a single point of interest can mean hundreds of dollars a month on the payment. On a typical $25,000 car loan, a point of interest will change a 60-month payment by only about $11.00 per month. A $1,000 price change on the same loan will affect the payment about $19.00 per month.

TIP: Merely <u>mentioning</u> "buy rate" will mark you out as a more astute customer.

If you're doing an indirect loan, ask what the buy rate is. Though the dealer doesn't have to disclose it, it can help you negotiate the best possible interest rate. The most important thing is to have more than one option for financing so you retain as much control as possible—so get preapproved first. On the Resources page of the site are some good sources, no matter your credit, who handle prime and subprime borrowers.

TIP: There are no prepayment penalties on car loans.

PRIME LENDING

Prime scores are generally considered to start at 680 credit scores; this is the "B" interest rate range, depending on lender. Anything over 740 makes you "A+" or "superprime" on credit and should qualify you for the best interest rate any lender offers. Many lenders offer automatic approval to people with scores over 740; in this case, they barely seem to glance at other parameters such as DTI. Debt-to-income will still matter, though, especially for those who score hovering just around 700.

Other parameters considered will be the number of “trade lines” on your bureau score; each reflects a loan you had in the past or currently have. Seven is usually the minimum, including one for a car loan or lease of over $10,000-$12,000. They’ll want you to have made payments on such a loan for two years or more, too. They’ll also typically want you to have had a credit history going back five years or more. These factors can rule out prime credit for first-time buyers, even though their scores are over 700.

TIP: As of the time this was written, the rates offered by lenders to you if you’re a prime shopper should be in the 2-5 percent range on a new car, and 3-6 percent on a late-model used car.

NON- AND SUBPRIME LENDING

If your credit scores range between 620 and 679, you are considered a “nonprime” or “near prime” borrowing risk and may end up having to use a specialty lender. Below 620, you are subprime. This type of loan is also called special finance (or “spi-fi” for short). All the basics of a prime loan still apply, such as a good DTI and having job history. There will be other hoops to jump through, such as showing proof of income, needing to provide from three to 10 references and making sure all your loans are current.

TIP: If you have any type of loans—or even collection accounts—past due, it will make it almost impossible to get a prime loan.

Even subprime loans with interest rates below 10 percent will be tougher. Again: Check your credit bureaus and try to take care of anything late before shopping—at least know what you're up against. There are online lenders who will do subprime preapprovals, I have some listed on the Resources page. I strongly advise getting a preapproval from one before going shopping. Subprime shoppers are much more vulnerable to rate markups and manipulation by dealers.

TIP: The more money you can put down on a "spi-fi" loan the better.

That's both from the standpoint of qualifying in the first place and also from an interest rate perspective. Many banks and credit unions will still lend to you if your credit scores are in the mid-600s; if you're below 599, you'll usually have to go to a "sub-subprime" lender like Westlake Financial Services—or have a very strong cosigner. If you're in this category, expect an interest rate ranging from 12 percent to 21 percent, and also expect that the bank will charge an "origination fee." This isn't disclosed in many cases—in fact, some state laws prevent the dealer from mentioning it—but it must be absorbed somehow into the loan structure. These fees run from

$400 to $1,200—or more—and average close to 10 percent of the car's value.

Twenty-percent down payments are the norm on a "sub-sub" loan. The term of the loan is usually limited to 36 or 48 months, and there are often limits on how old and/or how many miles the vehicle can have on it. Westlake, for example, limits mileage to 80,000. Basically, the lender is expecting 40 percent or more of these loans to end in a repossession, so their goal is to make sure the amount they loan is less than the wholesale value of the car, so they can dump it at auction without losing much money if the buyer stops making their payments.

This big down payment is referred to as "collateralization" of the loan. Don't forget, the bank will have earned an origination fee ***and*** 21-percent interest for some period of time, even if the car is repossessed. The key here for them is equity; if they have enough, they'll approve most people. The minimum is 10 percent down of the car's clean trade-in Blue Book value (usually the lower of NADA or Kelly Blue Book prices). In this situation, they often want more; the rest is absorbed into bank fees, profit and rate markup for the dealer.

TIP: It is important to know that such lenders will often "advance" (i.e. offer) more than 90 percent of trade-in value to the dealer, but the dealer does not have to disclose the approval amount.

The dealer will usually want the 20 percent (or more) in order to make more profit and cover the cost of the bank fee, especially if they are in a state that won't allow them to tell the buyer about it. The dealer can also sell a car in rougher condition or with a less-than-stellar CARFAX history for a premium price to a sub-subprime customer. While the average used car sold at a dealer in 2010 had just about $1,500 in profit, a spi-fi deal ends up making the dealer $3,000 to $6,000 if they structure it correctly. This is why it is absolutely critical to know your credit situation before shopping, and do anything you can to correct it.

Remember that since there are no prepayment penalties on an auto loan, you can refinance it once you've made six to 12 payments on time—even through the same lender. Don't go two or three years at 21 percent interest when you could have refinanced it down to eight or 12 percent.

A final note on what to do if you have really poor credit: Avoid "credit counseling" debt consolidation-type agencies. These are different from the companies that attempt to fix your bad credit trade lines, like Lexington Law. What I'm talking about are companies that will negotiate on your behalf with lenders that you're far behind with, often as an alternative to bankruptcy.

Regardless of their legitimacy as companies, the one thing debt consolidation companies inevitably do is prevent you from getting a car loan—of ***any*** type. Once you've signed with one of these organizations, **no one** will extend you car credit, usually for several years. Ironically, you could declare bankruptcy and often get at least some lender to extend you car credit right after the bankruptcy is discharged in court.

SUMMARY

At the risk of beating a dead horse, I will reiterate: Get preapproved! You are so much more vulnerable if you don't, in almost all cases. If you know you're going to get a new car and take advantage of 0 percent financing from a manufacturer, at least know your credit scores, and fix any issues before you start shopping in earnest.

Chapter 8 - LEASING

I'm a proponent of leasing—for the right customer, and if the lease is structured right. Having developed customized, in-house leases for law enforcement and set up most every kind of manufacturer-, bank-, or credit union-backed lease imaginable, I feel I have a good handle on when they are advantageous, and for whom. In this chapter, I'll go through the pros and cons of leasing, so you can see if leasing is for you. And if so, that you structure it properly, helping insure you save money and future hassles. What I'll discuss below applies only to closed-end leases (the vast majority these days), not open-ended ones, also called "balloon notes."

OVERVIEW AND POSITIVES

The upsides of leasing are numerous. Lease payments usually run 25 to 35 percent lower than the purchase payment. Why should you pay an extra $100-$200 per month for the same vehicle?

The most oft-heard objection to this is: "I don't want to ***rent*** it—I want to own it." But since the average consumer keeps a new vehicle for about three and a half years (42 months), and the average new auto loan is now 72 months, buyers rarely have any equity when they decide to trade in. These folk don't ***really*** own their vehicle—the bank or credit union does.

Aren't there better things a consumer can do with that money? Or, perhaps they can get a nicer car for the same payment. Beyond that is the simple fact that, while cars are more reliable than ever, when they do break, it costs a lot more to fix them today than in the past. And if a lease is properly done, the lessee is within warranty coverage for either the entire time they have the vehicle, or most of it, thereby limiting out-of-pocket exposure.

The three- to 3 ½-year term of the majority of leases seems to suit people's needs as well, from the standpoint of changing cars. If a lease is properly structured for someone's needs, turning it in is much less hassle-prone than trading in a financed car that still has money owed on it.

At lease termination, the lessee will be given two options: to purchase it for a set figure (spelled out in the contract) or to turn it back in to the lease company—either the manufacturer's in-house financing company, or a bank. If you've avoided inflicting excessive wear and tear or bought insurance to offset it, you're done.

TIP: Consider wear and tear insurance if you are hard on a vehicle.

It is much less than the penalties you'd most likely otherwise pay at lease end. The other insurance product that can be worthwhile to a lessee is "Tire and wheel" coverage. I discussed these in the chapter on the Finance office.

If the lease is structured correctly, the end of term price—called the residual value—will be equivalent to the vehicle's wholesale (auction) price. Which means that if you like the vehicle, you can view the lease as a greatly extended test drive, and buy the car outright—for the equivalent of auction pricing. On the other hand, if it doesn't meet your needs anymore, or if it's been troublesome, it is now someone else's problem.

TIP: If the residual is (wholesale) market-correct, there can be a third option: You can sell it on the open market and make some money.

That's because there is an average of $3,000 or more between auction price and average retail value on three-year old cars. The only caveat here is sales tax, which varies state to state. In general, only licensed dealers can purchase a car from a lease company without paying sales tax, which averages around 7 percent nationwide. If you decided to buy it out and then resell it, the sales taxes will usually eat up much of your profit.

But many reputable dealers are willing to help by allowing you to run the whole transaction through their own title offices for a modest fee ($100-$300), and "flip" it to the new retail buyer that you've found, paying you the profit. This is called a "pass-through." Talk to a manager—not a salesperson—to see if they'd be willing to do so.

TIP: It's safest to use a franchised dealer or large nationwide used car chain if you're considering doing a pass through.

You can also make the pass-through a part of the negotiations on the vehicle you'll be replacing. First, get the best price on the replacement vehicle through the fleet or Internet department, and then let them know that it is contingent on them doing a pass through for you. Get the fee they'll charge in writing.

If done right you not only save 25 to 35 percent per month, but come out with $1,000-$2,000 to use on the next car. I do it all the time for my clients, and they love this "double-whammy."

Another leasing benefit revolves around how reports such as CARFAX affect the value of cars. If your car is in an accident—no matter who is at fault—chances are these days it will end up reported to CARFAX and AutoCheck.

Therefore, it will be worth less money; on average, a "dirty" report lowers a vehicle's value $1,000-$1,500 (I cover this in more detail in Chapter 10: Buying a used vehicle). If you've leased it, and have the bodywork done properly, you can turn the car in at lease end without penalty. But if you'd purchased it instead, you'll get less when you sell it outright or trade it in, due to the dirty reports. So a lease gives you a measure of protection against this loss of value.

Also, if the leased vehicle's real market value turns out to be ***less*** than the residual value, the bank or manufacturer takes the loss—not you. This can happen when gas prices swing wildly, affecting car prices, or when a car company closes (like Pontiac and Mercury, recently). You end up paying less than the actual depreciation of that car or truck.

Finally, if you owe a lot more than your trade-in is worth, a lease can afford the opportunity to semi-painlessly absorb the inequity while maintaining a reasonable payment—and ridding you of the debt in a shorter time than through another five or six year loan. Especially as many lenders will go above the new vehicle's MSRP (sticker price) by up to 10 percent for consumers with good credit (that is, $3,000 over on a car with a $30,000 MSRP). This allows more negative equity to be rolled into a lease than a typical purchase, with less affect on your payment—and for a shorter amount of time.

COMMON LEASING ISSUES

Leasing is obviously not for everyone. If you tend to pay a car off and keep it, it may be better to just purchase. On the other hand, if you like to change what you drive every year or two; a three-year lease is not the way to go, either. If your life changes dramatically (divorce, dramatic increase in annual mileage, job loss, etc.) during a lease, it can also cause havoc. But many of the factors that have given leasing a less than stellar reputation can be addressed with some knowledge and forethought.

Almost all the loopholes that caused people considerable consternation during the "Wild West" days of balloon notes and open-ended contracts in the '80s and '90s are now long gone. I still don't recommend open-ended leases for most people—although there are exceptions for very high-end cars, municipalities and others.

The states and federal government are regulating leasing more and more, and make sure that lease contracts are standardized to a large degree, clearly listing most all the costs. The only thing ***not*** disclosed on a modern lease contract is the interest rate. Note—it is not called that; it is referred to as either the “lease fee” or the “rental fee.” The benefit is that this is tax-deductible for many people who itemize, unlike auto loan interest.

TIP: To figure out the interest rate equivalent of a lease fee, multiply it by 2400, as here:

.00200 lease rate x 2400 = 4.8 percent interest equivalent

The downside is that it can be hard to figure out what the rate actually is. Manufacturers and banks offer their dealers a “buy rate,” which they often mark up to you, the lessee, just as they do on loan rates. And they don’t have to disclose this. More problematic is when the dealer implies that the “capitalized cost” (i.e. the purchase price), which ***is*** disclosed on the contract, includes all the profit.

As an example, the salesperson may tell you that they’re selling the car at a few hundred dollars over cost, and show you the actual invoice to prove it. Yet, with the other hand, they have marked up the lease rate two percent, and gotten a kickback on the finance fees. This profit is called "reserve" and can double their real dealer profit.

This is an acceptable legal practice, and most homeowners are familiar with it from mortgages, though with them you usually know how many "points" the mortgage company is making on the deal.

TIP: To figure out the rate, get a reverse lease calculator.

This used to require an HP financial calculator, but now there are some great reverse loan and lease calculation programs online and in apps for smart phones that will help you figure out what lease rate the dealer is using. I use ***iLeaseCarPro*** on my iPhone almost every day; it is almost always within a dollar of what a dealer's computer comes up with for a lease payment. It, or a similar program, is well worth the minimal cost.

TIP: A mark-up in rate may affect the payment less than a similar profit mark-up on the vehicle's capital cost—just like a car loan.

The other item dealers can mark up is the lease acquisition fee, which is a transaction fee that is paid to the lender, and that ***all*** leases have. They run from $525-$795 base cost on mainstream cars. Dealers often try to mark them up $100-$300.

TIP: High-end manufacturers' leases often have acquisition fees that start at around $800.

You shouldn't have to pay for a marked up "ac fee," so if necessary, phone more than one dealer ahead of time to ask what it is for the brand of car you're shopping for.

TIP: Lease near the middle or end of the month.

Lease residual values drop either every 30 or every 60 days, which will drive up the payment $10-$20 per month, unless the manufacturer steps in with other subsidies. If you wait till just after the beginning of the month, you've probably just paid more for the same car from the same leasing company.

LEASE TERM

The vast majority of leases these days are 36, 39, or 42 months. Twenty-four-month leases are rare, as are 48- and 60-month terms. Manufacturers want their cars back sooner than four years, and the two-year term payments are usually too high for most consumers. The exception is high-end cars like Porsche and Mercedes, who do use them on a regular basis.

Since a lease is a compound interest instrument (like a home mortgage) you pay mostly interest during the first year. Which means you'll be upside down on what you owe on the lease by a large amount if you need to get out in the first 12 months. Your only real option will be to bring a big chunk of cash to the table.


TIP: Be careful of "lease swapping" companies.

You could try to transfer the lease to someone else using a company like Leasetrader.com or Leaseswap.com, but based on the number of negative reviews of these types of outfits (and the fact that most lease companies won't let you transfer legally), it is hard to recommend them.

Somewhere during the middle part of the 2nd year of the lease or thereafter (depending on the used market as a whole, and how you car is doing within the market), you'll be approaching break-even. During the 3rd year you will generally be paying a large amount of the principal (depreciation), so you'll be in good stead to get out early without penalty.

TIP: If you need out early, the best option can be to sell your car yourself.

Do it as a pass-through if you live in a state with sales tax. That way you can get a retail price for it, and by running the transaction through a willing dealership as described earlier, avoid loosing a bunch of money to the tax man.

I very rarely do four- or five-year leases; the payments are rarely better, and I don’t like to lock people in that long. But there are exceptional circumstances, especially when people are deeply upside down on a trade-in (where the inequity rolled in affects the monthly payment less) that may make them desirable.

THE COST OF MONEY

Just like a loan, each $1,000 of the lease costs a certain amount per month. This makes figuring out what any down payment or inequity rolled into a lease does to affect the payment. Here are some rough figures (interest rate affects them):

TERM	PAYMENT CHANGE PER $1,000
24mo	$40-$50
36mo	$30-$33
42mo	$27-$30

48mo	$23-$25
60mo	$19-$21

As you can see, a longer term helps keep the payment in line if you're rolling in a lot of inequity. On the other hand, it lowers the effectiveness of any down payment.

TIP: If you're really buried in a car, consider a 48-month lease.

This will help to swallow the inequity without making the payment larger than necessary. By and large, you're better sticking to the more common terms. And don't assume a 48-month lease will be less expensive than a 36-month one; it all comes down to what the lender and manufacturer are trying to promote on any given month.

RESIDUAL VALUE

The residual value on a closed-end lease is a set amount, figured out by the manufacturer (or bank) and based on independent research from companies like Automotive Lease Guide (ALG). The basic reason a lease is less expensive per month than a purchase is that you are paying only the depreciation from the capital cost (sales price) to the residual value.

Therefore, the higher the residual-value percentage, the lower the payment, and vice-versa. Cars that have good resale value have good residuals.

Typical residuals on a three-year lease are in the 50 to 60 percent range. Residual is a percentage of MSPR (sticker price), ***not*** cap cost. So the more you knock off sticker in the negotiation, the better the payment, just like a loan. Annual mileage affects the residual value as well; usually a 12,000-mile per year lease has a one to two percent higher residual—meaning a $10-$30 lower monthly payment.

MILEAGE

That leads to a critical issue on a lease: annual mileage. Many of the frustrations people feel at lease end could have been addressed if they had been aware of their real mileage needs (and the fact that it can change over the lifetime of the lease). Most of the trouble I see is with people who went to a dealership on their own and leased. The dealer got them focused on ***payment***, and since the lower the mileage, the less the payment, they signed up for too few miles.

There's nothing worse than a mileage penalty of thousands of dollars at the end of a contract. Lease companies typically offer 12,000- and 15,000-mile-per-year contracts; high-end cars and trucks might have lower ones, like 10,000 miles per year. A few, like BMW, offer the ability to adjust the mileage during much of the lease's term if your driving habits change.

TIP: You only pay a mileage penalty if you turn in the car—not if you buy it out or sell it retail.

If you need more than 15,000 miles per year, it is usually cheaper to buy miles “up front” (at lease inception). They typically cost 10-12 cents per mile at the beginning of a lease; if you go over the allowed mileage, the penalties are more usually 15-25 cents.

TIP: Leases can be especially good for people who drive high annual mileages.

It can be very hard to resell a three to year old car with 60,000 miles on it. But since many lease companies allow contracts to be written up to 18,000-20,000 miles per year (sometimes more), the challenges of remarketing a high mileage car can be passed on to the lessor. I lease cars to lots of realtors; we usually build up a 20,000-mile per year lease, and “buy” the extra miles up front. They get a fresh car every three years, some extra tax deductions and don’t mess with trying to sell it themselves.

WEAR AND TEAR

Wear and tear is the other big bugbear. Since many lessees never take true mental ownership, they don't repair dings and dents or more severe damage properly—it's like renting a house versus owning one. They sometimes skip required maintenance too. And tires are often almost worn out at the end the typical 36-39 month term.

With tires, an option in snowy climates would be to purchase—or perhaps even include in the lease's total (capital) cost—snow tires, which you can use during the cold months each year. The original tires that came on the car can be saved for warmer weather and will therefore still have an acceptable amount of tread depth at the lease's termination. And, you'll get the added safety of the low-temperature traction these tires provide.

TIP: If you don't want to (or need to) run dedicated winter tires, consider purchasing used tires at the end of the lease.

They cost a fraction of the price of new ones, and as long as they meet the quality and tread-depth requirements on the listed on the back of the lease contract, you don't need to throw money away buying a new set. You can go local through Craigslist.com or a simple Google search, or nationwide via eBay, though shipping costs can negate the savings unless the tires you need are really expensive when bought new.

Wear and tear and turn-in issues are discussed in detail on the back of the lease contract. The way the lease companies treat consumers at lease end has improved dramatically over the 20 years I've been leasing cars. Back in the day, they'd nickel and dime someone to death, losing a customer over trivia. Now, most seem aware the cost of getting a new client to the brand is much more than keeping one they already have. So they've simplified procedures and are a bit more lenient on wear and tear. As an example, most now allow some scratches and/or door dings on each body panel.

TIP: Don't wait till the lease is up to have your car inspected.

Most all lease companies will send an inspector out to look at the car ***before*** it is turned back in. They will give you a report of what is normal wear and tear, and what they intend to charge for. You can then get things repaired, or at least compare what they will charge for the work to what it will cost you to get it done.

I recommend getting bigger body damage issues handled first and at least an exterior detail (which costs only $50-$100); many little things you might be charged for can taken care of this way, before the inspector sees the car.

Remember: if you tend to be hard on a car or don't want to mess with getting work done at the lease's end, consider getting wear and tear (and even tire wear) insurance when you lease it. It will usually save you money in the long run, and will most definitely save time and hassle. The price range varies with the coverage and type of car; the profit to the dealer for selling is usually in the $75-$200 range. Feel free to negotiate on it; dealer cost varies but usually runs between $500-$750 from the contract provider.

In Chapter 11: Getting the most for your car, I explain how to get the most for your trade-in and how to use professional vendors to make your vehicle look and drive the best. You can pull from this information tips that will help you avoid penalties at lease turn-in time.

OTHER LEASE FACTORS

Used leasing

Most leases are on new cars and trucks, or at least they are circa 2011. Used leasing was big before the economy imploded, but now it is only 10 percent of used transactions. Most of the used leases written these days are on high-end, low-mileage vehicles. Vehicles such as program cars (ex-rentals and the like) that have higher mileage for their age don't lease well. And of those pre-owned cars that do make good candidates, many get sucked up by the dealers and manufacturers and turned into "certified" vehicles.

Down payment

When you put money down on a purchase, it lowers the payment and what you owe on the vehicle (the principal). When you put down money on a lease, called "capital cost reduction," it lowers ***only*** the payment. It does not affect either the residual value or gain you any immediate equity.

TIP: Put as little money down on a lease as possible to achieve your desired payment.

I'd rather have a client pay down other debts, or hold onto their cash, than use it on a lease, unless they just have to hit a monthly payment. Regardless, I rarely structure leases with more than $1,000-$3,000 down.

GAP INSURANCE

GAP stands for Guaranteed Automotive Protection. It is a form of insurance that pays off the lease balance if the car is stolen or involved in an accident and totaled by an insurance company. In my experience, all major lease companies and manufacturers include GAP in the lease ***except*** Toyota.

TIP: Toyota offers GAP at an extra fee of $299; it is essential to get it if you're leasing a one of their cars or trucks.

About 12 years ago, an old college friend who lived on the East Coast decided to lease a Camry and called me for advice (at the time I didn't do any brokering out of state). I forgot to tell him to include GAP when he was getting the car, but remembered a day later. He called his dealer and they added it to the lease.

A good thing: two days later, he was hit at an intersection, and the Camry was totaled. If he hadn't gotten GAP, the difference between what the car insurance company was willing to pay and what was owed on the lease (since ***all*** interest is always collected on a lease) was over $3,000! But the GAP policy paid the difference, and my friend wasn't out of pocket for anything.

Prepaid maintenance

Prepaid maintenance contracts can be an excellent idea if you are leasing; I make sure to include them on most expensive European cars, as they cost less than the recommended maintenance if you follow the manufacturer's schedule.

Others—especially 3rd party-backed ones—can be restrictive in where you can go (perhaps only to that particular dealer) or overpriced. They run anywhere from $300 to over $1,000. The margin on one isn't that high ($150 is quite normal) so there's not much room to negotiate.

As an example of a good one, I'll point to Audi's AudiCare plan. It pays for most of the major services, and costs $790—much less than the total for the covered services on their own. And, Audi Financial will add 1 percent to the vehicle's residual value, meaning you only really pay about half of that (since the higher the residual, the lower the payment).

SUMMARY

Leasing is growing in popularity—and with good reason. Standard-length leases (between 36 and 48 months) fit many new car buyers' needs, and give a lower payment than conventional financing. But you need to be careful to structure one with the right number of miles, and to focus on the line items (cap cost, rate, residual, extras) that make up the lease, and not just pay attention to the payment.

Chapter 9 - BUYING A NEW CAR

Over the next few chapters I'll discuss the particulars on new cars, used cars, and leasing versus purchasing. Let's start with new. First let's look at some of the factors affecting what you're likely to pay, and how to save money and hassle. First, though, we need to discuss how the recession and drop from 16.2 million new vehicles sold in 2007 to the 27-year low of 10.4 million in 2009 affected things for consumers. All of the domestic car companies restructured dramatically, slashing costs, streamlining development and production and dumping or closing brands that weren't critical to their survival. They also got unprecedented union concessions.

The result is a group of lean and mean companies that actually make money in a market of 11 or 12 million new cars. Amongst the big changes was the beginning of a shift from what's referred to as a "push" manufacturing strategy to a "pull" one. In the old days, they'd run the factories to meet union demands, no matter how many people actually wanted to buy the cars and trucks they were building, "pushing" them onto the dealers.

If there weren't enough takers, they'd add rebates or incentives to the vehicles or dump them into rental fleets. The result was a large discrepancy between sticker (MSRP) and actual transaction prices. It also lowered the value of used examples of those vehicles—especially late models—because if you could get thousands off on a new one, why buy a year old model for almost the same money?

Amongst the concessions the Detroit Three were able to extract from the unions were ones that let the number of cars and trucks actually being sold determine the number that would be built—a “pull” model of production. So far, neither these manufacturers nor foreign companies have moved back to a push strategy, nor the result is that incentives and rebates have dropped dramatically.

Why do I spend time on this? Because if you have unrealistic expectations about what dealer margins are, you’ll become very frustrated trying to negotiate a good price. On the other hand, if you know what the real markup is, you’ll feel more confident trying to strike a deal—and know when you actually have a good one.

DEALER COST AND PROFIT MARGIN

New car dealers in the U.S. are franchises. If you think about it, they are actually the customers of the manufacturers. They have contentious relationships with the car companies, as each party is trying to maximize their ***own*** profit and sell as many cars as possible, while ***you*** want to minimize what you pay.

As of Spring 2011, there are just over 29,000 new car dealer franchises in the United States. The bigger import brands like Honda and Toyota move about 600 cars per year though each. The Detroit Three have more franchises but sell fewer cars per store; the most recent numbers range from a low of about 200 per franchise at Chrysler dealers to over 450 at Ford.

Margins on new cars are not even close to uniform. They vary from a low of a few hundred dollars on some Volkswagens and Scions to a more typical range of 3 percent to 6 percent on mainstream vehicles like Toyotas and Chevys. Higher-end models vary as well, but usually over a spread of eight percent to 13.5 percent. Not all of this profit margin is “above the line.” Part of the profit on most brands is in “holdback,” which is paid to the dealer based on a host of parameters. Here is an example of an actual Ford dealer invoice; on it you can see the spread between MSRP and invoice, and the holdback amount:

DEALER [redacted] VIN 1FTFW1ET2B[redacted]

		Suggested Retail Price	Invoice Amount
	F151 4X4 KING RANCH S/CREW-145	45320 00	40909 00
	2011 MODEL YEAR		
JQ	GOLDEN BRONZE METALLIC		
LQ	PALE ADOBE ACCENT		
KA	ADOBE LTHR CPTNS CHR		
	PREFERRED EQUIPMENT PKG.518A		
	.LARIAT SERIES		
	.KING RANCH		
99T	ECOBOOST 3.5L V6 ENGINE	750 00	623 00
446	ELECTRONIC 6-SPD AUTO		
T2E	P275/55R20 OWL ALL-TERRAIN	NC	NC
	7200# GVWR PACKAGE		
	SELECT SHIFT TRANSMISSION		
	STANDARD FUEL TANK		
	JOB #3 ORDER		
153	FRONT LICENSE PLATE BRACKET	NC	NC
43M	POWER MOONROOF	995 00	826 00
55A	OFF ROAD PACKAGE	595 00	494 00
	.3.73 ELECTRONIC LOCK RR AXLE		
	.SKID PLATES		
58N	SONY NAVIGATION RADIO	2495 00	2071 00
63T	TAILGATE STEP	375 00	311 00
64G	20" MACHINED ALUMINUM WHEELS	595 00	494 00
	TOTAL OPTIONS	5805 00	4819 00
	TOTAL VEHICLE & OPTIONS	51125 00	45728 00
	DESTINATION & DELIVERY	975 00	975 00
	TOTAL BEFORE DISCOUNTS	52100 00	46703 00
	##SPECIAL ADDED DISCOUNTS#		
	LARIAT PREMIUM DISCOUNT	1000 00-	830 00-
	TOTAL SAVINGS	1000 00-	830 00-
	TOTAL FOR VEHICLE	51100 00	
	FUEL CHARGE		91 78
	ADVERTISING ASSESSMENT		558 00
	SHIPPING WEIGHT 5385 LBS.		
	TOTAL	51100 00	46522 78

**************** REINVOICED PRIOR TO PLANT RELEASE **********

This Invoice may not reflect the final cost of the vehicle in view of the possibility of future rebates, allowances, discounts and incentive awards from Ford Motor Company to the dealer.

Sold to
[redacted] Ford [redacted]
P.O. BOX [redacted]
[redacted] TX [redacted]

Order Type	Ramp Code	Batch ID	Price Leve
2	CA80	BE111	125

Date Inv. Prepared	Item Number	Transit Days
05 11 11	52-1605	07

Ship to (if other than above)

Ship Through

Invoice & Unit Identification NO. 1FTFW1ET2B[redacted]

Final Assembly Point KANSAS CITY

Finance Company and/or Bank Ford Motor Credit 000001

Total Holdback	Invoice Total	A & Z Plan	D Plan	X Plan
1505	46522.78	44734.78	44834.78	46611.69

FLEET & INTERNET DEPARTMENTS

There are other bonuses and incentives we'll discuss, but for now, let's assume that a great deal for you will be what I pay for a vehicle. As I add a broker fee to it, and ***still*** beat the retail deals most consumers can come up with on their own (after spending lots of time and hassle), if you can purchase at my cost, you'll be doing terrific.

TIP: On your first call to a dealership, ask to speak to the fleet manager or department.

There is no guarantee the dealer will have a fleet department or manager—or that they will work with you. But if the answer to the above is "yes," you will have eliminated a huge amount of silliness, and cut to the chase. These people are my usual point of contact when buying new cars, and most of those I've worked with for my two decades are still at it—and often at the same dealership. This means they are no-nonsense, low-margin, high-volume professionals who are often happy to do one more deal that doesn't take up too much of their time. But, if you are unprepared or don't know what you want, they may tell you to work with the retail or Internet departments, as they don't really have the time to spend with an uniformed buyer.

TIP: Do you homework before calling a fleet manager.

As their volumes are so high, they may brush you off if you make them work too hard on a single deal. And assume the price a fleet manager gives you is pretty close to—or at—the bottom line. Don't try to haggle with a fleet manager unless you have a better offer ***in writing***.

I usually buy based off of invoice price—sometimes a few hundred over it, sometimes under. It depends on the brand, and availability of the vehicle I'm looking for—which is why the change from the push to pull model is so important to remember. This applies to mainstream vehicles; on higher end vehicles, I pay more: often $1,000-$3,000 over invoice. These dealers sell fewer cars to cover greater fixed expenses, and the margins are bigger to start with—often 8 percent or more, so you're still getting a lot off of sticker. There are also times when the prestige makers have big below-the-line incentives, so do your online research. With hot selling cars, I sometimes get only $500 or $1,000 off of sticker. And that's working with people I buy from all the time. It's all supply-and-demand economics.

TIP: Some fleet departments include any Dealer Handling in the price quote; some don't.

Fleet departments may not be your best source for financing (other than what the manufacturer is offering) and they won't necessarily be able to get the most for your trade-in, so it's important to read the chapters on those topics as well, so you get the best interest rates possible and get the most for your car.

TIP: Your second best option is the usually the Internet department.

Internet departments work in a somewhat similar fashion to fleet, though they often quote higher prices, and won't try to help the buyer get more money for a trade-in or better financing. Circa 2011, most Internet departments still don't empower their people to the level of a fleet manager, so behind the scenes there will be a sales and finance manager and perhaps a used car manager involved. But at least they will be willing to send you an invoice or a quote, so you'll know more about what their margin is, and can better compare various dealers without setting foot inside one until you've got a great price.

Some Internet departments handle the incoming leads internally; others have only an Internet manager, and the staff actually is the normal salespeople themselves. The way Internet departments are run is changing incredibly fast, as dealers try to figure out the best way to increase their closing ratios.

TIP: Treat Internet staff as any other salespeople until proven otherwise.

At the least you'll have everything in writing and can analyze it at your pace, not theirs. This gives you more control, and the ability to compare before spending time inside a dealership. While you should talk to them on the phone at some point to get a feel for how they respond to questions and challenges, get all quotes via fax or email.

Some of the most price-aggressive fleet and Internet departments exist at a distance from major metro areas. Make sure you search dealers within a hour or two's drive in order to confirm you're getting the best price possible. Warranty repairs and routine servicing can always be done locally. These days new cars are less likely to need warranty work, and as service departments have their own internal profit targets to hit, they are happy to get as much work as they can get—no matter where you bought your car.

REBATES & INCENTIVES

Getting a price close to invoice is just the start. Beyond that you must be aware of all applicable rebates and incentives. There are two basic categories of discounts that exist off of the Manufacturer's Suggested Retail Price (MSRP). This is also called the "Monroney," which is the name for the actual sticker on the window of a new car that lists its price, fuel economy and options.

The first type of discount is the rebate, which is always disclosed (by law), and is often heavily advertised. The more challenging ones are dealer incentives, which are "behind-the-scenes" discounts from the manufacturers to the dealer, intended to help move the metal. They do ***not*** have to be disclosed, and finding out what they are is critical if you're to get the best deal possible.

Some of the bigger sites like Edmunds.com and TrueCar.com list these, but you'll have to give them some personal information—which they may sell to dealers—to get the information. It is important to know what the incentives are though, as they can run into the thousands of dollars.

As most of the relationships I have with my fleet managers go back over a decade (and they're competing for my business with others), there's trust that they'll let me know about most incentives without prompting. But even here, there is a particular type of incentive that makes life hard for everyone—consumers, brokers and even the dealer. It's called the "stair step," and basically, it pays the dealer retroactively for selling a certain number of a particular model in a given period of time—say 20 cars over a month or 100 over a sales quarter. And the cash back to the dealer goes up as they hit higher levels. Subaru, Honda and others use stair steps to motivate dealers to grow and sell more.

The challenge is that it distorts the market; the pricing offered at one dealer (often a higher-volume store) can be lower than at others, because that dealer has already reached (or is about to reach) a stair step level that will pay him back perhaps $500 or $1,000 on each car. This means he can sell his cars cheaper than the dealers that haven't hit the same stair step and still make the same profit—or more.

It can be very hard to find out what stair step programs are going on as they change all the time, and go in and out of fashion with various manufacturers. But knowing about them is critical if you're to get the best price possible. It can even help you feel better if a particular car you want at one dealer costs more than a similar one at another with different options or in a different color. Again, check the bigger consumer sites.

TIP: Ask your fleet or Internet department contact if there is a stair step incentive on the model you are looking at, and has the dealer met it yet.

A good way to do so is to say something like, "So, have you reached a new stair step with your Accords (or whatever model you're looking at) yet?" By their very nature, such programs affect pricing more at the end of the month (or quarter, or year), so that is the best time to shop.

There are often other incentives too: for retired military personnel, business owners, and members of certain clubs or shopping networks. Research these thoroughly online, as they can save you hundreds, if not thousands. Typically, the Detroit Three offer the greatest variety of these; following them are the Asian players, and the European companies rarely give anything in these categories.

If you follow all of these tips, you'll get the best basic price possible, and all the available rebates and incentives. Your bottom line should make you feel good, especially as you didn't end up spending hours sitting inside a dealership while they try to wear you down.

OTHER NEW CAR CONSIDERATIONS

Demos

Dealer demonstrator models can technically be either new or used, depending on state law and their mileage. For standard retail shoppers, dealers are often willing to knock off profit on a demo; they also sometimes get incentives from the manufacturer that can all go towards the bottom line and reduce the sale price. They make sense to a lot of people, but I rarely sell them, as the prices I get on new, non-demos are either the same, or barely more, than I can obtain on a demo. I don't advise you against them, but if you follow the tips in the *Guide*, they probably won't save you that much more either.

There is another category of new(ish) that is worth knowing about: the "brass hat." These are vehicles given to upper dealer management and the staffs of the car companies themselves. They are usually kept for five to 10 thousand miles by the same person, and often have carry big incentives (based on mileage and/or time in service). But you need to make sure they are in good shape, have clean histories from CARFAX and AutoCheck, and haven't been smoked in. Read the chapter on used cars for more tips on how to evaluate them properly.

TIP: As a rule of thumb, expect to save between 5 and 10 percent on these types of vehicles.

Order units

Do you get a better deal if you order a new car instead of buying one off the lot? It depends on the demand the vehicle is commanding at the moment and how close the dealer is to hitting any volume or stair step incentives. High-demand vehicles can usually be purchased more cheaply by ordering them, as the dealer wants to keep inventory of the hottest sellers, but would love to have guaranteed business from you “in the pipeline.”

But beware of ordering vehicles that are less in demand: Most manufacturers don’t lock in incentives or rebates—called “price protection”—on orders, so if the deal they’re offering changes for the worse, you lose. Since few best sellers have major incentives or rebates, this usually isn’t a problem.

Also, about four times a year, the manufacturer will increase the cost of their models to the dealer in order to reflect the rising cost of raw materials and inflation, so an order unit may indeed have a higher actual cost than one on the lot unless it is “price protected.” Ask what protections and lock-ins the manufacturer offers.

TIP: Ask if the dealer has any "old-price units" when you're looking at a vehicle that isn't a big hit at the moment.

I've seen the same vehicle with the same options cost hundreds less just because it was built one month earlier. But in these days of low inventories, especially on cars that are hot sellers, ordering may be the best option, because of price, color and/or option availability.

Dealer trades

As a broker, about one-third of the new car deals I do involve a dealer trade. In this scenario, the dealer I'm working with doesn't have the color or perhaps the options my customer wants, so they trade with another franchise for the desired vehicle. If it shows up with any damage, neither my client nor I have to take it—it was the dealer's responsibility to make sure it was okay.

TIP: If you get a dealer-traded vehicle, inspect it thoroughly before signing anything.

Retail customers usually aren't treated the same as a high-volume broker, so it is critical you make sure you're getting what you wanted and that it has no damage. This is a bit harder than you might think, as more than 25 percent of brand new cars have suffered some form of damage at the factory, in shipping or on a dealer's lot. Depending on where it occurred, it is usually repaired before it gets to a consumer, and the law generally supports that the dealer doesn't need to disclose it. Therefore, it is important to learn how to spot paintwork and body damage, as I explain in Chapter 10 and the videos on how to buy a used car.

If the dealer wants a signed buyer's order from you before the dealer trade is done, write (and have them sign) a clause saying that if the vehicle is damaged or not as described, you don't have to take it.

SUMMARY

If you use the tips in this chapter to buy a new car, you should end up saving somewhere between 5 and 10 percent off of MSRP. More to the point, you should be close to dealer cost, and have gotten your hands on all rebates and most of the incentives on offer from the manufacturer. This wipes out (on average) over half of the first year's depreciation, too. Just remember that much of a dealer's profit comes in the Box and from underpaying for any trade-in, not the gross on the car itself.

Chapter 10 - BUYING A USED CAR

Used sales drive the entire retail car business. In 2010, almost 37 million used cars were sold, compared to only 11.6 million new—and that's well below the past decade's average. Going used can mean a chance to obtain a better value and decrease you Cost Per Mile, but it's also a chance to make an expensive mistake.

Over the past two decades, six out of 10 vehicles I've helped people buy have been used. Even at new car franchise dealers, one-third of their sales are now used cars. First, some important information on the use of Blue Books and the how the used car market operates, and then some tips to maximize the value of what you purchase and decrease the chance for something going wrong.

BLUE BOOK VERSUS TRANSACTION PRICES

When I started brokering in 1991, Blue Book values were the critical source for both trade-in values and for setting retail prices. But over the past decades, they have lost more and more relevance as the information revolution has made more up-to-the-minute data available to both buyers and sellers.

Most important for dealers these days are reports from the biggest auction companies, Manheim and Adesa. They show real-time wholesale prices that other dealers and wholesalers have paid for most any type of car, truck or SUV. Blue Book values have historically been ***predictive***; they are well-educated guesses as to what any vehicle will be worth in the future. But they don’t react well to rapid swings in the market, like those caused by major gas price fluctuations, or events like the earthquake and tsunami in Japan in 2011. So dramatic was the effect of that tragedy on used car values that one of the two biggest Blue Books, NADA, took the unprecedented step of telling dealers who subscribe to its printed edition to ignore it and use an updated, electronic edition they rushed out via email. As this example demonstrates, the books offer only a rough price guide anymore.

However, dealers can’t just follow auction reports, either, as they are ***reactive***, showing what has happened—not what’s going on in the present, or may take place in the future. The correct way for a dealer to appraise a car is to look at the auction reports, the Blue Books, and what similar cars are being advertised for online. We’ll come back to this later; now let’s conclude our discussion of the Blue Books.

The three biggest are the NADA (National Automobile Dealers Association), Kelly Blue Book, and the Black Book guide. Why three Blue Books? Mainly because the car business used to be much more regional in nature; California’s import-dominated market was very different than that in the domestic-loving Midwest. Though these differences have lessened, they are still present, and are seen in the Blue Books’ valuations, which often vary by thousands of dollars on the same car. This reflects differences in information-gathering methods as well; as an example, NADA only looks at auction prices monthly as part of its model, whereas Kelly uses biweekly data to help it arrive at its predictions.

TIP: It is critical to remember that no Blue Book company actually buys or sells any type of vehicle—they just predict what cars and trucks will be worth.

It is also important to know that most lenders use only ***one*** book to determine the amount they will loan. You need to know which one your lender uses. It affects the interest rate, finance amount, and loan term they will offer you.

PROFIT MARGINS & ADVERTISED PRICES

Used car profit margins—just like most new ones—aren't as high as most consumers think. According to data from NADA, the average gross profit on used cars last year was just over $2,200, but that included profits made in the finance and insurance office—which can be minimized using the tips in Chapter 6: The finance office. Take those out and a dealer clears just $800-$1,500 on the actual sale of a used car. Most dealers will start higher than that, of course. Some still ignore the market and ask all they can, but the majority are savvy enough these days to know that if they don't set their ad prices close to others', they won't get anyone to come see their vehicle. This is known as "market-based" pricing.

TIP: A good rule of thumb is that a dealer's ad price is $2000-2500 over their cost.

Since you now know what they normally make, it will give you an idea whether an offer you might make is fair or unrealistic. Trucks and most vehicles over $30,000 will command higher margins; $3,000-$4,000 is typical. Surprisingly, vehicles in the $5,000-$10,000 can have higher margins as well—a range of $2,000-$3,000 profit before negotiation begins isn't uncommon.

Unless a vehicle is rare or in high demand, most dealers (and individuals) will drop $500 off their price without much effort on your part...you just have to ask. Going beyond $1,000 will usually take a bit more work, especially at a dealer. And don't forget they usually charge D&H on used cars as well. Use the information in the other chapters to help you in your negotiations.

Private party transactions are somewhat different. Many people don't really know what their car or truck is worth—they check one Blue Book, and perhaps some advertised prices, and assume that this is an accurate reflection of real transaction prices.

Tip: Just because someone is asking a certain price, it doesn't mean they're getting it.

Look at "comps" of comparable vehicles (similar year, model, mileage, equipment, and condition) to gauge where it should fit in the market for that car. Then, subtract the average dealer margin from it and you'll have a good idea how much to offer. Keep in mind that if someone trades in a car for a lower (wholesale) price, they often can get a sales tax credit, which minimizes this difference. So they may need (or at least want) to sell it for more on the retail market.

There are sites, such as TrueCar.com, that claim to have accurate data on real transaction prices of used cars. While useful as data, I've not found them to be anywhere near 100 percent reliable yet—at least in my own regional market. But as they continue to improve their data tracking, they will become more useful.

TIP: Use eBay to help see what cars are actually selling for.

If you have an eBay account (easy to set up, even if you don't intend to buy anything), you can add cars that match what you're looking for to your "Watch List" and then track them to see what they actually sold for—or if they sold at all. Though you may need to wait a few days for results, it will amaze you to see the difference between what is being asked for any given car and what it actually brings on the open market. You need to keep in mind regional differences and that many of the buyers on eBay are hedging their bets since they can't see and drive the cars first, which lowers transactions prices. Don't base what you expect to pay solely on eBay.

Here are some other factors to keep in mind that affect valuation. First, look at the number of similar vehicle available either in the immediate area (50-75 mile radius if urban) on mainstream vehicles, or nationwide on specialty cars. Make sure you factor in condition, mileage, options, NADA and Kelly Blue Book values and vehicle history (see below). If there aren't more than a handful of such cars and it is a desirable model, expect little room for negotiation; if there are a slew of these vehicles—as when batches of "program" (rental) cars come onto the market, expect more room to move.

Tip: Try to find out how long a car has been advertised.

The average car sells in 40-50 days. Freshly advertised cars usually are less open to negotiation than to those that have sat at a dealer longer than 60 days. As a used vehicle approaches 90 days old in a dealer's inventory, the bank loan the dealer uses to pay for their inventory (called "floor plan" financing) will often have stipulations forcing them to move it or take a loss. Keep in mind that the advertised price on these older units will often be at or below their cost—so don't be offended if the dealer won't discount.

FACTORS AFFECTING USED CAR VALUE

There are a number of factors that affect the value of used cars. Obviously some will be more important to you than others. A good breakdown is the following: cosmetic, mechanical, equipment, history, and mileage.

TIP: Use an appraisal form like a dealer does, to keep track of things on each car you look at.

If you stick to this, you'll be much less likely to miss things. It will also keep you more grounded and less emotional. Finally, it will serve as ammunition when you negotiate with the seller.

The one below is used by many dealers and brokers. If the information on it is important to a dealer who can get things fixed for cost or wholesale the car to an auction if there's unexpected damage, imagine how critical it is to you.

TRADE INFORMATION SHEET (rev 3-11-2011)

Date __________ Broker ______________________ Client's Last Name ____

Broker's Phone ______________________________ Brokers Fax Number __________________________ Mileage ____________________

Year ________ Make__________ Model ____________________________________ Trim__________ Body _____ Doors _____Trans __________

Drivetrain ________________ Engine (#cylinders/liters) _______________________VIN ____

84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12
E	F	G	H	J	K	L	M	N	P	R	S	T	V	W	X	Y	1	2	3	4	5	6	7	8	9	A	B	C

Tires (Tread Depth): **Rt Front** _____/32 **Lt Front**_____/32 **Rt Rear**____/32 **Lt Rear** ____/32 Do tire brands match? **YES NO**

Options:

1. Air Conditioning	8. Power Seat – DRIVER	15. AM FM CD	22. Luggage Rack	29. Clear Bra
2. Front & Rear A/C	9. Power Seat - Passenger	16. AM FM CD Changer	23. Aluminum Wheels	30. 7 8 9 12 Pass Seat
3. Power Windows	10. Power Mirrors	17. AUX / iPod Input/ USB	24. Trailer Towing Hitch	31. Spare Tire (trucks)
4. Power Locks	11. Cruise/Speed Control	18. Power Moon/Sunroof	25. Sunscreen Glass	32. Bedliner (trucks)
5. Master Key	12. Tilt / Telesc Wheel	19. PANORAMA roof	26. Heated Seats/Cooled Seats	33. SIDE CURTAIN SRS
6. 2nd set of keys / valet key	13. Bluetooth	20. Factory Navigation	27. Rear Entertainment / DVD	34. Second Row Buckets
7. Intelligent Key System	14. Keyless Remote	21. Backup Camera	28. Running boards/ Pwr R/B	35. Third Row seating

Windshield (Circle one)	New	Fair	Gone	Comments

		Wheel Size (ALL VEHs)	13 14 15 16 17 18	19 20 22
Exterior COLOR			Comments	
Interior COLOR		Cloth Leather Vinyl	(Circle one)	

Test Drive

1 Engine	**Good**	**Fair**	**Poor**	5 Brakes	**Good**	**Fair**	**Poor**	9 Pwr Equipment	**Good**	**Fair**	**Poor**
2Trans/Clutch	**Good**	**Fair**	**Poor**	6 CV Joints fwd	**Good**	**Fair**	**Poor**	10 Audio Sys	**Good**	**Fair**	**Poor**
3 Steering	**Good**	**Fair**	**Poor**	7 4x4 System	**Good**	**Fair**	**Poor**	11 Comments	**Good**	**Fair**	**Poor**
4 Pwr Steer	**Good**	**Fair**	**Poor**	8 Suspension	**Good**	**Fair**	**Poor**	12 Other	**Good**	**Fair**	**Poor**

CLIENT QUESTIONS:

1. Does the car have a payoff? **Yes** **No** (If yes, complete payoff information sheet).
2. Are the miles stated on the odometer (circle one)? **Actual** **In Excess of Mechanical Limits** **TMU**
3. Is there any written notice attached to the driver's door frame indicating speedometer service, repair or replacement? **Yes** **No**
4. Do you have the service record for this car? **Yes** **No** (If yes, physically verify the records.)
5. Did you purchase an extended warranty on this vehicle? **Yes** **No**
6. Has the car ever been in an accident? **Yes** **No** (If yes, what was the settlement? $________. Detail the repaired damage on the back side of this page. (Get a copy of the repair order.)
7. Has the car ever been hit by hail? **Yes** **No** (If yes, what was the settlement? $________. Get a copy of the repair order.)
8. Does the engine smoke under any circumstances? **Yes** **No** (If yes, what circumstances? Answer on back.)
9. Does the A/C blow cold? **Yes** **No**
10. **Get a copy of the current registration. THIS IS A REQUIREMENT.**
11. Does the vehicle have a salvage title? **Yes** **No**
12. Has the vehicle ever had any body/bumper panels repainted for any reason? **Yes** **No**
13. **Does client have the 2nd Master key and/or the Valet key? YES NO** **Make sure you get ALL listed keys upon trade-in of vehicle!**
14. **Does the vehicle interior have a foul odor? YES NO** **Does the vehicle interior smell like tobacco smoke? YES NO**
15. **Does vehicle have a clean: CARFAX: YES NO** **AUTOCHECK: YES NO**
16. **Are there ANY Warning Lights on the dash? YES NO** **If YES, which ones?**______________________________

NADA Wholesale Book

Base: ____________________

Package: ____________________

Miles: ____________________

____

____

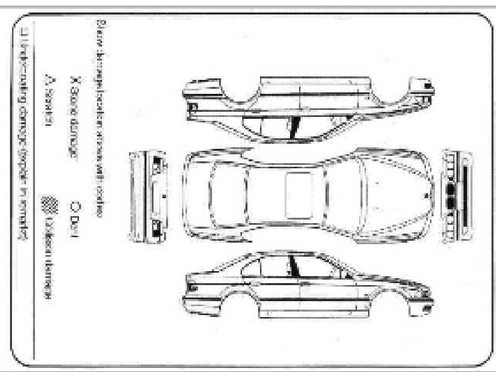
____

____

____

____

Total: ____________________



ACV: $______________ Per:____ Date:__________

ACV: $______________ Per:____ Date:__________

ACV: $______________ Per:____ Date:__________ Stock ACV: $____________________

HISTORY

Back in the day, the only history you might find was some maintenance records in the glove box. Now there's CARFAX and AutoCheck, which have dramatically affected the car business. In theory, the information they provide should shed light on accidents, flood damage, salvage titles and other major issues. But they are nowhere near 100 percent accurate. The number of cars I've had traded in that I know had bodywork (the owner told us or we found evidence of it ourselves) with a clean CARFAX history is about 35 percent. So don't take it as gospel that a clean report from one of these companies means the vehicle in question is truly accident-free.

The average car has been in one accident by the time it is four years old, and two to three by the time it hits six-figure mileage. In fact, over 20 percent of new cars have had some paintwork before being sold! It is the severity of the accident and quality of work repairing it that really matters (see below), so don't put too much weight solely on finding a record of an accident on one of these reports. But these reports ***do*** have an real effect on a vehicle's resale value.

TIP: A good rule of thumb is that a report of an accident on a history report lowers the car's value between $500-$2,000, with an average impact of $1,000.

The markdown range we use if the CARFAX is “dirty” (shows a record of an accident), when buying cars at auction or when taking a trade-in is $1,000 to $2,000, depending on the severity of damage listed on the reports. That's how big an affect it has on the vehicle's market value. Sadly, these companies not only don't catch lots of accident damage, but they frequently misreport on damage that has occurred.

I had a very personal experience along these lines: my wife's BMW X5 was rear-ended at a traffic light. The damage our car suffered was fairly superficial—the bumper skin, one muffler and part of the tailgate were damaged. But CARFAX reported that our car had been involved in a “severe” accident, deployed its airbags and had to be towed from the scene. It hadn't—the old Buick that hit ours was what the report was referring to. I spent six months fighting to have the report corrected, but every time I provided the evidence CARFAX requested—photos, insurance reports and body shop invoices—they wouldn't change it. I ended up selling the car for $3,000 less than it was worth because of ***their*** mistake.

MILEAGE

We have a saying in the car business: “You can't pay enough for low mileage or too little for high mileage.” The average car is driven 12,000-

15,000 miles per year, but the Blue Books don't look at it in that linear fashion. The give a bit of cushion up to about 30,000 miles and then start to penalize most every car as it exceeds 90,000 miles—which is barely more than six years average mileage.

TIP: Take the mileage deduction and double it to get a market-correct pricing.

When we bid a trade-in, we usually add 50 percent to whatever price deduction the Blue Book offers, in order to be market correct. This doesn't apply to rare, high-demand, or vehicles over eight to 10 years old. The average car that's from 2000 or before has done well over 100,000 miles; the Blue Books will often assign mileage penalties to them, which doesn't make much sense. On older cars, condition and history is what count the most.

COSMETICS

Let's talk color. It is important on some cars and to some people—less so to others. The more mainstream a vehicle, the less important; on high-end and specialty rides, it can be critical. As a broad rule, men ***and*** women will buy masculine colors (silver, grey, black), while men wont often buy feminine colors (light green, light blue). As of 2010, the most popular colors for new cars in America were silver (and variations such as gray), white, then black. After these come red, then blue, then earth tones, followed by green—once the most popular choice.

Interior color is very personal, and any affect on value is dependent upon the area where it's sold (light colors do better in hotter states). Some fun facts, though: While cars painted bright colors such as red and yellow do indeed get more tickets, they're also involved in fewer accidents, as they're more visible to both cops ***and*** other drivers. And testing reveals that black cars are not hotter—though darker ***interiors*** are.

Aftermarket wheels, tires, and body accessories generally don't help a car's resale value—though they can lower it, if they negatively affect the way it drives, or are of inferior quality to the OEM (Original Equipment Manufacturer) parts they replace.

PAINTWORK AND ACCIDENT DAMAGE

As we discussed in the section on CARFAX and other reporting services, paintwork and accident damage doesn't show up—or is inaccurately reported—about one-third of the time. Next, I'll go into detail about how to spot it. Don't forget to also watch the video "How to appraise a car," in order to see how I look for paintwork and body damage, among other things.

TIP: The first thing is to check the body for signs of paintwork.

People are understandably cautious about accident damage. About the only sure way to know is to use a paint meter, which reads the depth of the paint, on every panel of a car—as long as it is steel. If a panel is fiberglass, composite or aluminum, the meter won't work. I've literally only had a handful of clients ask me to use a meter in two decades. As most of us don't own one and they only work on steel anyway, let's cover some other ways to tell.

If the car is clean this is much easier, especially for those not trained in what to look for. Start by looking at every panel, slowly working your way around the car. Look first for overspray of either the body color or primer, which is usually gray, on the trim. If you find it, that is an immediate sign of poor bodywork—be nervous. Also, get down and look underneath the front and rear of the car's bumpers for overspray on parts like the muffler and radiator.

Next, open all panels (including the gas cap cover) and look in the jams (especially in the front), around the radiator and lights for signs of primer or paint that shouldn't be there. Also, are all the bolts and fasteners the same age, or do some look new and shiny while others are old and rusty?

While these are open, run your fingers along the edges where the outside meets the inside of the panels. Things should be quite smooth. If you find harsh, rough edges, this is an indication of paintwork. Especially good places to check are the back edge of the hood (near the base of the windshield) and front edge of the trunk lid.

TIP: Sharp or jagged edges usually are signs of bodywork.

If it isn't smooth, the chances are very good it was re-sprayed. When you compare a painted and unpainted panel, it will be very clear. Also, look in the door, hood, and trunk jams for sharp lines where the masking tape was applied to keep overspray down. Better body shops "roll" the edges of their tape, and wet sand out any rough spots on the edges; while these are the sign of good work, dealers also can have this done to later to disguise accident damage and bodywork.

For our next step, slowly move your head back and forth, about six to 12 inches away from the panel, while looking down the side of the vehicle, as in the video. Look for changes in the paint's "complexion"—its depth and shine; paint drips and runs; parallel lines below the surface called sanding marks or "DA marks," and variations in the texture, which is known as "orange peel." All factory paint (except on cars like Bentleys and such, which are wet-sanded before leaving the factory) has some. It is called that as it does indeed look like the skin of an orange; it should be uniform in texture and fairly smooth.

Finally, any minor pointy spots that peak up on otherwise smooth panels are indications of dust in the paint. If you find little round dimples the size of a pinhead, they are telltales that dust was sanded out after a re-spray—they're called "fish-eyes."

Look for evenness in the panel gaps; this is much easier on late model cars, as their assembly is generally much tighter. But even on older vehicles, the gaps should be even, not different from one end of a panel to another. And, all the panels should fit flush.

TIP: If you aren't sure if there's paintwork, bring it to a body shop to be examined.

Depending on how many panels you find that have been painted—and the quality of the work—you can determine whether you want to still take the car (at a discounted price) or just walk away. My general rule is that I don't mind repainted bumpers or perhaps a door or hood or fender, but if I find multiple painted panels—especially poorly repaired ones—I walk. If I can see issues, imagine the bad workmanship I ***can't*** see.

MINOR BODY DAMAGE

Are there door dings or hail damage, either easily removed with paintless dent repair (PDR)—or is the damage on seams or creases, which make them hard to remove? Are there lots of dings and rock chips, and can they be touched up easily? Are the wheels scratched up ("curb rash"), and are any scratches you find easily removed with buffing or wet sanding, or do they stay put unless you repaint that panel? Finally, if you see cloudy sections in otherwise shiny panels, they often are an indication that someone wet-sanded out a scratch or blemish, but went too deep into the clear coat. There is no way to repair this, bar repainting.

Here is a partial list of what you should pay to have this more minor stuff remedied:

Bumper re-spray: $300 (including taking the bumper off and remounting)

Door or panel re-spray: $250-$500 (due to blending the color into other panels)

PDR: $40-$60 per panel

Touch-up paint: $85-$125 for the whole car

Wheel refurbishment: $90-$120 each

Windshield replacement: $150 and up—call more than one glass company for a quote

RUST

Rust isn't as big an issue as it used to be, but can still afflict cars. Certain Toyota trucks are very prone to chassis rot—as numerous class-action lawsuits attest to. Make sure you look underneath any car you're interested in. And here is where CARFAX and AutoCheck are especially useful: if the car's history shows lots of time spent in the Midwest or Northeast, make sure you inspect it thoroughly for rot.

More common now is cosmetic damage to chrome trim from magnesium chloride and other chemicals used in lieu of road salt. This can be expensive to fix, as you need to replace the parts, and many are very expensive. Get some quotes if you see fading, delamination, or spill-like blemishes on grills and other chrome parts.

MECHANICAL CONDITION

This one is objectively the most important factor in a used-car purchase. Obviously, the newer and lower mileage the vehicle is, the less problem areas one should expect—both because it's been on the road for less time and because the number of problems per vehicle (PPV) continues to decrease on newer cars. JD Power, the best-known ranking firm for such issues, started measurements for its "Initial Quality Study" in 1987; the study looked at how many problems a vehicle would have in its first 90 days.

The best vehicles of the day—Hondas and Toyotas—would have something in the range of 115-130 problems per 100 cars, and the worst would have scores in the 400s! Now the spread is only 87 points between the best and worst. At the three-year mark, JDP does a follow-up study on reliability; the average number of problems has now decreased to 151, with the best manufacturers scoring just over 100 problems per vehicle—quite amazing for a car that's been on the road that long.

If the vehicle is still under factory warranty, things are made easier, as you'll know the big stuff is covered. But it's critical to verify that it still is covered by the manufacturer, based on time, not just mileage.

TIP: Find out the vehicle's "in-service" date.

That's the day the clock started ticking on the warranty. And keep in mind that most "powertrain" warranties that cover the engine, transmission and drive axles usually only cover internally lubricated parts—meaning that if some electronic control module fries itself, you're out of luck. Some premium-brand cars like BMWs offer coverage of almost all maintenance while the car is within warranty, which can make it easier to appraise a vehicle.

There are also parts and service contracts (extended warranties) and Certified vehicle warranties to consider; I cover these in the last chapter. But the bottom line is this: Can you trust what a dealer (or private seller) says about the mechanicals?

I'd say it depends on the reputation of the seller—if they have one. Sites such as DealerRater.com, google.com and even Yelp.com all can help—but beware the dealer "ghostwriting" their own positive reviews! If you're shopping at a dealer, ask for both a copy of the multi-point inspection and the work they've had done. If they won't show it to you, it may be time to shop elsewhere; I've never felt I couldn't disclose that information to my clients.

TIP: Get an independent inspection performed.

Even if you do get to see this info, it is probably worth the $75 to $125 cost to have an independent inspection performed. Unless there's a shop or mechanic you already have history with, I'd go with one of the large inspection-only firms, such as AIM Mobile Inspections, who inspect cars for lenders and manufacturers when leases come due. I use them on a regular basis, and have found them to be top notch. Inspections are all these outfits do; they don't have a hidden agenda to create more billable work for themselves.

Since they work nationwide, they can open up the number of cars you can look at, too. They also will tell you about any obvious paintwork or accident damage, and can even run analysis on the vehicle's oil and transmission fluids, which can tell you even more. It's amazing how many times they turn up undisclosed damage on a car—and I don't buy it. Which makes their fee the best money I ever spend.

This inspection should be a final step, and the seller has a right to make the deal contingent upon a clean bill of health from your inspector. Note that you still have room for negotiation if the report turns up anything. And these inspections make it easier to negotiate without the seller taking things in an emotional or unprofessional way.

EQUIPMENT

Most everything sold today has essentials such as air conditioning and even power windows and locks, meaning that optional equipment becomes much more of a subjective area. While the Blue Books may say navigation is worth $1,000 as an option, you may not really care about it. Of course, such equipment could mean you'll get more for the car when ***you*** sell it. Obviously, more equipment is better—especially things like power seats, that can't be added later. By and large, though, this is the area where you should trust your own judgment. You'll know if you've just got to have those heated seats (which, like many things, can be added after you get the car).

The only other thing I want to mention is the classic manual transmission. Outside of sports cars, the stick shift has become a very rare thing (only four percent of new cars are now sold with one). Even if you know you want one, be aware that it could dramatically reduce the audience when you go to sell, unless the car is a high-performance or other specialty vehicle.

USED CAR CATEGORIES

Included in the overall used car market are some special categories of vehicles that I want to touch on.

Certified Pre-Owned

Certified (also known as Certified Pre-Owned, or CPO) cars are vehicles that franchised new car dealers put up for sale that have been through a comprehensive inspection, have been reconditioned to a high standard and usually have some measure of warranty coverage. Toyota is king of CPO; they've sold over three million since their program started in 1996. Other players, like Hyundai, are newer to moving big numbers of certified cars, but we should expect the number of such vehicles sold to continue to increase.

Just because they are certified does not mean they've never had any paintwork or other damage—I've helped sell quite a few that have been painted. It just means any damage has been repaired to a set standard. Certified car sales are growing year on year, as they remove some of the most obvious risks from the car-buying equation.

Note that CPO cars generally command premium prices, as the cost of their inspection, the extra reconditioning work and the extra parts and service coverage runs somewhere between $1,000 and $3,000.

TIP: You can make a decent used car as nice looking as a CPO vehicle for $300 to $1,000.

I recondition my own used cars to similar standards, often using the same vendors for touch-up paint, PDR, and other services as the local high-end dealers do, but often for less. In Chapter 11: Getting the most for your car, I discuss such vendors and how to find them. The pricing listed above will give you an idea where the money goes.

The service contract (routinely called an extended warranty) included in with Certified cars is often the weak link. It usually only ads one or two years of complete cover (and sometimes less), which isn't long enough on premium cars to justify what it usually costs. Some are even shorter—until this year, Toyota's comprehensive warranty was only three months or 3,000 miles, though their powertrain coverage is longer.

Other detriments I've noticed with CPO coverage are that the buyer cannot get a prorated refund on the warranty if they sell the car later or it gets totaled or stolen, and that there will be "holes" in the warranty's coverage—specifically items that the manufacturer knows are high-frequency and/or high-expense repairs, like navigation systems, that won't be covered.

TIP: Sometimes you can drop the service contract from the equation and get the car for less.

You can use the savings to get a longer-term service contact or one that has such features as a prorated-friendly refund, and coverage for high-failure rate tech like navigation systems.

PROGRAM CARS

These have historically been ex-rental vehicles, sold to the likes of Hertz or Enterprise at super-low prices, with a guaranteed buy-back price from the manufacturer. After the they're bought back, the manufacturer gets them ready for sale at auction or sometimes through their franchised dealer network

But now that the car companies are managing production better to meet demand (as we discussed in the chapter on new cars) things have changed a bit. The manufacturers realize that having tens of thousands of current model year cars come into the market only depresses the resale value of that model, never mind impacting sales of the new ones sitting on the lot. But the car companies are ultracompetitive, so program cars still get shoved out to rental companies so that, say, Toyota can say it sold more Camrys than Honda sold Accords.

Lately, they've cut back the number they buy back, as they want to pass the cost of getting these ex-rentals reconditioned for resale onto the rental companies themselves. Most of us brokers still use the term "program car" for all of these near-new vehicles that saw rental service, regardless of who is reselling them, and they can be a good used purchase.

Yes, people do often drive rental cars hard. Despite this, the maintenance and upkeep done on them by the bigger rental companies is rigorous and they're usually still under factory warranty. As long as you don't buy one that has been involved in a big crash, they can can save you thousands over a new example of the same model. Just follow the tips on how to appraise them, just like any other vehicle.

TIP: Program cars with more equipment are worth more long-term—and are more enjoyable in the meanwhile.

Demos

Dealer demonstrators that go over a certain number of miles (it varies state to state) can end up as used cars. The ones I'll focus on here are referred to as "brass hat" vehicles. These are usually driven by upper management or regional reps from the car companies themselves. Many have lots of options, and they can make terrific used purchases. The car companies give the dealers large incentives (based on mileage and age) to sell them, ranging anywhere from $1,000 to $10,000.

TIP: Deduct 15-25 cents per mile from the price of demos to get market-correct pricing.

On higher-end cars like Mercedes, deduct 25-35 cents per mile—or more. A current model year luxury vehicle with 5,000-10,000 miles on its odometer should cost you several thousand less than an equivalent new one. This should be on top of the other savings you'll get following the tips in the appropriate chapters.

WHERE TO BUY USED CARS

Where you buy a used car will help determine the type of experience you'll have and the quality of the vehicle itself. Here is an overview of the main sources and some generalizations about each.

Used car dealers

Used car dealers run the gamut, from megastores like CarMax to little "pot lots," usually located in the scruffier parts of town, that do "buy here, pay here" business. The big chains generally operate like the franchised dealers, with structured sales tactics, a plethora of high profit margin items to offer in finance, and more. The upside is that they have standards for reconditioning and the quality of their vehicles, so they can be viewed as a "safer" if more expensive option. A downside is that they'll either negotiate little or not at all (CarMax), so you'll sometimes pay more.

They'll typically have higher prices not only because they buy nicer vehicles at auction but also because their fixed costs for employees, real estate and advertising are larger. One of the costs at any dealer is what is known as "pack." Pack runs from $250 to $700 depending on the dealer, and is added to the wholesale purchase cost of everything they take into their inventory. It covers such expenses as rent on the real estate and the financing that pays for the dealer's inventory. It is rare for a dealer to own their inventory outright; normally they get "floor plan" financing from a bank.

Independent dealers vary more in quality of vehicles and the experience you'll have at them. Some are really terrific, many are sketchy. If you're willing to do more work (independent inspections, etc.), better pricing can often be obtained there—though with more risk.

Franchised dealers

Most franchised (new car) dealers sell used cars now; the monster drop in new car sales that came with the recession forced them into that business, if they weren't there already.

These range from single-point (one-dealer) stores to nationwide chains such as AutoNation and Sonic, who have hundreds of dealers. In general, the larger dealer groups have higher reconditioning standards for their used cars, but often ask higher prices, too. The sales process is very refined at these places and they do tremendous volume, so it is important to understand their sales systems, which I cover in the chapters on new cars, dealer profit, and the finance office.

Online

Don’t buy a used car sight-unseen over the Internet without a private inspection. If you are willing to get the car thoroughly inspected mechanically and cosmetically by an unbiased, professional outfit like AIM, then it can make sense to buy online, especially for harder to find vehicles. Even then, expect surprises—I get them all the time when sourcing cars from out of state.

TIP: Build in an extra $500-1,000 to fix things that aren’t as expected.

That’s the range I usually have to spend to bring cars up to the very highest standards, even though the seller tells me things are good. It’ll be items like scratches and dings, broken parts, missing keys and remotes that you’ll be spending for. The chapter on buying used cars has lots of tips and sources to help with this. With new vehicles, the decision to buy sight unseen is perhaps easier, though there are still things you must watch out for. I went into depth in that in the chapter on buying new cars.

Perhaps I’m old school here, but I never buy cars at a distance (i.e. online) without certain very specific guarantees. These come from the Manheim and Adesa auction company that only dealers can buy cars from. I can pay a wholesaler to buy at one of their auctions, bid directly at auction using my computer, or buy direct from other dealers through Manheim’s Online Vehicle Exchange (OVE).

Manheim offers multiple ways to make sure I get what I'm expecting. I can see a pre-purchase inspection on most cars, which tells me about prior paintwork, tire tread depth and more. And then I pay extra for a post-sale inspection, where they look for frame damage and major mechanical issues. Even then, there is usually some undisclosed damage or issues to contend with when the car arrives. But it's a manageable risk for an experienced buyer such as myself.

eBay is a bit of a special case. I sell lots of cars on eBay, and try to be very careful to not misrepresent what I'm offering—and I have a 100 percent satisfaction score to back it up. But I would never just buy a car off of eBay for a client without an independent inspection, as there is lots of misrepresentation on eBay. Dealers call it the "whore's market."

TIP: If you're buying out of state, get a thorough inspection.

I emphasize this based on personal experience. In 2004 I bought my dream car, a 1995 Ferrari F355 convertible, from a dealer in Naples, Florida. I had done all my research on problem areas for that car, so I flew down to Naples to drive and inspect it and negotiate the deal. But I didn't pay for an independent inspection.

When the Ferrari arrived on a transport a few weeks later, I was so excited. It rolled off the truck and started right up. I pushed the button to lower the top. It started to retract, then stopped half way—sticking straight up! The short story is that the dealer had done a botch-job repair to get it fixed, and I had to redo the whole system—which cost over $10,000! The car had lots of other problems, including that the dealer had taken its catalytic converters off to put on another car and replaced them with hollowed-out ones. Technically this was a federal offense, but when I contacted the Environmental Protection Agency, they told me I'd have to sue the dealer in Florida court, which wasn't justified by the repair cost (another $7,500). I sold the car at a loss 11 months later; my total out-of-pocket expenses were over $57,000 … ouch.

Private party

There persists a perception that buying from a private party is inherently less risky. I would beg to differ. The motivation on the part of an individual to sell his or her own car is as strong as that of a salesperson at any given dealer.

At times over the years I've had to source used cars or trucks from private parties and I find that their trustworthiness covers the spectrum. Some have taken really great care of their vehicle, have records on all the work and will disclose any accidents, while others will lie through their teeth to move their junker—you just never know. Dealers are bonded and regulated by the state they operate in, and you can check to see if they are in good stead with the dealer board and read online reviews. Complaints to the board can generate results, and there is a legal structure in existence for you to work out issues. With a private party, it's your word against theirs in small claims court.

TIP: Exercise the same caution when looking at private party cars.

Pay for an independent inspection, check the CARFAX and AutoCheck reports and appraise the body or find a body shop to see if it's been painted.

When it comes time to complete the transactions, there are a few differences from buying at a dealer. They have to complete all the title paperwork and file it with the appropriate government agencies; in a private party transaction, you're on your own.

The regulations vary state by state, but in general, a generic Bill of Sale (available from DMV; an example is shown below) is the binding legal document that transfers ownership from the car's owner to you. If they own the car outright, no cash should trade hands without you getting the title right away.

There's a caveat: Some states let the owner keep the title even if there's a loan. In that case, there will be a Lien Release document, which the private party seller gets when the vehicle is paid off.

TIP: Check with DMV in the state you're in (and that the car is in, if it's different) to find out what you need to do.

If there is a loan, your funds should go to the lender—not the seller. You shouldn't expect the title (or lien release) right away. In this case, it is normal to depart with the car and bill of sale (and the title in lien release states). Once the lender receives your funds, the vehicle's title (or lien release) is sent—either to you or the previous owner, depending on the lender's policy. Either way, legally, the old owner must sign it as the seller, and turn it over to you. As this can take several weeks, don't be overly worried. Just make sure the temporary permit you receive from DMV will cover the time.

TIP: The critical step is to make sure the funds go directly to the lender.

Transact the deal at a bank or credit union, or talk to the lender if it is out of state and get all pertinent information on where to wire or mail certified funds to. They can also give an estimate on how long it will take to get the proper title work (title or lien release) sent. In many cases, they have a preferred way of receiving funds that will speed things up.

SUMMARY

Used cars usually are the better value from the standpoint of CPM, so as long as you thoroughly inspect a car and follow the tips in the *Guide*, you should be in good shape. If you want to feel as secure as possible, purchase a parts and service contract to cover the car mechanically. I discuss them in great detail in Chapter 12.

Chapter 11 - GETTING THE MOST FOR YOUR CAR

The Internet is a wonderful tool for helping find a new vehicle; you can compare features and prices, and even negotiate your purchase price. But the plot thickens when you have a car or truck to trade in or sell.

If you haven't already, I'd encourage you to read the last chapter. In it, I explain how to appraise a car, how the Blue Books and reports such as CARFAX affect values, and give lots of tips on how to get a great vehicle for a good price. If you're on the other side of the equation, knowing what buyers will be thinking will help maximize what you get for your car.

Also, watch the video segments "Getting the most for your trade-in" or "Getting the most when selling your car." You will also appreciate the videos on how a dealer appraises a trade-in, as you'll then be aware of what they are looking for.

TRADE IN OR SELL RETAIL?

One of the biggest determinates on whether to trade or try to sell outright is the sales tax law in your particular state. For example, in Colorado, where I live, buyers pay sales tax on the net ***difference*** between the vehicle that they are buying and the value of what they're trading in. As a simple example, let's imagine your trade is worth $17,500 if sold retail through the paper, and the most a dealer would offer on trade was $15,500. Yet, at a 7.5 percent sales tax rate (pretty typical nationwide), the sales tax savings would be $1,162.50. That's almost half the difference, which can be a strong motivator to not mess about with getting your car ready to sell, taking pictures and paying for advertising, and having strangers come to your home.

However, in states such as California, the sales tax savings doesn't apply—you always pay the full amount on what you buy. And some states don't even have sales tax. So, the first thing is to find out your state's tax law regarding trade-in vehicles.

TIP: Call your department of motor vehicles to find out how the sales tax law applies in your state.

If you can reap a big enough tax savings (which usually means your car needs to be worth at $10,000-$15,000 or more), it becomes an easy decision to trade. No muss, no fuss. No advertising costs, no one coming by the house for test drives at inopportune time—or not even showing up for appointments—and no exposure to unseemly characters.

TIP: Circa 2010, over 20 percent of bank checks and other "certified" funds used in private-party car transactions are fraudulent.

Only take cash, wired funds, or meet at a bank to verify what you're getting. Before we finish this part of the discussion, here is a way to sell your vehicle for the higher, retail amount ***and*** get the tax savings, if you live in a state that gives sales tax credit.

TIP: Find a dealer that will allow you to run the paperwork through them if you sell your car outright.

This means you'll have already determined you want to buy from that dealer, which means pre-negotiating the deal on the replacement vehicle, called the "front-end deal." Next, advertise your car and find a buyer for the higher, retail amount, as you normally would (or do the research first, advertise second, and find the dealer third). Then, when the time comes to complete the transaction, you sell your car to the dealer for an agreed-upon price, usually the same as the one you've settled with the retail buyer for, minus a "pass-through" fee, which will run from $100-$500. The dealer then turns around and sells it to your buyer at the price you've negotiated already. Here is how the numbers would look, comparing trading, selling outright, and doing a pass-through:

	Trade-in	**Sell outright**	**Pass-through**
Your car	$15,500	$17,500	$17,500
Sales tax	$1,162.50	$0	$1,312.50

savings			
Pass-through	$0	$0	$300
Ad costs	$0	$200	$200
Net	$16,662.50	$17,300	$18,312.50

Some states even allow you carry a sales tax “credit” on a vehicle you “trade” in such a way throughout the calendar year—but at that dealer only. If your state allows this, what you end up with is a savings of $2,000 to $3,000—or more, since you get the most possible for your car—***and*** a tax savings.

GETTTING YOUR CAR READY FOR SALE

Whether selling it yourself or trading it in, it’s to your distinct advantage to spend some time—and a bit of money—to maximize what you’ll end up getting out of your soon-to-be ex-ride. Here are the steps to go through.

History

As we discussed in the chapter on buying used cars, reports from agencies like AutoCheck and CARFAX can dramatically affect the resale value of a used car, even though what they report is incorrect almost one-third of the time.

TIP: Get copies of your vehicle's CARFAX and AutoCheck before advertising it.

If either one reports an accident that didn't occur, or was less severe than the report(s) show, do the best you can do get this corrected before advertising the car. Otherwise, expect to net between $500-$2,000 less for it.

Mechanicals

Make sure *obvious* mechanical maladies are fixed or that you know what the bill would be to fix them. An example would be a mysterious "check engine" or SRS (airbag) light in the instrument cluster. Any used car manager—or retail buyer—who sees one of these lit up will assume the worst and discount what they'll pay by a margin big enough to fix a major issue. Yet, if you've had it diagnosed and have the mechanic's estimate, the appraiser or buyer will likely only lessen what they offer you by that specified amount, meaning that you don't have to spend to fix the problem before selling, ***and*** don't get less than your car could really be worth.

TIP: If there are unknown issues, pay for your own mechanical inspection before trying to sell your car.

If the inspection shows a really expensive repair is required, it is of course up to you if you even want to share it with buyers, but at least you'll be an informed seller. Based on what you learn, this will help determine the best venue to sell it on outright, or will perhaps motivate you to trade it in.

You'd be surprised though; I've counseled friends whose cars needed lots of love, to put them on Craigslist.com at a price that reflects the needed work, and just be honest about things. They've usually gotten more money than expected—and definitely more than they'd have netted at a dealer.

If your tires are about done in, plan on putting on inexpensive new ones; unless your car is some high-performance machine, tread depth is more important than the name on the sidewall. It will have a big impact on ride, handling, and how quietly it drives. Check TireRack.com to see what they'll cost, and then have a local retailer match them within $10-$20 per tire (which is the cost to ship them from TireRack anyway).

Or search eBay, Craigslist and Google to find a set of used tires that have over 50 percent of their tread left—and note that I'm not talking about retreads here. But decent used tires will cost you a lot less—usually $100 to $200 for an entire set—than the amount a dealer will knock off a trade-in if it needs rubber.

TIP: Try to find "take-off" tires.

These are tires with almost no mileage that usually come from a dealer which has replaced the factory wheels and tires with flashier aftermarket ones.

Dealers love to overcharge for the cost of replacement tires on a trade-in. So at least have researched what a set ***really*** costs. Another money saver, if you have a matching, full size spare, is to use its tire for one of your replacements, and put the least worn one back in its place, so you can buy one less tire.

TIP: Dealers swap out full size spares all the time—especially on trucks and SUVs—so look at the condition of the spare on anything you're intending to buy.

Next, make sure your brakes feel okay—have the rotors turned if they're warped (the giveaway is the pulsing sensation you feel when coming to a stop). Again, a used car manager will assume the worst and lower the amount you'll be offered by a substantial amount. Most of the time, resurfacing rotors will only cost $100 to $150.

TIP: Receipts for work done will reassure a buyer and help to justify your asking price.

When trading, don't worry too much about failed power windows and the like; the dealer will know the cost to fix it, and you'll rarely come out ahead. If you're retailing the car, this kind of thing will have to be weighed on a cost/benefit/hassle scale. If you don't want to spend up front and try to recoup when you sell, you can pay for a diagnostic from a mechanic and use his estimate as part of your negotiations so that you don't take any less than the cost of the repair.

Cosmetics

The next step is the car's appearance; this is where most people miss out. A filthy, smelly car only arouses suspicions, and casts the worst light possible over your tenure as the vehicle's owner.

First, get your vehicle professionally detailed. This is a fairly modest cost to you—$100 to $200 is a typical range—yet makes a world of difference at the negotiating table. Many scratches will be gone forever, the paint will gleam again and the upholstery and carpets will look fresh and clean. A good detailer can also remove bumper stickers and the like using a heat gun (or hair dryer) and products such as “Goof Off.”

TIP: A great way to find a good detailer is actually to go to a high-end car dealership and ask in the service department to talk to their top one directly.

Tell them you’re “interviewing” detailers. Make quiet inquires to the detailer himself to the effect that you’d like your car care done “on the side.” Most talented detailers are horribly underpaid, and will do an entire car inside and out for under $150, whereas full-service car washes will charge $200 or more for work that is often not as good. Another option is to call and find out who the small, specialty used car dealers use for detailing if they don’t have an in-house detailer.

TIP: Make sure they don’t use a high-pressure washer to clean the carpets.

This soaks the under-padding, leaving a “wet dog” smell, and let your car air out well with the windows down, even if they just use a carpet extractor. And don’t let them overdue it with silicone sprays. A nice matte or semigloss appearance is correct, not shiny and slimy. Finally, make sure they use degreasing agents around any oil stains or leaks on the engine and underneath.

If you're a smoker, it's essential to get rid of the residue; in the 21st Century, smoke smell will kill a car deal stone dead for most shoppers. Have the detailer use a steam cleaner on the headliner and especially up around the sun visors, where vapors linger. Find a company that offers chemical deodorizing (usually by asking at dealers, as many don't advertise online); this will cost about $40.

Next, consider getting door dings and small dents removed by a paintless dent repair (PDR) specialist. You'd be surprised how much better a dent-free car looks.

TIP: Dealers pay about $35 to $50 per panel (door, trunk lid, etc.) for PDR; that's what you should aim for when negotiating.

The final step is to contract with a paint touch-up specialist to fill in (via brush or spray gun) scratches and abrasions. You'll find them advertising in all major markets, and dealers use their services on a routine basis to make old cars look like new. These touch-up folk can even reshoot entire bumpers, dramatically improving the appearance of your tired old runner. Your cost range should be $75 to $125; bumpers cost more.

TIP: Most all certified (CPO) cars have been gone over by PDR and touch-up specialists.

This is why they look so good. These cars command premium pricing; you can make your car worth more by using these same artisans. If you can't find any using an Internet search, call the accounting department at some high-end dealers and ask if they have any contact information for the ones they use.

If your car has had paintwork, it is critical to have either the detailer or the touch-up person—whoever has more experience with this type of thing—wet sand out excess "orange peel," dust and "fish eyes" in the paint, and also have them get rid of the tape lines in the door jams that give the game away to astute shoppers and dealership personnel. This should cost $50 to $100 more, but is worth it. But make sure they know what they're doing, or they can "cloud" the paint's clear coat. I cover how to identify these on the videos and in the chapter on buying used cars.

Finally, if your windshield is cracked or heavily pitted, consider a replacement at about $200 for most cars if you're selling it outright (dealers can usually get it done cheaper than you can when you're trading). The exception is in the depth of winter in snowy states, where it doesn't make sense to put in a new windshield that could get cracked right away. Stone pits that haven't cracked can be filled in—and your car insurance will usually pay for it. That's worth doing whether you're trading or selling it retail.

TIP: Keep it clean!

No matter how neat (or not) you normally are, put your detritus in a box and then toss it in the trunk when the time comes to show the car to a prospective buyer, whether a dealer or private party. In general, I recommend spending $200-$400 on cosmetics, and between zero and $350 on mechanicals—unless it needs tires, which obviously drive up the price. Now that your car is looking as good as a reasonable outlay of cash can make it, it is time to reap the benefit.

Trading in

If you decide to trade it in, get several bids from different dealers—new and used—before you go anywhere. Get them in writing, and ask if that's what they would be willing to give you for your car, even if you don't buy from them. All through 2011, dealers have been struggling to get good used cars and trucks to sell, so you might be pleasantly surprised at what you're offered. This shortage of good used cars will continue into 2014, which means that you should get top-dollar for your car if you've kept it up—or at least used the tips above to make it look like you did! Also, ask them if they'd do a pass-through if you're in an applicable state.

TIP: You don't need to physically go into the dealers for bids.

Take many good quality pictures of your car, get its CARFAX and Autocheck reports, make electronic copies of any work you've had done and put it together in an email you can send to the used car managers at the dealers you've selected. That way you don't waste time except to visit the top two to three bidders.

Print out both the Kelly and NADA Blue Book values and what people are asking locally online, so you'll be armed. You can also use resources such as TrueCar.com to get an idea what people are actually paying locally. But remember that these figures are—just like Blue Book values—only guides to valuations. The Blue Book companies don't buy or sell cars; they only estimate what transaction prices are going to be.

TIP: Start with bids from new car dealers who sell the same make as your car.

Big dealership groups such as AutoNation have found that the highest used prices on Toyotas are paid at new Toyota dealers (it's the same for other makes), so they move their used inventory around between stores to maximize what they sell it for. Even if you don't plan to buy the same brand of car as your trade-in, written bids will put you in a very strong position to maximize what you get from the dealer you end up purchasing from.

TIP: Most used car managers will be willing to match a competitor's bid(s) on your car.

Or they'll discount what they're selling theirs for to make the sale. This is one of the strongest negotiating tactics you can use. It is rare for the dealer giving the most off a new(er) car to also be the one offering you the most on your trade-in. But with written bids, you can get ***both***.

Retailing it online

If you are selling it retail, go with the big three: Autotrader.com, Cars.com and Craigslist.com. Don't shell out for the fancy packages found on some of these sites—just go for the basics with some pictures and a thorough description. And don't bother with people who call and offer to sell your car for a fee.

TIP: When writing your description, list you car's attributes first.

This includes such things as its cosmetic and mechanical condition, an accident- and/or smoke-free history, and any options. Then list other details about how you've maintained it, or the model in general. Leave out silly sales talk like how cool they'll look in it, etc. You don't want to sound like a cheesy dealer. If you don't know the particulars on your car, go to Wikipedia.com or Edmunds.com for details.

Make sure you price yours competitively (which I've covered earlier); wishful thinking will do you no good here. Next, be prepared to drop from your asking price until you "find the market." If people aren't calling or emailing to see it, you've priced it too high—especially in this, the tightest used car market in a generation. Once you get your price in line with the market, the phone should ring and your inbox will fill up with prospective buyers.

TIP: Don't advertise your price with "or best offer."

People will negotiate anyway; listing it as OBO only makes you look desperate. Everyone wants a deal, so be prepared (even after you've shown it to a real buyer) that they'll want you to discount it another $300 to $500. If you can show them that your car is already priced well within the context of the local market and that it has features others don't, or is in better condition, you may be able to hold onto your offered price. But it's often easier to offer to split the difference, so the buyer feels like they got a "deal" without you bearing all the loss.

TIP: You should also remind a serious prospect that you don't have any "dealer handling" fees like dealers charge.

Also, you can gently allude to how negative the dealer experience can be, with their hidden fees, the lies and general unpleasantness. Don't be afraid to play upon such sentiments—your goal is to make your car go away, not make new friends.

The Blue Books list different prices for cars in varying condition. Usually these include Rough (or Poor), Average and Clean. The price difference is substantial. And while you must weigh the costs of sprucing up your car, if done correctly by following the tips in this chapter, such expenditures will usually net you more than what you spent—often up to double your outlay. They'll also make it easier to sell it to a retail party by reducing the number of people you need to show it to, and increase your negotiating leverage at a dealer.

I generally keep each of my personal cars about a year; almost all are used cars that come to me as trade-ins or that I buy at auction. When the time comes to sell, I advertise them online, just like you would. No matter what condition they're in when I buy them, I always spend the funds to make sure they look and drive great before I put them up for sale.

I frequently hear that they are the nicest example of that vehicle that someone has test driven, and rarely do I have to show them to more than one or two people before they sell, because my pricing is realistic and the vehicles present themselves so well. This saves me money, and more importantly, time and hassle with retail shoppers, who can waste a lot of someone's time.

The same common sense trust issues apply when selling your own vehicle as when buying. Statistics suggest that up to one quarter of all cashiers' checks or other so-called certified funds are actually fraudulent in private-party car and truck transactions. Only wired funds or cash are truly reliable. Meetings exchanging title work for payment at financial institutions are much safer, and this is a place where your banker can be very helpful—especially as the rules governing such turnover vary so much state to state.

Finally, basic safety must also be addressed; it's not uncommon for a potential buyer to show up to test-drive your (soon to be ex-) pride and joy, and want to leave their own vehicle behind as collateral. But there are enough documented cases where the so-called buyer drives off never to be seen again, and it turns out the vehicle left behind was stolen to begin with.

TIP: Before you try to sell your car retail, make sure it has full coverage insurance.

That way, if someone steals it, you are only out the cost of the deductible (pick a low one); the cost of the extra insurance premium for a month or two is minor compared to the potential downside.

PAYOFFS

If you trade your car in, the payoff process is pretty easy: The dealer who buys your car handles it. You'll sign an Authorization of Payoff form and the dealer will guarantee to pay off the balance by the date on the form, usually 10 days out.

TIP: Keep in contact with your lender, but don't be surprised if it takes a couple extra days for every department to become aware of a payoff.

If you're really paranoid, get a tracking number on the method used to mail in the payoff (FedEx, UPS or Postal Service) and the check number of the funds sent to the payoff institution.

Retail sales are more complicated for you as the seller if there is a loan balance. In some states, you will already have the title to your car even if there's a loan on it; you'll get a lien release letter when it is paid off. In most, you won't receive title to your car until it is paid off in full, as the lien release is part of the title.

TIP: Call your DMV to see what steps apply to you and get a Bill of Sale.

There is an example of one on the next page. If your car is paid off, make sure you can find the title (and the lien release, in those states) before trying to sell your car. Most people don't own their car outright, though; there's usually a bank loan (or lease payoff) still to be handled before it can be sold on the retail market. The only way you can legally sell your vehicle is if you pay it off first. But that doesn't mean you can't advertise it, find a buyer, ***then*** pay it off.

The general way it is done is that you contact the lender and get a payoff, with the amount of interest that will be charged each day—called per diem—so you can calculate the payoff for any date. Then meet your buyer at either your financial institution (if it has a local branch) or theirs, so you can transfer funds to the institution that has the lien on your car.

TIP: When you call your lender, you will need to get their Authorization of Payoff form and perhaps an Odometer statement.

BILL OF SALE

I, ____________________ (*seller*), in consideration of ___________________________ dollars ($ __________), do hereby sell, transfer and convey to _______________________ (*buyer*), the following vehicle:

Make:	**Year:**
Model:	**VIN:**

I, the undersigned seller, do sell the above-described vehicle to the buyer for the amount shown and certify that all of the information provided in this Bill of Sale is true and accurate to the best of my knowledge.

I, the undersigned buyer, acknowledge receipt of this Bill of Sale and understand there is no guarantee or warranty, expressed or implied, with respect to the above-described property. It is also understood that the above-stated vehicle is sold in "as is" condition.

Dated this _________________ day of _______________, 200___.

Seller Name: (Printed)	**Buyer Name:** (Printed)
Seller Signature:	**Buyer Signature:**
Driver's License #: **State:**	**Driver's License #:** **State:**
Street Address:	**Street Address:**
City: **State:** **ZIP:**	**City:** **State:** **ZIP:**
Phone #:	**Phone #:**

Not having your car paid off shouldn't be an impediment to selling; the actual transfer of ownership document is the Bill of Sale. Once both parties have signed this, technically the vehicle changes hands. By law, if you've sold your car and have a payoff, you have to make it and give the title (or lien release) to the new owner when you get it.

The title will almost always be mailed to you by the lender; you sign it and provide it to the buyer. They'll have already brought the Bill of Sale to DMV to get a temporary plate (or registration updates for the license plates in states where they stay with the car), which is usually only good for 30 to 60 days, so it is important not to delay this. They are responsible for registration fees and sales tax, not you.

TIP: Don't lose track of your plates.

In states where the plates stay with you, the owner, make sure you remove them—otherwise expect them to end up on some car whose owner can't afford registration. The same applies when you trade a car in; don't leave without your license plates unless they are required by state law to stay with the vehicle.

Lease payoffs

Leases are a bit of a special case. In most states, it can be hard to sell your leased car, as the leasing company or bank—not you—owns it. Before you can sell it retail, you must first buy it from the leasing company. If you live in one of the few states without sales tax, this isn't much of a problem. For the rest of us, it can be a major expense. If your buyout is $20,000, the average of $1,500 sales tax will eat up a lot of the profit you'd make selling it. Then, the new buyer you sell it to will pay tax as well!

The only way around this is to find a dealer who will let you run the transaction through them (just like the purchase "pass through") for a fee. ***They*** don't have to pay sales tax on it when they buy it from the leasing company. If you can arrange this, it can make it much easier to get out of your lease early.

TIP: It is usually worth it to try to sell your leased vehicle retail.

The reason to do this is because normally, your lease residual (its price at the end of the lease) will be equivalent to its ***wholesale*** value. You can make $2,000 to $3,000 selling it if you can legally avoid paying the sales tax to the lease company. This is especially true now, when used car prices are at historical highs. In Chapter 8: Leasing, I go into more detail on this.

It can also save you lease turn-in fees if you're over on the mileage or have wear and tear. Call your lease company to get a buyout figure. You'll need to make sure this is good for any dealer who is buying the car as well—with some leasing companies it varies. Normally, what they'll quote you includes sales taxes if they think you're buying it, so make sure to get one without as well.

TIP: Don't trust the residual buyout figure on the original lease contract you signed.

Lease companies usually have clauses allowing them to adjust the buyout, so get an updated one. Once you know what the true buyout is, you can compare that to advertised retail prices and decide if it's worth putting it up for sale. I've had numerous cases where the banks make adjustments to the buyouts based on "market conditions;" if I didn't find out beforehand, I could literally sell the car and lose money. Get it in writing.

TIP: It is best to start researching these 60 to 90 days prior to the lease turn-in; it takes an average of 45 days to sell a car.

If you do this, it not only makes leasing more attractive, but also can give you a nice down payment. I almost always put my clients' leased cars up for sale before turning them in, and we sell at least eight out of 10 of them, netting anywhere from $1,000 to $3,000.

SUMMARY

If you follow the tips here, selling or trading in your car won't by the incredibly frustrating process most people experience. You'll have confidence that you've gotten all your vehicle is worth, and have avoided the hassles that come from being ill prepared.

Chapter 12 - SERVICE CONTRACTS (EXTENDED WARRANTIES)

If you think the *car* business is sleazy, there is an area that is even more fraught with danger: Service contracts. More commonly—but incorrectly—called extended warranties, these are contracts to cover repairs on either new or used vehicles, after any remaining manufacturer warranties have expired. A warning: this is about the densest subject in the *Guide*, but potentially the most important in keeping you from getting ripped off, especially as almost half of the people who purchase a car at a dealer—new or used—get one. Let's get started.

TIP: A <u>good</u> service contract makes budgeting much easier.

I am actually a big advocate of properly chosen service contracts, having had them save me thousands upon thousands of dollars personally, and having witnessed the good they've done for many of my own clients over two decades. A well-chosen contract will give you the confidence to drive your car for longer, and will help you budget your Cost Per Mile expenses better. While it ***will*** increase your monthly payment (assuming you finance) $20-$50 per month, it will eliminate surprises and potentially catastrophic failures that can run into the thousands of dollars. But before we talk about the good side of contracts, let's discuss the bad, and the ***ugly***.

RISKY BUSINESS

A large number of the service contracts sold online (or over the phone) are horrible products, without any real financial backing. We'll go into detail on this, but basically, they are not backed by an insurance company, or are backed by such a wafer thin layer of insurance, that it will do you little or no good if the company selling the contract goes under. Good contracts are backed by an insurance company, referred to as the obligor.

TIP: Look for "Party Obligated to Perform" or "Obligor" in the contract language.

obligor |ˌäbliˈgôr|
noun (Law) - a person who is bound to another by contract or other legal procedure.

There should be a clause following the "Obligor" that states the customer can file a claim directly with an insurance company if the original obligor doesn't pay the claim within a certain amount of time (that's if the original obligor is not the actual insurance company to start with).

A service contract that is truly backed by an insurance company is what you should be looking for, and that's the type I've always gotten for my clients. At the other end of the spectrum is a risk retention group, or "RRG," which is basically a corporate structure (C-corp., LLC, etc) set up in certain low-regulation states or offshore. At its heart it is a big savings account, generally with a minimum of $250,000 in it. It has an administrator, which can be a dealership, dealership group, or even a third party. It's sold like a legitimate insurance obligor service contract, but it is not regulated by any insurance commission or board. For all the bad press that the insurance industry receives, at least it does have some measure of state and federal regulation. There is much less oversight of risk retention groups, though they need to meet certain state laws to be sold.

Basically, what happens when an RRG is set it up is that they begin to sell service contracts to unsuspecting consumers, either at dealerships, online or through telephone agents. The RRG owner(s) take money off the top for commissions and administrative fees—which can exceed 30 percent of the total contract price—then, whatever is left over is put into the savings account. When a vehicle covered by the policy has a breakdown, a claim is made, and money is withdrawn from the account to pay for the repair.

TIP: Many—not all—RRGs end up operating like Ponzi schemes.

Historically, the money that is put into the account of most RRGs has not been enough to cover all the claims until the last customer contract has expired, so they run out of funds. Without insurance behind them, there is not any recourse for the customers when the money run out. When that happens, the end result is almost always the bankruptcy of the risk retention group, leaving thousands of consumers with literally worthless contracts. Sometimes these poor folk can regain some portion of what they spent in a class action lawsuit, but that is rare.

TIP: Online research and some phone calls are essential to shifting the bad from the good service contracts.

Do your online research, and dig deep—many RRGs look good on the surface. Then make calls to your state's insurance regulating agency, which is usually the Office of the Insurance Commissioner (OIC), and business rating agencies like the Better Business Bureau. This is a great way to determine if you're looking at an RRG or legitimate service contract product.

LEGITITMATE CONTRACTS

What makes an RRG so different from a legitimate parts and service contract? The good ones are always a real insurance product, with all the oversight and regulation (both state and federal) that implies. Rates for real insurance policies are determined by actuarial tables that come from massive amounts of research on loss ratios, which are performed by licensed actuaries. Regulations stipulate how much has to be kept in reserve to pay claims, give guidelines on fees and expenses, and basically make the service contract something worth considering.

TIP: Make sure you recognize the name of the insurance company, or can research them online.

Just because they have “Insurance Company” at the end of their name, does not mean they are well rated. You can check on them using a service such as AM Best or Moody’s. A high rating from either is essential; if it’s not in the A- to A+ range, don’t bother—there are better options out there.

Insurance products in this field typically run a 10 percent profit. That is, 90 percent of what they take in is eventually paid out as claims. That 10 percent, plus interest, is why they’re in the game. A legitimate parts and services contract will have an administrator as well, who handles billing, claims, and other activities. But your contract isn’t with them; ***it is with the insurance company***. If the administrator goes under, you’re still okay—the insurance company will find or set up another. And there are laws to help you press any legitimate grievances you might have.

WHO SELLS SERVICE CONTRACTS

The biggest seller of service contracts are dealers. 40 percent of new cars alone are sold with one, all certified (CPO) used cars have them included, and many used cars go down the road with them. This can be a bit confusing, as not all of these sold at dealers are from the manufacturer of the vehicle; many are 3rd party contracts—even on new cars.

Next are those sold through direct mailings, TV, and online. Perhaps the worse are those represented as being from a manufacturer, but which are not. One such is US Fidelis, who are currently under investigation by 40 states Attorneys General for fraud, and are being sued by BMW for using its logo on US Fidelis mailings to mislead people into thinking they're buying a BMW-approved product.

Also, some online sellers aren't legit service contact companies or even RRGs. They are service contract ***brokerages***; they sell a multitude of products, based on the profitability to the brokerage and other factors not in the customer's best interest.

TIP: To verify that a company is a brokerage, look at the fine print on their site.

It will usually be clear that they have several products to offer; the terminology on one, Stoprepairbills.com, says (under their Contract's page), "Supplier Links" and lists several companies; this means the site is a brokerage. I would exercise extreme caution with such.

LEGITIMATE SERVICE CONTRACTS

Thankfully, there are good service contracts out there. The cost of a policy from one will be determined by these factors:

1. A history of the cost and frequency of repairs on that vehicle
2. The options (like all-wheel drive, turbochargers, or navigation) on the vehicle
3. The length of coverage (years and miles)
4. The items covered
5. The deductible (if any)
6. How old the vehicle is and how many miles are on it

The insurance actuaries figure out what the history of repair costs and frequency has been on similar cars and trucks, coming up with a cost. To this is added the profit margin and costs and fees for the administrator, insurance company itself, and the seller (dealership, salesperson, etc). That is why there isn't a huge variance on the costs of good service contracts from legitimate players in the game. There are some variables, including which of the industry-rated guidebooks for repair times they allow to be used (Chilton and Alldata) by the repairing facility, and what source of parts they authorize (OEM, aftermarket, or both).

TIP: The profit margin a dealer has on a good quality service contract will run between $500 to $1,000.

Feel free to negotiate, and while you shouldn't necessarily expect to get one at cost, you can expect to shave somewhere between $250-$750 off of the initial asking price.

CANCELLATION & TRANSFER

Most all legitimate service contracts can be cancelled if your car is totaled in an accident, stolen, or sold—or if you simply change your mind. After the first 30 to 60 days they will provide you with a pro-rated refund based on the remaining percentage of miles and time; before that, they will usually refund the entire amount. Again, we're talking about legitimate contracts; make sure you read the fine print.

TIP: Only pay for "what you use."

If you have a legitimate service contract and decide to get rid of your vehicle, there are two ways to make sure you take advantage of the prorated refund. If you're trading in, contact the administrator and they will issue a refund based upon unused mileage and time, as the dealer usually cannot transfer the contract to a new owner. If you sell the car on the retail market, you can offer to transfer the service contract to the buyer, and ask more for the vehicle to compensate you for not taking the refund. As an example, if you bought a 4-year/50,000-mile service contract for $2,000 and sold it two years later, with half the mileage allotment remaining, you can expect to receive roughly 40 to 45 percent of its value back if you trade in, or ask for $1,000 from the retail buyer if you sell outright. The administrator will provide whatever cancelation or transfer forms are needed.

TYPES OF COVERAGE

There are two main categories of coverage for parts and service contracts: Stated component coverage and exclusionary coverage. In the first, only the components listed on the contract will be covered. Common names for this type of limited coverage are “Powertrain” and “Powertrain-plus” coverage. If something isn’t listed, they won’t cover its repair—or the repair of other failures caused by it. This is called “consequential damage,” and is the major limitation of stated component coverage.

TIP: Even factory warranties can have clauses about consequential damage.

The typical 5-year/60,000-mile powertrain warranty that extends out after the “full” factory warranty has expired is an example of this. Often, it only covers “internally lubricated parts” of the engine, transmission, and drive axles, meaning that if some computer module that controls your transmission fails, you’re out of luck.

If you’re shopping for stated component service contract, it is usually on an older car that is out (or almost out) of factory warranty coverage. There ***are*** some very good stated component policies available. Many legitimate companies offer various levels of stated component coverage for different prices, ranging from basic insurance against “catastrophic” failure of the engine and transmission, up to ones that cover most of a car’s parts and systems. Just be aware of limitations of coverage.

Exclusionary coverage contracts cover every component on your vehicle ***except*** those in the “Exclusion” section of the contract, hence the name. While these policies are more expensive, the peace of mind they convey—and potential cost savings to you—can be huge. These days, over half of all service contract claims involve some type of electrical failure; this is compounded by manufacturers that keep adding new systems and subsystems. They also make year-to-year minor changes that you’d not know about, and which could affect your coverage in a stated component contract.

There will be variance from company to company in the specific parts that might not be covered; other things not routinely covered will be airbags and other passive safety systems, some emissions systems like catalytic converters, things that are supposed to wear out like brake pads, tires and clutch discs on manual transmissions, and usually most of the trim inside and outside a car.

TIP: Most factory warranties have such exclusions as well.

It is usually only the premium manufacturers that will cover such things after a vehicle is a year old or has done more than 12,000 miles. Don’t be surprised at a long list of exclusions and “boiler plate;” legitimate service contracts have to meet individual state laws and requirements everywhere they are sold.

VEHICLES MOST LIKELY TO NEED A SERVICE CONTRACT

Obviously, service contracts make the most sense on cars with a high cost or frequency of repair, like European ones. Based on my own experiences owning over 50 cars personally, and selling thousands of others, I will not—under any circumstances—own a European vehicle that is not covered by either the manufacturer’s warranty or a good service contract.

TIP: It is much easier to resell a European car that is still covered by the manufacturer’s warranty or a legitimate service contract.

This also applies to high-end Asian and domestic cars—anything with lots of complex systems, or that is built in fairly low volumes (where parts cost more). I've had my share of things need to be fixed on even vehicles as reliable as those from Lexus. Check sources like JD Power for a more detailed breakdown on individual models. And remember that high-end vehicles from all companies generally have much more expensive parts and repair costs, even if the ***frequency*** of repairs isn't any higher than average.

Here's another benefit: especially as they get into higher mileages, you can really differentiate your vehicle when the time comes to sell it by advertising it with a note about the service contract policy's remaining coverage. Shoppers will assume all needed repairs have been carried out; the implication being that the car is in better mechanical condition than those that are out of coverage. You can usually get more for it—even if you can't necessarily charge extra for the service contract itself.

TIP: All high-end cars are good candidates for service contracts.

WHEN TO BUY

If you are getting a new car, and plan to keep it past the extension of the factory warranty, there is usually a nice savings to be had if you get a service contracts then and there. Terms can go up to 8 years or 120,000 miles for some cars. Note that the factory warranty still is in effect first, so you'll have some double coverage. The service contract is less money, partially because they can earn interest on your money before paying out any claims. Some benefits, such as rental car and trip-interruption reimbursements, may still be paid by your service contract if the factory warranty doesn't cover them, though.

The other point in time where you can usually get the best bang for your buck on parts and service contracts is while the car is still just within factory warranty. The insurance company will assume any needed work has been paid for by the manufacturer, so there is less chance of any preexisting conditions that can blow their loss ratios, meaning the contract will cost less. It is also much easier to still get the more comprehensive, exclusionary coverage contracts before the factory warranty expires.

You'll normally be able to get coverage for another five years or 100,000 ***total*** miles—whichever comes first. Of course you can go shorter on time or mileage, but the cost savings—especially if you plan to get a refund on any prorated, unused portion—will be minimal.

TIP: Buy the longest coverage you can afford.

It will make the coverage more attractive if you resell the car, and you can get a bigger prorated refund if you cancel it or when you resell. These plans will generally be called "near-new" coverage, and have the same exclusions as if you purchased it when the vehicle was brand new. If the factory warranty is up, you might be able to still get the same level of coverage; it will just be shorter in term or mileage, and will cost more.

As a car gets older and has more miles on it, you'll become limited to stated component coverage. Even at very high vehicle mileage, though, you can often still get 30,000-40,000 miles of stated component cover, which can easily pay for itself.

TIP: Many of these same companies also offer short-term coverage.

These are sold most often by dealers. Options usually include 1-month and 1,000-miles, 3-mo./3,000mi, or 6-mo./6,000mi, for $250-$750. There'll be little or no profit in it for the dealer, but it can be a financial lifesaver for you if an engine or transmission blows up because of the failure of a covered part. Dealers do it to cover themselves from lawsuits or to differentiate their vehicles from competitors' offerings.

TIP: A major benefit of a service contract is that you pay in today's dollars for work and parts that will cost more in the future.

Labor rates—especially at franchised dealers—go up 5 to 10 percent per year, and parts costs increase by a similar amount. I used to pay half the labor rate in the 90s that I do now. But a contract bought now pays out at whatever the rates and costs are in the future, making it somewhat “inflation-proof.”

DEDUCTIBLES

A few companies still offer a $0 deductible, which can be great, though it will cost more upfront. But many don’t, as it dramatically cuts the frequency of repairs if they make the lowest deductible $100. The good policies will at least let you group several repairs under one service invoice.

TIP: Make sure you know if the deductible is per service invoice or per individual item repaired.

Some offer variables deductibles as an option. To find out which is best for you, figure out how many repairs it would take to recoup the cost difference between the various contract options. If it’s only one repair, go with a lower deductible; if the cost spread is greater (as it often is on higher risk cars), and it will take three repairs to get the contract cost difference back, go with the higher deductible.

WHO CAN WORK ON THE CAR

The service departments of the car's manufacturer and independent shops certified by a sanctioning body like ASE (Automotive Service Excellence) can usually work with any good quality service contract. If a shop has never used a particular company's policy before, they'll often need to get prior authorization to use it. This should apply anywhere in the United States, and even in Canada.

The service departments at many dealers will often initially tell you they will only take the policy they sell at that dealer, but in my experience, it only takes one phone call for them to work with any legitimate service contract. In mid-2010, I sold a low-mileage 2008 Jeep Wrangler to some folks on the far side of the state. At just past 40,000 miles, it needed a brand new engine. At first the local dealer told the clients he wouldn't cover the repair using anything but "his" service contract. But once he talked to the administrator of the one I got my clients, he apologized, and later he told them that it was just about the best policy he had ever seen in action.

TIP: Beware policies that insist you go to a specific repair facility if you're within a certain radius of miles; these are usually some type of RRG product.

PAYING FOR A SERVICE CONTRACT

Car lenders, whether the manufacturers' own captive finance companies, banks or credit unions, are very willing to include a good service contract in your financing. For one thing, they know that when your car breaks down, you'll pay to fix it before you'll worry about making the payment, so they're lowering their own risk. And if the car is well maintained, it will generally hold up better and be worth more, especially if you default on the loan and they need to repossess it.

TIP: Some lenders don't want to finance another company's parts and service contract if they offer their own.

Others are fine with it, and there are laws to prevent discrimination against outside company's products. About the only legitimate concern a lender can raise is the price of the plan; they'll have stipulations on how much they'll loan on it. If it's not overpriced, you shouldn't have too much trouble getting any legit contract rolled into the loan.

If you don't finance the service contract with the car, many sellers will either have 12-month financing, or let you put it on a credit card. Of course, you can always pay cash.

FACTORY-BACKED PROGRAMS

Technically, the only one who can warranty a product is the manufacturer of that product. An "extended warranty" should (in theory) be an extension of the original factory warranty—but rarely is. These days, most every service contract that has a car company name on it is merely a "branded product," administered and underwritten by a third party. This ranges from Ford and

GM to BMW and Mercedes. Branding a product gives it more credibility in the eyes of the average consumer. This isn't a knock on these programs—just a caution not to assume that the one a franchise dealer offers is better than one without a car company's name on it.

The coverage that comes with many certified vehicles usually has exclusions in the coverage on parts that the manufacturer knows are high failure rate, such as navigation systems. And many cannot be cancelled (or resold) for a prorated refund.

PERSONAL EXPERIENCES & BENEFITS

In the mid '90s I bought my dream car: a 1991 Infiniti Q45. It was ranked as the second most reliable car made that year by JD Power in initial quality, and I'd never had a Japanese car give me much trouble before. Based on these factors, I didn't think I'd need the covered provided by an extended warranty or service contract. But the manager at the brokerage I worked for told me I really might, and knowing I could get a prorated refund if I changed my mind, I agreed to purchase one. It's a good thing, too; the problems began about six months in: fuel injectors and fuel line leaks, window regulators breaking, the climate control head that managed the heat and air conditioning failing—you name it. In the time I had it, the repairs totaled over $10,000!

I kept the Q45 for a couple years anyway, as I loved driving it, and it was covered till 100,000 miles. But I wasn't brave enough to keep it after the contract expired, so I sold it with some remaining coverage, making it quite easy. There's simply no way I could have budgeted to keep it on the road in good condition without that service contract.

Being a sucker for a nice driving car, (and maybe glutton for punishment!) a couple years later I bought another Q45, this one a 1992 model. As JD Power still ranked the car highly, I figured that first one had been a lemon. Of course, this time I made sure to purchase the best service contract I could find. Inside a year though, this Infiniti began to have even more problems than the first. When repairs hit $14,500 dollars, I learned why you had to write the purchase price of the vehicle on the contract—because that is the limit of what the insurance company will pay! After that, they cancelled the policy. And I sold the car.

TIP: The most the service contract will pay out in claims is the purchase price of the car.

I've also owned multiple BMWs, as I love the way they drive. But I've learned they always need something, so I make sure I put a service contract on them before the factory warranty expires. On my next-to-last one, a 2004 X5, I had about $1,300 in repairs in the 18 months I owned it. When I went to sell it on the retail market, I was able to offer the service contract with it (it was good for 100,000 miles and another 3 ½ years), which made it very attractive to buyers—especially as other X5s from that year were now out of factory warranty.

I got over $1700 more for the vehicle, which was based on the "unused" percentage of the service contract still in effect. This helped offset the losses I suffered since CARFAX had inaccurately reported the severity of an accident the X5 had been in, lowering its resale value.

A multitude of my clients have let me know how much they appreciated their service contracts; one, whose company has bought over 12 cars and trucks through me, sent a letter saying this:

> *I just wanted to let you know that the service contract you sold to me for my 2008 Ford F350 has already paid for itself. I have had to use it for a $300 electrical problem (Dome / Map light console) that cost me $100. Today I have a $1,200 radiator (the second replacement) that cost me $100. The company also has a weekend fax number which I have heard many do not. Just wanted to let you know it was worth it.*
>
> *-Doug*

A KNOWN QUANTITY—AND QUALITY

The contract I sold Doug was from the company Vehicle Protection Plus, LLC called "The Selection"—the same one I had on the BMW X5. It was exclusionary coverage, so it was pretty equivalent to what most factory warranties offer, and was backed by a highly regarded insurance company, Old Republic, who has been underwriting service contracts since 1974—longer than anyone else in the industry. I have had case after case where the Selection came through for my clients and they let me know about it.

VPP itself has been around since 1995 and is very careful about its loss ratios. Therefore, they don't cover super high-end cars or vehicles that rank at the bottom of the charts for reliability. They also don't sell the Selection online, as they've found lots of people try to slide in preexisting problems and get VPP to pay. But as their service contract has been so good for my clients, I wanted to find a way to make it available to readers of the *Guide*.

I worked closely with the owners of VPP and what we came up with is that readers can go to the resources page of the site and fill out the Selection application; this gets sent to VPP. They will contact you and help figure out which Selection plan will work best for your vehicle.

For now, they will only issue the Selection service contract on a car that is new, or still has three months or 3,000 miles of the factory's full, "bumper-to-bumper" warranty coverage on it. VPP's owners are in the process of finding a way to offer the Selection to *Guide* readers whose vehicles are out of full factory coverage, while still meeting the stringent underwriting guidelines of Old Republic. They are waiving their normal 30-day, 1,000-mile waiting period for *Guide* readers, as well. Most lenders will allow you to include the Selection in your vehicle financing, if you don't want to pay cash or finance it separately.

SUMMARY

If you follow these tips and do your homework, you can find some really good service contracts out there, whether from VPP or someone else, and avoid the scams. You'll be able to keep catastrophic repair costs from blowing your savings or budget. Beyond that, there's the peace of mind that comes from a good insurance policy.

Chapter 13 - THANK YOU

I want to conclude by thanking you for purchasing the *Car Buying Tips Guide*. I'm confident that if you followed it, you have had a more pleasant—and much less expensive—car buying experience. I would like to ask that you not give this book to others who are shopping for a vehicle. The Guide is the result of over nine months of research, mental sweat and many late-night hours bent over the keyboard.

If you think there is real value here, you can share it with others by directing them to purchase it for themselves on the website. Speaking of which, there's always something new happening in the car business, so I will continue to update the CarBuyingTipsGuide.com site with useful information on the car industry and how to save money throughout the ownership experience.

-Isaac Bouchard