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# Buying a Used Vehicle

Shopping for a used car can be an overwhelming task. It is important that consumers thoroughly research a used car before making a purchase.

**Know What You Should Pay**
Consumers should do their homework before negotiating the price with the dealer. Consumers should always go into the dealership knowing the used retail price for the specific model of vehicle they are seeking to purchase. The retail price for a used car will vary depending on numerous factors, including mileage, options, and overall condition.

Knowing the retail price provides consumers with a reference point from which to begin negotiations. Consumers can find out a vehicle's retail price by researching publications through a variety of sources. Consumers should check publications at a library, at a bookstore, or on Internet sites such as www.edmunds.com or www.kelleybluebook.com to obtain the retail prices of vehicles they are thinking about buying.

**Get a Copy of Your Credit Report and Shop Around for Financing**
If a consumer is planning on financing their used car purchase, they should obtain a copy of their credit report from one of the three credit reporting agencies before they begin shopping for a vehicle.[1] Consumers should then take the time to shop for the lowest financing source. To obtain the lowest financing source, consumers should get financing quotes from their local banks, credit unions, and Internet sites such as www.bankrate.com.

By obtaining your credit report and shopping for the lowest financing source, consumers will protect themselves from being charged an unreasonable and unnecessarily high interest rate when purchasing a used car. Vehicle purchasers have every right to finance a used car with a lender that is not associated with the dealership.

**Dealer-Arranged Financing–Get the "Buy Rate"**
When a dealer arranges car financing for a consumer with a bank or other credit provider, the interest rate charged the consumer will often include a payment to the dealer. This payment to the dealer comes at the expense of the consumer. The lender quotes the dealer the lowest interest rate the buyer qualifies for, which is commonly referred to as the "buy rate," and the dealer quotes a higher rate to the buyer. The difference between the dealer- offered rate and the "buy rate" is called the "yield spread premium."

Some dealers never disclose to consumers the "buy rate" or the amount of money the dealership is making for arranging financing ("yield spread premium"). If you finance through the dealer, you want the "buy rate." **Ask the dealership to disclose to you, in writing, both the "buy rate" and the "yield spread premium."**

Consumers should compare financing quotes from the dealer with quotes from their local banks, credit unions, and the Internet, and choose the lowest annual percentage rate.

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[1] Information on how to obtain a credit report can be obtained from the Illinois Attorney General's fact sheet, *Credit Reporting*, at www.IllinoisAttorneyGeneral.gov/consumers/creditreport.pdf.

**Pre-Purchase Inspection**
Once a consumer finds a vehicle they are thinking about buying, a used car vehicle inspection should be conducted by an independent mechanic before a final purchase decision is made. An inspection is necessary even if the car has been "certified," has been "inspected" by the dealer, or is being sold with a warranty or service contract. Unlike a safety inspection, a mechanical inspection is designed to determine the overall reliability or mechanical condition of a vehicle.

To find a pre-purchase inspection facility, consumers should check the Yellow Pages under "Automotive Diagnostic Service" or ask friends and relatives for recommendations. Look for facilities that display certifications like an Automotive Service Excellence (ASE) seal. Certification indicates that the technicians meet basic standards of knowledge and competence in specific technical areas.

If the dealer will not let a consumer take the car off the lot, try to find a mobile inspection service that will go to the dealership. If that's not an option, ask the dealer to have the car inspected at a facility you designate. Consumers will have to pay the inspection fee. Consumers should make sure to get the vehicle inspection report in writing.

**Vehicle History Report**
Consumers should have the dealer provide them with prior information on the vehicle, such as a complete title history. Title history reports often contain important information, including whether a car has been salvaged, returned as a lemon, rebuilt, or otherwise damaged. Title history reports may also verify odometer readings, search for a history of major accidents, and disclose whether a car was stolen or used as a rental car or police vehicle. **Please note that the car may still have problems or defects not reflected in the title history report.**

Many dealers have access to title history reports from independent vendors, so consumers should ask for them. If a dealer does not have access to a title history report or refuses to provide a title history report, consumers should obtain this information on their own before purchasing the vehicle. In such a situation, consumers should ask the dealer to provide the Vehicle Identification Number ("VIN number") for the automobile considered for purchase. Consumers then should obtain a title history report from a source such as "Carfax" (www.carfax.com) or "Auto Check" (www.autocheck.com). Please note that there is a fee for this service.

**FTC Used Car Rule**
The Federal Trade Commission's (FTC) Used Car Rule requires dealers to post a Buyers Guide in every used car offered for sale. However, a person who sells less than six cars a year does not have to post a Buyers Guide. When you buy a used car from a dealer, get the original Buyers Guide that was posted in the vehicle or a copy of that guide. The Buyers Guide must reflect any negotiated changes in warranty coverage and it becomes part of your sales contract and overrides any contrary provisions.

The Buyers Guide must tell you whether the vehicle is being sold "as is" or with a warranty. **When a vehicle is sold "as is," there is no warranty or service contract offered with the purchase. It is important to get all promises in writing when purchasing a vehicle "as is."** For instance, if the dealer promises to repair the vehicle or cancel the sale in an offer for a vehicle being sold "as is," make sure the promise is written on the Buyers Guide.

The Buyers Guide must also indicate what percentage, if any, of the repair costs is covered by the dealer under the warranty and the major mechanical and electrical systems on the car. The consumer should keep the Buyers Guide for reference after the sale. **Again, a vehicle sold "as is" will not be offered with a warranty or service contract.**

**Taxes, Title, and Doc Fees**

Under Illinois law, a dealer may add to the contract a "documentary fee" for processing documents and performing services relating to closing of the sale, as well as taxes, license, and title fees. However, the documentary fee is illegal if it exceeds $150.00[2]. Consumers should read all documents carefully to protect their money and avoid paying more than is necessary for a used vehicle.

**Trade-In**

The first thing a dealer may ask a used car purchaser is if he or she is trading in an old vehicle for a different one. **Consumers should not discuss the trade-in of their vehicle until after the purchase price of the used car is finalized.** It is extremely important to keep the trade out of the used car purchase negotiation.

Learn the value of your trade-in vehicle before you go to the dealership. Check with lending institutions or on the Internet at sites such as www.kelleybluebook.com or www.edmunds.com.

Some dealerships want their purchasers to believe that they are getting more for their trade-in vehicle. Therefore, the dealer may inflate the trade-in price. However, the dealer may also inflate the purchase price. This practice is commonly referred to as the "double bump." This is especially likely to happen when you owe more money on your trade-in than it is worth and the dealer is attempting to demonstrate to a lender an equity that does not exist. The result is that you will be deeper in debt.

Consumers who owe money on their trade-in vehicles should follow up with the dealer to make sure the trade-in vehicle loan is promptly paid off. Consumers are responsible for the trade-in vehicle loan until it is paid off by the dealership.

**After the Sale**

After consumers have negotiated the sale price of the purchased vehicle, dealerships will attempt to sell products and options such as gap insurance, credit life and disability insurance, and window etching. These extra options are usually highly inflated to maximize dealer profit and may not be advisable for purchase. **If a dealer informs you that a bank or lending institution is requiring purchase of any of these "after sale" products, ask the dealership to put this demand in writing.**

**Extended Service Contract**

A service contract or extended service contract may be offered to the purchaser to provide for the repair of certain parts or problems. These contracts are offered by manufacturers, dealers, or independent companies and may or may not provide coverage beyond the manufacturer's warranty.

An important factor in the decision to purchase a service contract is the length of time you plan to keep the vehicle. For instance, if you already have a three-year warranty on the car and you plan to keep the car for three years, a service contract is unnecessary and will cost you extra money. Do your homework and know exactly what you want in a vehicle to avoid being haggled by the dealer.

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[2] As of January 2004. Adjusted annually by the Consumer Price Index.

Extended service contracts are a high-profit item for the dealer. For example, an extended service contract may cost the purchaser $1,500; however, it might cost the dealer only $500. Like other products at the dealership, extended service contracts may be negotiable—ask the dealer for their cost and negotiate. **Keep in mind that a vehicle sold "as is" will not be offered with a warranty or service contract.**

**Spot Delivery**

Consumers utilizing dealer-arranged financing should not sign a financing contract or take possession of a vehicle if there is any doubt concerning the approval of the lender. In a practice known as "spot delivery," dealers agree to take a down payment and allow the buyer to take the car home before financing is finalized. Before executing a financial contract and taking possession of the purchased vehicle, consumers should demand that the dealership put in writing that the financing from the dealer-arranged lender is finalized.

A common example of spot delivery is a situation in which a consumer decides to purchase a particular car for $8,000 after paying a $500 down payment and giving a trade-in. The dealer lets the purchaser take the car home, while making the purchaser believe that a loan at an interest rate of 11% is attainable. After the purchaser drives the car for a few days, the dealer tells the purchaser that he or she must bring the car back because the financing could not be approved for 11%. Instead, the dealer claims that the lender will only finance the car at a rate higher than 11%, such as 16%. The consumer can and should bring the car back and walk away with their deposit and trade-in with no obligation. Instead, the psychological effect this practice has on purchasers makes them think they are obligated to put more money down, find a cosigner for the vehicle, or find another car, when in fact there is no obligation to do any of these things.

Consumers should be aware that, under Illinois law, if the purchase of a vehicle is conditioned on the purchaser having an acceptable credit rating to the dealer and the dealer can not obtain financing for the consumer at the contracted terms, the dealer must return to the purchaser any down payment or trade-in under the contract. **Consumers do not have to bring additional money for the down payment, pay a higher interest rate, or find a cosigner.** If the dealership does not secure financing at the contract terms, Illinois law requires consumers to return the car to the dealership and requires the dealer to return to the consumer their down payment and trade-in.

**No Three-Day Right to Cancel**

Dealers are not required by law to give used car buyers a three-day right to cancel. The right to return the car in a few days for a refund exists only if the dealer grants this privilege to buyers. Dealers may describe the right to cancel as a "cooling-off" period, a money-back guarantee, or a "no questions asked" return policy. Before you purchase from a dealer, ask about the dealer's return policy, get it in writing, and read it carefully.


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