

SAVVY HUSKIE'S USED CAR BUYER'S GUIDE



INTRODUCTION

COSTS

Purchase Price

Insurance

Financing

FICO Score

Negative Equity

Dealer-Arranged Financing: Get the Buy Rate

Be Aware of Special Financing Deals

The Financing Agreement

(Motor Vehicle Retail Installment Contracts)

DEALER REPUTATION

CHOOSING THE RIGHT VEHICLE FOR YOU

Determine Reliability

Check Buyer's Guide

Test Drive and Inspection by Independent Mechanic

WARRANTIES

Implied

Express

Dealer

Manufacturer

Service Contracts

PRIVATE SALES

NEGOTIATION

PROBLEMS WITH YOUR PURCHASE

QUESTIONS TO ASK THE DEALER

So, you've decided to buy a used car. You've heard all the rumors, flinched at all the horror stories (may have told a few yourself), but still you think you are ready to take the plunge. Well, before you jump in, take some time to read on. Whether you are a first-time used car buyer, or a seasoned veteran, you may be surprised at how much you do not know. The largest category of complaints received by both the Illinois Attorney General and the Better Business Bureau concerns used cars. Before you buy a used car, consider the following: Costs (including financing), Dealer Reputation, Choosing the Right Vehicle for You, and Warranties.

COSTS

Be realistic about how much you can spend, and consider all the costs involved in owning a car. The true cost to own includes all of the following: purchase price, the interest on the loan, insurance, maintenance costs, repairs, service contracts, warranties, registration, tolls, gas, and any traffic tickets.

Before you start shopping for a used car, review your budget. Buy only what you can afford. After you consider the true cost of owning and operating a car, you may decide to settle for utility rather than appearance.

Don't have a budget? Check out free online budgeting tools, www.mint.com or www.HelloWallet.com

Do your research before you shop. The point of buying used is to save money. If you don't do your research, you might pay more than the car is worth or more than you can afford.

Purchase Price

Never pay the sticker price. Determine the value of the models you are considering by checking a number of independent sources for suggested wholesale and retail prices such as: *Kelly Blue Book*, www.kbb.com; *Edmunds Used Car Price Guide*, www.Edmunds.com; and *Automobile Red Book* published by MacClean Hunter Market reports, Inc., in the library. Know what you want and what it should cost.

Check out the particular car you are considering at www.carfax.com Consumer guides also have information on frequency of repairs for different models: www.consumerreports.org/cro/home.htm The value of a car is drastically reduced if it has been used as a taxi, rental car, or demonstrator. Excess mileage also reduces the value of a car, and a dishonest seller may have rolled back the odometer to make the car more appealing. If you suspect a rollback, ask the dealer for the name of the car's previous owner and a copy of the owner's mileage disclosure statement.

Call the former owner to determine if the odometer statement is true, and ask questions about the condition of the car. Why did the former owner sell it? Is it a 'lemon'? Was the car involved in an accident? All of this is relevant to the used car's value. Unwanted options can add 25-30% to the sticker price.

Information is power. Determine who is offering what for how much. Shop around. Don't buckle to pressure to buy quickly. You cannot return a car you just bought when you discover that the dealer down the street will sell you the same car for less. Ask a lot of questions and read the contract, Buyer's Guide, and warranties before you decide. Never shop for a car alone. Remember, the dealer is trying to sell you a car and make as much profit as possible. Fight back with facts!

Insurance

All persons who own or operate a car in Illinois must carry minimum liability insurance of \$20,000 for injury or death of one person in an accident; \$40,000 for injury or death of more than one person in an accident; and \$15,000 for damage to property of another. Although state law does not mandate comprehensive insurance coverage, it is wise to cover damage to your own vehicle. Shop around. Rates can vary greatly from one company to the next. The make, model, and year of the car, as well as your age and driving record, are significant factors that insurance companies use to determine the insurance premium. Check out www.Youdecide.com, www.insureone.com, and www.chicago.aaa.com

To save:

- Ask about discounts.
- Keep your driving record clean.
- Increase deductibles.
- Drive a low-profile car equipped with safety equipment.
- Shop around for a good low-cost insurance provider who will pay on claims.
- Cover your own vehicle for major loss.
- Compare insurance bids using our [Table A](#).

Financing

You found the car of your dreams and negotiated a great sale price. Now you need to make arrangements to pay. Did you know that dealers make as much money on the financing, service contracts, and warranties as they do on the sale price? Be a Savvy Huskie and get the best rates for which you are qualified.

The basics:

- Put down as much money as possible. The more you put down, the better the interest rate.
- Get the shortest term you can afford. Never do a 5-year loan.

- If the dealer offers a rebate, apply it to the down payment.

The 5 Cs of credit:

Character—How responsible do you look? Lenders will look at everything from your FICO score to your employment history.

Capacity—Are you financially overextended? Have you borrowed more than you can pay back?

Capital—How much do you have in the bank?

Collateral—What do you own? Lenders want to know what they can take away from you if you do not pay them back.

Conditions—What is your current economic status?

Note: The cosigner can be held responsible for the loan, even though the cosigner never possessed or drove the car. Do not cosign a car loan.

Truth in Lending Disclosures—Every Loan Must Disclose:

- Amount financed
- What charges are included in amount financed
- Annual percentage rate (APR) of interest
- Payment schedule
- Total amount of payments
- Total sale price
- Prepayment penalty, if any
- Late penalty, if any
- Security interest
- Insurance charges

FICO Score

Get a copy of your credit report and credit score at www.AnnualCreditReport.com It's your FICO (Fair Isaac Corporation) score that counts. Scores range from 500-850. A score in the mid 700s or higher will get you the best loan rates. The FICO score is composed of the following:

- 35% payment history
- 30% how much you owe
- 15% length of credit history
- 10% types of credit used
- 10% new credit

Negative Equity

Negative Equity is owing more than the vehicle is worth. Depreciation is an important concept to understand when dealing with financing. New cars depreciate 20% of their value or

more during the first year and typically 15% or more the second year. The value of the car drops immediately, but your loan principal drops more gradually. If you try to sell the car too soon, you may end up owing more on it than you can sell it for.

Avoid Negative Equity:

- Keep your car until it is paid off.
- Do not buy a car that is too expensive. If you cannot afford it, you may have to sell it before it makes economic sense to do so.
- Do not drag out your payments. Five years from now the car may not be a good fit for you.
- Make the biggest down payment you can afford. This will give you some positive equity and help offset the effect of depreciation.

Get Independent Quotes for Financing

Call your bank or credit union, and get quotes online at sites such as www.bankrate.com

Compare All the Loan Variables

The loan variables include the following:

- Annual percentage rate (APR)
- Length of the loan
- Monthly payments
- Total finance charge
- Total to be repaid

For Example—\$8,000 Loan—Different Terms

APR	Length of Loan	Total Monthly Payment	Total Finance Charge	Total Cost
7%	36 months	\$247.02	\$ 892.60	\$ 8,892.60
	60 months	\$158.41	\$1,504.58	\$ 9,504.58
10%	36 months	\$258.14	\$1,292.94	\$ 9,292.94
	60 months	\$169.98	\$2,198.52	\$10,198.52
12.25%	36 months	\$266.67	\$1,600.15	\$ 9,600.15
	60 months	\$178.97	\$2,738.03	\$10,738.03
13%	36 months	\$277.32	\$1,983.61	\$ 9,983.61
	60 months	\$190.32	\$3,419.17	\$11,419.17

For example, if you tell the salesman that you want payments less than \$275 per month, the salesman could put you in a five-year loan at 12.25% interest with a total repayment cost of \$10,738.03 and payments of \$178.97 per month. A savvy consumer might choose to pay

\$258.14 per month for a 3-year loan at 10% interest for a total cost of \$9,292.94. In the first example, the finance charges are \$2,738.03, but in the second example, the finance charges are \$1,292.94. You should always keep your eye on the total amount to be repaid, and keep in mind the monthly affordability. The larger your down payment, the better the interest rate you will obtain.

Dealer-Arranged Financing: Get the Buy Rate

When the dealer arranges your financing, he makes money and you usually pay more. When the dealer arranges the financing, the interest rate will often include hidden markups not based on your credit worthiness. The lowest interest rate for which you qualify is called the Buy Rate. The Illinois Attorney General recommends that you demand that the dealership disclose your Buy Rate to you in writing. Be aware that the dealership is not legally required to disclose the Buy Rate. You can and should determine your loan eligibility with a financial institution before you visit the dealership. Choose dealer-arranged financing only after verifying that their rate is competitive.

Be Aware of Special Financing Deals

Look closely at the “Low Financing Rates.” These ‘deals’ are usually limited to specific models, and the dealer usually expects the full MSRP (Manufacturer Suggested Retail Price) and larger down payments. With these limitations, it may be more affordable for you to pay a higher interest rate on a lower total sales price or to negotiate a smaller down payment.

The Financing Agreement (Motor Vehicle Installment Contract)

Illinois law does not limit the amount of interest that a creditor can charge. Shop around for the best rates for financing. If you cosign a loan, you can be held responsible for payments even if you never drive or possess the car. A lender must, however, disclose the total cash price, amount of down payment, the finance charges, payment schedule, and a description of any property held as security for payment in all installment sales contracts.

Read the financing agreement before you sign it. You should be aware of certain “standard” clauses that do not operate in the best interest of the consumer/buyer:

- Acceleration
- Attorney fees
- Prepayment penalties
- Credit insurance

Acceleration

Installment contracts routinely include a clause providing that the entire balance of the purchase price becomes due and payable upon any default, including failure to make timely payment of even one installment. These clauses are enforceable and may be exercised by the lender upon default.

Attorney Fees

Packing a powerful, but still legal punch of its own, this clause authorizes the lender to collect reasonable attorney fees from you in the event a lawsuit is filed on the contract. The attorney fees are added to any judgment secured by the lender.

Prepayment Penalties

A prepayment penalty is a fee that a borrower is contractually obligated to pay if he/she chooses to pay off a debt prior to its scheduled retirement date.

Credit Insurance

One of the most profitable methods of imposing extra costs on a credit transaction is the sale of credit insurance. There are four types of credit insurance:

- Credit Life is insurance that protects the account against the loss of the borrower's life.
- Credit Disability or Accident and Health is indemnity insurance covering payments in the event the borrower's income is interrupted for health reasons.
- Credit Property protects the collateral.
- Loss of Income is an indemnity policy to provide limited payments in the event of involuntary loss of employment.

The seller gains three significant benefits from the sale of credit insurance:

1. The commission to the seller can be as much as 40–50%;
2. The creditor is the primary beneficiary, which adds more security to the account; and
3. The interest is charged onto the premium. The costs of credit insurance may, therefore, and be prohibitive in relation to the benefits provided to you as the buyer. Neither state regulatory bodies nor competitive pressures successfully control the credit insurance industry. For example, some policies will pay as little as one (1) payment in the event of loss of income despite charging a substantial premium. If you do not want credit insurance, just say so. Before you decide whether to buy credit insurance, be sure to find out how much protection you are getting. Advisors outside the industry recommend that most consumers not purchase credit insurance.

DEALER REPUTATION

Ask someone, whose opinion you respect, which dealers have good reputations for sales and service. Call the Better Business Bureau (in DeKalb/Rockford, 1-815-963-2222; in Chicago and suburbs, 1-312-444-1188) to find out if they have had any complaints against particular dealers. Be aware of ‘Bait and Switch’ sales tactics in which the dealer advertises a ‘bargain’ but tries to sell you a much more expensive car instead.

CHOOSING THE RIGHT VEHICLE FOR YOU

Now that you’ve done your homework, you’re ready to venture into a dealership where you will probably see lots of good-looking cars and a few not-so-good-looking cars. Before deciding to buy a particular car, you should do the following:

Determine Reliability

Check the Consumer Union Monthly Consumer Reports or annual buying guide at your local library for the frequency of repair record for the models you are considering. Check to see if there are conveniently located repair facilities in your area. Check with the Department of Transportation and Auto Safety Hotline (1-800-424-9393). When you find a particular car that you would like to consider, be certain to ask if there are any repair records and if the car has been used as a rental car, demonstrator, or taxi cab.

Check the Buyer’s Guide

Check the Buyer’s Guide sticker, which is required to be on the window of each used car. The Buyer’s Guide provides the following information:

- Whether the vehicle is sold “as is”; if so, the dealer has no responsibility for the car once the sale is made;
- The type of warranty, if any, the dealer will provide;
- A reminder to you to have the car inspected by an independent mechanic before you buy;
- A reminder to you to obtain all promises in writing; and
- A list of some of the major mechanical problems common in used cars.
- Dealers are required by Federal Law to give you a copy of the Buyer’s Guide.

Test Drive and Inspect the Car

Examine the exterior and interior of the car and then test-drive it. If possible, bring a friend who is knowledgeable about automobiles to help you evaluate the car. It is also extremely important to have a mechanic look at the car. Although buying a car is a major purchase, it is amazing how many people buy one without having an independent mechanic inspect the car. If you don’t know a good mechanic, ask your friends. There are now businesses that do nothing but inspect and evaluate cars. DO NOT accept the salesman’s assurances that the car is in great

shape. If you choose to rely on the salesman's assertion that the car is fine, remember to get these assertions in writing on the sale's contract.

WARRANTIES

Definitions

Implied Warranty

Implied Warranty—a promise arising by operation of law, i.e., a promise that does not have to be stated explicitly. Be aware that Implied Warranties can be disclaimed when the seller sells a car “as is.”

Implied Warranty of Merchantability—goods are reasonably suitable for their ordinary purpose, i.e., the car runs.

Implied Warranty of Fitness for a Particular Purpose—the seller knows the buyer wants the car for a particular purpose and the buyer relies on the seller's skill and judgment to select a suitable car. For example, you tell the seller you need a car that you can drive to work which is 88 miles a day round trip and the seller shows you a car and tells you the car will work for you.

Express Warranty

Express Warranty—cannot be disclaimed. Express Warranty is created by affirmation of fact or promise, description, sample, or model guaranteeing that the actual vehicle will conform to the sample or model. Statements of dealer must be part of the basis of the bargain and be a fact or promise about the car. You must personally hear or see the affirmation and believe it for the statement to become the basis of the bargain.

Puffing—statements by the seller that are mere opinion and not fact. The statement, “It is a great car,” is an opinion and has no legal consequence if you buy a lemon. The statement, “This car gets 44 miles per gallon,” is a statement of fact and can be relied upon by the buyer as being true. If the salesman tells you that the car will get a certain mileage or makes any other factual statement concerning the car, ask for this in writing in the contract you sign, otherwise, the salesman can deny that he made the statement you relied upon in buying the car.

As Is—the legal way for the dealer (or in a private sale, the seller) to put all the responsibility for the car onto the buyer. If you buy the car “as is,” there is no promise that the car will run. To disclaim all warranties properly, a dealer must check the used car Buyer's Guide box “As Is—No Warranties.” There is no good reason for a buyer to purchase a car “as is”!

Discussion

Cars carry certain warranties regarding their quality and performance implied by law, and, if the car does not meet these standards, the buyer has a remedy. The Warranty of Merchantability means that the car will be reasonably suitable for an ordinary purpose. The dealer can warrant that the car is fit for a particular purpose; for example, “This car can haul a trailer, will get 25 miles per gallon, and will get you back and forth to work.” The warranty for a particular purpose is implied when the seller knows that the buyer wants the car for a particular purpose and the buyer relies on the seller’s skill or judgment to select the suitable car. To recover under these warranties, the buyer must show that the problem existed in the goods at the time of the sale or delivery. When a dealer sells you a car “as is,” there is no promise that the car will run or fit any of your needs. Never buy a car “as is.”

Dealers try to sell cars “as is” to avoid all warranties, including that the car runs! When you buy a car “as is,” you assume all the responsibility for repairs, even when the car breaks down on the way home from the dealership. “As is” sales must be disclosed in the Buyer’s Guide on the window of the car and in the sales contract. If the seller makes an oral promise to repair the car, you must get it in writing. Get all promises in writing and revise the Buyer’s Guide. Unless the dealer sells the car “as is,” Illinois Law mandates the following power train warranties:

- Cars less than 2 years old---Dealer pays 50% of repair costs.
- Cars 2–3 years old-----Dealer pays 25% of repair costs.
- Cars 3–4 years old-----Dealer pays 10% of repair costs.

Express Warranties cannot be disclaimed. Express Warranties are created when the dealer advertises, shows, or represents that the car has certain qualities. Express warranties may be created months before or after you buy a used car. The contract is assumed to contain all promises made by the seller. Get promises in writing in the contract or your sales person can claim that the statement you relied upon when buying the car was never made.

Always read the contract! This bears repeating. **ALWAYS READ THE CONTRACT!** Often sellers have clauses in the contract that they are not bound by statements of fact or promises. Arguably, this makes it part of the bargain, in which case you may not bring a claim for breach of warranty. **DO NOT SIGN** a contract that states the seller is not bound by what he tells you about the car. This requires you to sit and read all the small print. Reading the contract can make the difference between buying a car of your choice or being sold a car that does meet your expectations. Ask questions! Sample questions to ask can be found in the section entitled Questions to Ask The Dealer. Put the answers in the contract!

Dealer Warranties

Dealers may also offer a full or limited warranty on all or some of the systems or components of the vehicle. The terms of the conditions of written warranties may vary widely. You should compare warranty terms on cars and negotiate warranty coverage.

A Full Warranty

1. Warranty service will be provided to anyone who owns the vehicle during the warranty period when a problem is reported.
2. Warranty service will be provided free of charge, including such costs as returning the vehicle or removing and reinstalling a system covered by the warranty, when necessary.
3. At your choice, the dealer will provide either a replacement or a full refund if the dealer is unable, after a reasonable number of tries, to repair the vehicle or a system covered by the warranty.
4. Warranty service is provided without requiring you to perform any reasonable duty as a pre-condition for receiving service, except notifying the dealer that service is needed.
5. No limit is placed on the duration of Implied Warranties.

A Limited Warranty

A limited warranty is one that excludes one or more of the above statements.

The Buyer's Guide must also show what percentage of the repair cost the dealer will pay, the specific parts covered, the duration of the warranty, and whether a deductible applies.

Manufacturer Warranties

There may be a manufacturer's warranty covering the used car included under "Systems Covered/Duration" section of the Buyers Guide. This does not mean you are automatically covered under this warranty. In some cases, a manufacturer's original warranty can be transferred to a second owner only upon payment of a fee. Ask the salesman if you are covered.

Remember, the Buyer's Guide must reflect any changes in warranty coverage that YOU negotiated with the salesman. Be sure to get a full copy of the warranty and read it.

Service Contracts

The value of a service contract is determined by whether the cost of repairs is likely to be greater than the price you paid for the service contract protection. In deciding whether to purchase a service contract, consider the following:

1. Does the service contract you are urged to purchase cover the same repairs that are already covered by a dealer's and/or manufacturer's warranty? A service contract may overlap a manufacturer's warranty and by its own terms not apply during manufacturer's warranty.

2. Does the service contract cover all the parts and systems OF THE CAR? Check out all claims concerning coverage carefully. Get it in writing. The brochure may state, “bumper to bumper coverage,” but the contract may have limitations on coverage.
3. Is a deductible required? If so, take this into account when adding up the cost to own.
4. Does the service contract cover incidental expenses such as towing and renting a car while your car is being serviced? Can repairs and routine maintenance such as oil changes be performed at locations other than the dealership from which you purchased the contract?
5. What is the cancellation and refund policy for the service contract?
6. Who is legally responsible for fulfilling the terms of the contract? Some dealers sell service contracts that are actually issued by a third party. If a third party is responsible to make the repairs, determine if the company is insured. Check the company’s complaint record with the Better Business Bureau and Illinois Attorney General’s Office.

Be aware that if you purchase a service contract from the dealer within ninety (90) days of buying the vehicle, your vehicle is automatically covered by the implied warranties, even if you purchased the vehicle “as is.”

If something goes wrong and a dispute arises with the service provider concerning the problem, there are several steps you can take. Before you buy the service contract, it is important to ascertain whether arbitration is required and what steps are specified to resolve disputes. If there are no provisions in the service contract for dispute resolution, and you can’t get satisfaction from the dealer or manufacturer, contact the Better Business Bureau, the Office of the Attorney General, or the Department of Motor Vehicles. You should also contact an attorney.

PRIVATE SALES

The problem with buying a car from someone other than a dealer is that you buy the car “as is,” except where the seller makes statements or promises that you can prove you relied upon when buying the car. Advertised prices from individuals may be cheaper; however, if something goes wrong, you have few protections. Ask to see the maintenance records of the car. If, after having the car checked out by a mechanic, you still want to make a deal, be certain to protect yourself by obtaining the proper paper work.

Title is 100% evidence of ownership. You do not own the car unless the title is signed over to you. Draft a bill of sale to reflect the total sales price, as well as when the payments are due. An odometer statement must be filled out by the seller. Do not allow the seller to keep the title. Make sure you get the signed title at the time you pay for the car. Both the seller and buyer should keep a copy of the bill of sale. You must apply for a new registration and pay tax before

you can drive a car. It is not lawful to drive a car without license plates that are registered to the owner of the car.

NEGOTIATION

Studies show that women and minorities are consistently offered a higher sale price than are white males. Car salesman use high-pressure tactics. Never shop for a car alone. Don't start the process until after you are armed with the facts about the car's value and the condition of this particular vehicle. Remember to negotiate warranty or service contracts as part of the entire package, and keep in mind that you can decline to buy extended warranties or service contracts. Do not throw in your old car as a trade-in until you've received the best deal without a trade-in.

The qualities demonstrated by an effective negotiator include the following:

1. Being in control of one's self
2. Being credible
3. Being able to tolerate conflict and uncertainty
4. Disclosing only necessary information
5. Listening to and perceiving the actual information being conveyed
6. Being both patient and relentless, and
7. Knowing when and how to close the negotiation with an agreement or to terminate it because the desirable agreement cannot be reached.

PROBLEMS WITH YOUR PURCHASE

Illinois consumers do not have the right to cancel a sale within three (3) days after the purchase. However, even after taking possession of the car, you can revoke acceptance, if there is a non-conformity which substantially impairs the value of the goods to the buyer. This limited right to revoke is only available when ignorance of the non-conformity is justifiable and the buyer does not use the car with knowledge of the non-conformity. If you have problems with your new purchase, be certain to contact the dealer immediately. If you cannot resolve the problem, contact an attorney of your choice promptly. If you wait, you may lose your right to protest. All fee-paying students can consult an attorney at Students' Legal Assistance on campus.

QUESTIONS TO ASK THE DEALER

You should question the dealer or seller about the car you are considering. You have a right to rely on the dealer's or seller's answers, even if the car is being sold "as is." As stated before, you should put the answers in writing and make them part of the contract. Here are some useful questions:

1. Who was/were the previous owner(s) of the car, and what use was made of the car? Has the car ever been used as a taxi, rental car, or demonstrator?

2. Has the car ever been in an accident? What repair work was necessary to fix the damage?
3. Why did the previous owner sell the car? Did the previous owner state that there were any problems with the car? If so, what were the problems?
4. Has the dealer (seller) inspected the car and/or done any work or had any work performed on the car? What did the inspection include? What did the dealer (seller) find?
5. Specifically, does the dealer/seller know of any problems with and/or done or authorized work, on the:
 - Engine
 - Transmission/drive train/clutch
 - Carburetor
 - Starter or starter motor
 - Fuel line or fuel tank
 - Exhaust system/muffler
 - Brakes
 - Electrical system
 - Air conditioner
 - Windows/doors/trunk
 - Alignment
 - Radiator/cooling system
 - Suspension (shock absorbers/struts/springs)
 - Front or rear axles, wheel assemblies:
6. Are there any oil leaks? Does the car use excessive oil or smoke when the engine is running? Does the engine overheat?
7. Does the car ever die?
8. Is there any work that is needed to make and keep the car running properly?
9. Is the mileage shown on the odometer the true and correct mileage on the car?
10. What warranties come with the car? Are these transferable to subsequent owners if the car is resold?

Table A

Insurance Bid Comparison

COMPARE INSURANCE BIDS

Company 1 _____ Company 2 _____

Agent _____ Agent _____

Address _____ Address _____

Phone _____ Phone _____

	Amount of Coverage	Premiums for Company 1	Premiums for Company 2
Bodily injury liability			
Property damage			
Personal injury protection (no-fault insurance states)			
Uninsured motorist			
Other			

Comprehensive

	Amount of Coverage	Premiums for Company 1	Premiums for Company 2
Bodily injury liability			
Property damage			
Personal injury protection (no-fault insurance states)			
Uninsured motorist			
Other			
Collision-\$250 deductible			
Collision-\$500 deductible			
Towing and labor			
Other			