Getting Ready to Buy a Vehicle

Section Objectives

Now that you have determined how much you can afford, it's time to make a decision on how you are going to pay for the vehicle you have selected. It is important to remember that you have three options when it comes to paying for your vehicle. Keep in mind at all times your spending plan and your future financial goals when you decide on the type of vehicle and the monthly payment that you will choose. Remind yourself that this is a long term commitment and once is entered into cannot be reversed without major negative consequences to your credit. After completing this section you will be able to:

- Recognize the difference between buying a new or used vehicle
- Recognize the differences of buying and leasing
- Understand how to negotiate the price of a vehicle
- Understand vehicle payment options
- Recognize the types of insurance coverage
- Select different payment options

Section Table of Content

Key Terms

Acquisition Fee	Charge included in most lease transactions to cover administrative costs. It may also be called an administrative fee or assignment fee.
Amount Financed	Is the dollar amount of the credit that is provided to you
APR	Annual Percentage Rate, the rate expressed in percentage terms of interest on a loan charges each year.
Agreed upon value of the vehicle	In leasing is similar to the agreed upon sales price of the vehicle in financing.
Base Price	Is the cost of the car without options; includes standard equipment and factory warranty
Credit Insurance	Is an optional insurance that pays the scheduled unpaid balance if you die or scheduled monthly payments if you become disabled
Dealer Charges	Amounts charged for features sold separately by auto dealers, such as rust proofing, undercoating or services offered in extended warranty plans.
Dealer Sticker Price	Is the MSRP plus the suggested retail price of dealer-installed options
Depreciation	Amount by which a vehicle is expected to decrease in value over a specific period of time.
Down Payment	Initial payment put against the total cost of the vehicle, usually expressed in a percentage, the larger the payment, the lower the remaining amount of the vehicle you will need to finance.
Extended Service Contract	Is an optional protection on specified mechanical and electrical components of the vehicle, available for purchase to supplement the warranty coverage
Finance Charge	The total dollar amount you pay to use credit, calculated by compounding interest based on your APR.
Fixed Rate Financing	Means that the finance rate remains the same over the life of the contract
Gap Protection	Insurance that covers the difference between the total amount you owe on a car and the insurance value of the car should the car be stolen or declared a total loss after an accident.
Gross capitalized cost	Is the agreed upon value of the vehicle and any items you pay over the lease term (for example, an acquisition fee).

Guaranteed Auto Protection (GAP)	Is optional protection that pays the difference between the amount you owe on your vehicle and the amount you receive from your insurance company if the vehicle is stolen or destroyed before you have satisfied your credit obligation.
Incentives	Amounts rebated or credited, or special programs offered to encourage the lease or purchase of certain vehicles.
Invoice Price	Is the manufacturer's initial charge to the dealer.
Leasing	An agreement between the owner of the property and the user for the use of a leased vehicle subject to stated terms and conditions for a certain length of time and for an agreed upon payment.
Lender	Bank, credit union or other financing sources that lends money directly to you for a vehicle or other purchase.
Lessee	The person who leases a vehicle, apartment, house, etc.
Lessor	Owner and title holder of the vehicle, offers to lease or arranges for the lease of the vehicle.
Lien	A legal claim on ownership of the vehicle stemming from a debt.
Manufacturer's Suggested Retail Price (MSRP)	Shows the base price, the manufacturer's installed options with the manufacturer's suggested retail price, transportation charge, and the fuel economy (mileage).
Monthly lease payments	Are usually lower than monthly finance payments when comparing leasing and financing for the same term because you are paying for the vehicle's depreciation during the lease term, plus rent charges (like interest), taxes and fees. These are simply the amount you will pay every month to use the vehicle.
Monthly Payment Amount	Is the dollar amount due each month to repay the credit agreement
Negative Equity	The difference between what you owe on a vehicle you are trading in and the amount offered by the seller of a new vehicle, if that amount is less than you owe.
Option Package	Options available in a vehicle which are offered as a "package" or group.
Rebate	A deduction taken from a set payment or charge. As a rebate is given after payment of the full amount has been made, it differs from a discount which is deducted in advance of the payment.

Registration and License Fees	Amount paid to cover the costs or vehicle registration and license fees.
Rent charge	Similar to the interest of finance charge on a loan or installment sales contract.
Residual value	End-of-term value of the vehicle established at the beginning of the lease and used in calculating your base monthly payment.
Term	Length of the lease agreement or finance contract in months.
Total of payments	Is the total amount due over the term of the lease.
Up-front costs	May include the first month's payment and/or refundable security deposit. Generally you will be required to pay a security deposit and your first payment at the time you sign your lease agreement.
Vehicle Identification Number (VIN)	Usually a seventeen (17) character alpha-numeric identifier. It is a unique number to each vehicle. The VIN# is usually located on the driver's side of the dashboard or inside the driver's side door.
Variable Rate Financing	Means that the finance rate varies and the amount you must pay changes over the life of the contract.
Warranty	A guarantee from the dealer or manufacturer that an auto will perform as expected or specified. Warranties usually cover specific mechanical problems for a specific number of miles or amount of time.

Should I get a new or used vehicle?

The allure of a new vehicle can be powerful, but three times as many used vehicles are sold each year in this country than new vehicles. Your budget and mindset -- some people just can't stand the idea of "buying someone else's trouble" -- may determine which is right for you. If you're on the fence, here's a breakdown of benefits and drawbacks.

New-vehicle benefits and drawbacks	
Benefits	**Drawbacks**
It comes with a comprehensive manufacturer's warranty of at least three years or 36,000 miles that will cover almost any eventuality. Some go to 10 years or 100,000 miles. It will likely have the latest safety, comfort and convenience features available. There are no surprises. You are the first owner and there are no doubts about previous mechanical problems or accidents.	It will cost significantly more than a three-year-old used car. Comprehensive and theft insurance costs could be significantly higher than buying used, although insurers offer discounts for newer safety features. It will lose 25 to 40 percent of its value the moment you buy it, likely locking you in to long-term ownership.

Used-vehicle benefits and drawbacks	
Benefits	**Drawbacks**
Are significantly cheaper to buy than a new one. Comprehensive and theft insurance costs are likely to be less. The rate of depreciation over time will be less than the first two years of ownership of a new car. A buyer may be able to step up to a luxury model for the same price as a new, plain-Jane sedan or SUV.	Questionable maintenance and repair history. No comprehensive new-car warranty, though used-car warranties often are available at extra cost. Higher maintenance costs as the miles on the vehicle climb toward 100,000. Not as many safety and convenience features as newer vehicles.

If you decide to buy a used vehicle it is highly advisable to research the vehicle history. Was the vehicle totaled and rebuilt? Flood damage? Odometer fraud? With the Vehicle Identification Number (VIN) visit CarFax at http://www.carfax.com/

Researching the Vehicle You Want

As important as reviewing your finances is researching the type of vehicle or truck that you are interested in.

- Consult vehicle or truck buying guides, the Internet and other sources to learn about pricing and features for the vehicle or truck you want.
- Always read the fine print, so you are clear about what is being advertised, the interest, down payment, finance and lease terms and any additional charges.
- Make every effort to become an informed consumer before you make a major purchase like a vehicle or a home.
- Shop around, ask about incentives and programs for first time vehicle buyers, interest reduction plans and compare payments when offered a 0 down payment deal.

Dealer incentives (amounts rebated or credited, or special programs offered by the dealer to encourage the lease or purchase of certain vehicles) and other special offers might impact the amount of your monthly vehicle payment. Be prepared to avoid serious credit problems that can occur if you overspend. Keep in mind that being informed will not only protect your finances, but will help you have a positive vehicle buying experience.

Visiting the Dealership

When you visit a car dealership, you should already have an idea of the type of car that you want to buy. You have seen ads on T.V., the Internet, car magazines and have seen your dream car passing you by. At the dealership a car sales representative will greet you and help you find the kind of vehicle you are looking for. She might ask you questions regarding how much do you drive, whether you are looking for a new or used car and if the car is for work or pleasure.
Depending on your answers, she will choose some specific models from the many that they might have in the car lot.

At this point, you probably have many questions and as many decisions to be made. Take your time. If you are unsure of purchasing a vehicle on the first visit to the dealership, let the sales person know and return to the dealership another time. No purchase should be made under pressure.

The following questions might help you in your decision making:

- Should I buy a new or used car?
  Depends on what you want and how you plan to use the car
- Should I lease or buy a car?
  Dependent on your lifestyle choices for use of the car and amount of time you want to have the car. Are you buying the car of your dreams or do you dream of having a new car every three or four years?

- How much do I want to spend?
  For most people, buying a vehicle is an emotional purchase. You should consider your experience in general, what you can afford and how much are you willing to spend.Should I trade in my car?

  And if I do, how do I know how much is the value?

  Generally speaking, sales people will offer you 40% of the market fair value for a vehicle to facilitate the transaction. NOTE: This is not always the case – the value offered depends on the age, condition and mileage of your present car.

- Do I have negative equity in my old car?
  Negative equity means you owe more on your present car loan than the actual market value of the vehicle.

Most dealerships have a Finance and Insurance (F & I) Department that provides one-stop shopping for financing and leasing. At the F & I Department:

- The F & I Department manager will ask you to complete a credit application.

- A copy of your credit report will be obtained

- NOTE: Dealers will be able to offer you a number of financing solutions from different lenders – it is important to review all of the options of the various companies before making a decision to accept a particular offer or work with a specific company for your financing. You may also be able to secure financing in advance of going to the dealership using a loan broker available through online banks and other lenders.

- If you are approved, you will sign a contract with the dealership to pay for the vehicle over time.

- Most vehicle manufacturers have their own finance companies that can provide dealerships with financing.

Deciding on Needs VS Wants

By this time the list of decision-questions should have helped you weigh your needs VS. wants. However, having so many options before your eyes may impair your ability to choose what you really need. Keeping in mind your budget and the amount of money you want for your new car payment monthly will ease your decision.

At the dealership, you will encounter several add-on options that will raise the price of your car. For example, do you want a sunroof? Then, you should ask yourself, do I really need a sunroof if that adds an additional $400-$1600 to the price of the car? Shop around prior to the day that you sign the contract to buy your car. Be informed about other dealer incentives so you can negotiate. The sales representative might honor another dealer's incentive to help you with the purchase of your car. You might be able to get a free option such as an air conditioner or an alarm system when you negotiate with the manager at the dealership. Remember, at the dealership prior to signing your contract, there is ample room to negotiate.

Car Buying

Needs vs. Wants

Classify the following options as needs or wants by placing an X on the correct column:

OPTIONS	ESTIMATED PRICE	NEED	WANT
Automatic transmission	$500-$3,000		
Heated seats	$200-$500		
Air conditioning	$200-$1,500		
Premium sound system	$250-$2,500		
Antilock brake system	$500-$1,000		
Power door locks	$50-$200		
Theft-deterrent system	$100-$700		
Air bags for passenger side	$400		
Integrated child seat	$100-$200		
Sunroof/moonroof	$400-$1,600		
Trip computer	$200-$450		

Buying or Leasing

Differences Between Buying & Leasing

Before you get your next car, it is important to evaluate the costs and benefits of leasing versus buying a car. Here are some of the major differences between leasing and buying.

Ownership

- With a lease you do not own the car. Leases are basically long-term rental agreements. You make monthly payments to the dealership. These agreements might last from 2 – 5 years. If you obtained a car purchase loan, you would own the car at the end of the loan.

Lifestyle Choices

- How much do you drive?
- Do you always want to be upgrading to a newer model car?
- How much do you want to buy and keep the car of your dreams?
- Mileage limitations: Leases usually restrict the number of miles you drive each year. You must pay the dealer for each additional mile driven as stated in your lease contract. For example, a two-year lease might have a 24,000-mile restriction, and cost you $0.15 for each mile driven over 24,000. This can add up if you drive a lot. Driving 2,000 miles over the limit would cost you $300 (2,000 x $0.15 = $300). If you buy a car, there are no mileage restrictions.
- Wear and Tear: Most leases charge for exceeding "normal" wear and tear. You must maintain the car while you lease it. If you buy, you would not have any additional costs for wear and tear in your purchase agreement – but you still incur costs for maintenance and upkeep.

Down Payments and Monthly Payments

- When you buy there are a wide range of financing options, depending upon how much you negotiate on the price of the vehicle, how much money, and the type of loan you have. You can pay more each month and pay off the loan early.
- When you lease a certain down payment amount is required. Monthly payments are predetermined; there is a set minimum. You could conceivably pay more each month, but you would only be covering future lease payments. There can be balloon payments at the end of the lease if you choose to purchase the car.

Leasing a Vehicle

Leasing a vehicle involves many of the steps and requires the same insurance and payment responsibilities as financing a vehicle. A major difference on the transaction is the ownership of the vehicle. When you purchase a vehicle, you become the owner at the end of your loan. With a lease agreement, you are not the owner, but you are still responsible for upkeep and maintenance, insurance and lease payments.

Below are some of the payments that you are responsible for when you lease a vehicle:

- Monthly Lease Payment
- Sales, use and property taxes
- Insurance Policy Payments
- Maintenance Costs
- Fees for Late Payments
- Safety and Emissions Inspections
- Fees for Early Contract Termination
- Charges for Excess Mileage
- Excessive Wear and Tear Charges
- Any traffic tickets

What to consider when comparing lease offers?

- The agreed-upon value of the vehicle — a lower value can reduce your monthly payment;
- Up-front payments, including the capitalized cost reduction (depreciation of the vehicle);
- The length of the lease, and the monthly payment;
- Loyalty programs and finance company incentives;
- End-of-lease fees and charges;
- Consider mileage allowed and per-mile charges for excess miles;
- Understand the option to purchase either at lease-end or earlier;
- Consider whether your lease includes GAP coverage, which protects you if the vehicle is stolen or totaled in an accident;
- Ask for alternatives to advertised specials and other lease offerings.

Leasing Rights and Responsibilities

You Have the Right to

- Use the vehicle for an agreed upon number of months and miles
- Turn it in at lease-end, pay any end-of-lease fees and walk away
- Buy the vehicle, if you have a purchase option either during your lease or at the end of its term
- Take advantage of any warranties, recalls or other services that apply to the vehicle

You May Be Responsible for

- Excess mileage charges when you return the vehicle
- Excessive wear charges when you return the vehicle
- Substantial payments if you end the lease early

Mileage

Most standard leases are based on a specified number of miles you can drive, typically 15,000 of fewer per year. Be careful to always consider mileage stipulations when shopping for a lease. Select the amount of miles that matches your driving habits. Keep in mind that when you lease a vehicle, you are actually paying for the use of it. If you use it a little, you will pay less, if you use it a lot, you will pay more.

Wear and Tear/Maintenance

Leasing contracts generally specify that at the end of the lease, you must return the vehicle with no more than "normal" wear and tear. Most new contracts spell out wear and tear as taking reasonably good care of the car and keeping it maintained. If your vehicle has significant damage, you should get it repaired before you return it or you may have to pay for it after you return the car.

End of the Lease

At the end of the lease, you do not owe your vehicle. Provisions on your lease agreement govern your options. These may include:

- Returning the vehicle and pay any amounts owed
- Arranging for the repair of any damage and returning the vehicle
- Extending the lease
- Leasing the vehicle for a new term or releasing
- Purchasing the vehicle

At the scheduled lease termination date, if you return the vehicle, the lessor will arrange an inspection of the vehicle. After the inspection, you should carefully review the vehicle condition report and discuss any questions with the person conducting the inspection. You should note any questions or concerns on the report before signing. Under state law or under your lease agreement, you may have the right to dispute the condition report.

End-of-term charges might include:

- Disposition fee
- Excess mileage charges
- Excessive wear and tear charges

Buying a Leased Vehicle

At the end of the lease, you may renew it, return the car and walk away or buy the vehicle by paying cash or financing it.

If you decide to buy the vehicle at the end of the lease, there are some important things to consider:

- How much has the vehicle value in the market appreciated or depreciated?
- Do you want a brand new car every three of four years?
- Do you want a vehicle that can be modified?
- Will you have to change vehicles on short notice?
- Do you worry about the long term costs of a lease?

Leasing generally makes better cars available for a lower price. But this is not a 100% rule of thumb. As long as you have done your research, and turn in a clean, well-maintained vehicle, you'll see the benefits much more clearly.

In summary, the major difference between buying and leasing is the ownership of the vehicle. When buying, you are the owner and your name is listed on the title along with your finance company or bank if you choose to finance the car. When you lease, the leasing company is the vehicle owner, you are simply renting the car for a specified period of time. Below is a list showing the comparisons between buying/financing and leasing.

Buying vs. Leasing Worksheet

	Buying/Financing	**Leasing**
Monthly Payments	Higher (compared to leasing for the same number of months) because you are paying for the entire vehicle over the term of your contract.	Lower (compared to financing for the same number of months) because you are not paying for the entire vehicle over the term of your contract.
State & County Sales Tax	Paid on the entire price of the vehicle. In some states you can deduct the net value of your trade-in.	Generally paid on the payment you make on the lease. In some states you pay on the entire sales price.
Vehicle Warranty	May expire before most people pay off their finance contract.	Often remains in force for most or all of the typical shorter term leases.
Deposits and Fees	A security deposit is not required.	Lease may require a security deposit, acquisition and termination fees, and other similar charges.
Repairs & Maintenance	Owner chooses what and when to make repairs or service.	Lease agreement may require lessees to make repairs and regularly service the vehicle.

Exercise

Place a check by the three features listed below that appeal the most to you and fit your vehicle needs.

Buying/Financing	Leasing
❏ Satisfaction of owning your own vehicle	❏ A chance to drive a new vehicle more often because lease terms are often shorter than finance terms
❏ Plan on keeping your vehicle for a long time	❏ No resale or trade-in hassles
❏ Use of vehicle may result in excess wear and tear	❏ Potential lower monthly payment or ability to afford a more expensive vehicle than if you finance for the same term
❏ No restraints on mileage if you drive excess miles	
❏ The vehicle is yours to sell or trade in at any time for another vehicle	

You may want to consider your answers when the time comes to buy or lease a vehicle.

Comparison of a finance payment and lease payment on the same vehicle

	Finance Payment	Lease Payment
A. Agreed Upon Selling Price/ Value of the Vehicle	$21,000	$21,000
B. Plus Acquisition Fee	N/A	$595
C. Gross Capitalized Cost	N/A	$21,595
D. Down Payment	$2,000	0
E. Amount Financed	$19,000	N/A
F. Residual Value	N/A	$10,000
G. Depreciation	N/A	$11,595
H. Term in Months	48	48
I. APR	10%	N/A
J. Finance Charge/Rent Charge	$4,130	6,438
K. Total of Payments	$23,130	$18,048
L. Monthly Payment	$482	$376
M. End of Finance Contract/ Lease Agreement	You own the vehicle	You return the vehicle

For purposes of this example, no taxes, title or registration fees have been included. Those amounts will be extra.

Exercise

Using the letters in the left column of the chart on the previous page answer the following questions by selecting the best answer.

1. In financing a vehicle, what is the figure you get when you take the Agreed Upon Selling Price less the Down Payment?

   _____

2. Which of the following items is unique to leasing? Circle the correct answer.

   A C H L

3. Which of the following items is unique to financing? Circle the correct answer.

   A H I K

4. In leasing, this figure is the Agreed Upon Value of the Vehicle plus the Acquisition Fee.

   _____

Buying: Financing

If you decide to buy a vehicle, you will need to obtain financing (unless you pay cash for the entire price of the new vehicle). Financing a car is also known as "obtaining a car loan" or "financing your car". New car loans generally last between 3 and 7 years. Used car loans terms vary widely. The older or more expensive a car is, the more interest you may be charged and the more likely you will have a shorter loan installment repayment period. When you finance a vehicle, your car is the collateral - the lender keeps the title until the loan is paid off. The "title" indicates who the vehicle's owner is. If you do not pay the loan, the bank might repossess (take back) to obtain any loan amount due.

Facts and tips on vehicle financing

- Car and home loans are two of the biggest expenses that we probably will have in our lifetime
- Understand exactly how much you are paying for the loan – understand your interest rate and the amount of time you will be repaying your loan
- Understand the exact amount that you need to borrow
- Shop around to see who gives you the best deal
- If you have a vehicle to trade-in, find out whether you have negative equity (what you owe on the loan is higher than the trade in value of your present car).
- Find out if there is a balloon payment (a final loan payment that is considerably larger than the regular payments) at the end of the payment term

Completing an Application

The next step after deciding the kind of vehicle that you want to purchase and the amount that you can afford is to decide where to get the loan. Buyers can obtain a loan in person or on line from the following sources:

- Banks
- Credit Unions
- Thrifts (financial institution similar to a bank, but focused on personal savings and loan accounts)
- Finance companies
- Small or used car dealership self-financing
- Larger dealership-originated financing

Finance Options

Direct Loan

- The buyer obtains a loan (in person or online) directly from a bank, credit union or finance company.
- The buyer agrees to pay the amount financed plus a finance charge over a period of time.
- The buyer and the dealership enter a contract.
- The buyer uses the proceeds from the direct lender to pay the dealership.

Dealer Financing

- The buyer and the dealership sign a contract.
- The buyer agrees to pay the amount financed and a finance charge over a period of time.
- Loans may be offered through
- Captive[1] Manufacturer-affiliated finance companies
- Dealership works with a clearinghouse organization for loan approvals from non-captive[2] finance companies
- To secure the lowest offered rate, you might need to:
- Make a larger down payment
- Agree to a shorter-term loan
- Have an excellent credit history

Auto-financing tips-what to do

- Shop around for financing before going to the dealer
- Get pre-approved for a loan before you buy
- Compare APRs from different lenders
- Order your credit report a few months before shopping for a car and correct any errors
- Make the largest down payment you can
- Pay for tags, title search and taxes in cash rather than financing them
- If you are going to apply for a loan at the dealership, make sure you first negotiate the best price on the car

Auto-financing tips-what to look for

- Deposits: If you need to give the dealer a deposit, make sure you know whether you will get the money back if you change your mind. Get it in writing
- Service contracts, credit insurance, extended warranties, and other options are not required and can be costly over the term of the loan
- Be wary of ads that promise loans for people with bad credit. These deals often require a higher down payment or have a very high APR

1.A finance company owned by a manufacturer to finance dealers' inventories or to make loans to consumers buying the company's products

2. Non-captive finance companies supply finance products marketed by other companies

Negotiating a vehicle price

- The average price of a new car sold in the United States is more than $28,000. That is why it is important to know how to make a smart deal

- In order to make an offer check the Internet for resources regarding vehicle pricing:

Kelly Blue book
Web site: http://www.kbb.com/

Edmunds
Web site: www.edmunds.com

National Automobile Dealers Association
Web site: www.nada.org

Length of Financing Worksheet

Generally, contract terms range from two to six years-24 to 72 monthly payments. The longer you take to pay, the lower the payments will be, but the finance charges will be higher.

Below is a comparison of the monthly payments, total finance charges, and payment total for the same priced vehicle with no down payment and different terms:

APR	Length of Contract	Monthly Payment	Total Finance Charge	Total of Payments
10%	24 months	$923	$2,149	$22,149
10%	36 months	645	3,220	23,220
10%	48 months	507	4,336	24,336
10%	60 months	425	5,500	25,500
10%	72 months	371	6,684	26,684

In this example, no taxes title or registration fees have been included. Those amounts will be extra.

Exercise

Answer the following questions pertaining to the chart above.

1. What is the total amount you would save if you chose a 36-month contract over a 60-month contract? $_____

2. What is the difference in monthly payment between 48 months and 60 months? $_____

Down Payment

A way to lower your monthly payments is making a down payment. Compare how the monthly payments change with a different down payment*:

Monthly Payment

$331	$312	$294	$276
$0	$1000	$2000	$3000

Down Payment

*$18,000 financed, 3.9% APR, 60 month term

Lien on the Vehicle

While you are making payments on your vehicle, the lender will put an automatic lien on your vehicle. This means that your debt is secured by the vehicle and you will receive a clear title after all monies owed on the loan have been paid. After you have paid off your vehicle in full, the financial institution is obligated to send you a notice or letter stating that the debt has been repaid in full. As soon as you receive any of these documents, contact your state's department of motor vehicles and request a "clear" title where the vehicle will appear in the owners name only and all liens from the car loan creditor will be removed. Contact your lender, if you don't get this document within 30 days of your last payment.

Repossession and Your Credit

As we discussed previously, there are consumer laws that protect your rights as a buyer. However, along with consumer rights, the law prescribes consumer responsibilities. Once you have entered into a contract to buy a vehicle, it is your responsibility to make monthly payments as agreed and contact your creditor if you can't make the payments. A creditor has the right to repossess (take back) your vehicle if payments are not made as agreed.

If you have anything repossessed such as a car or other belongings, it is going to affect your credit negatively. If you think that you are nearing the point of repossession try to contact your debtor and see if you can make some arrangements to pay some other way or some other price. You should avoid repossession at all costs. Both leave a negative effect on your credit score and will remain with you for many years.

Voluntary Repossession

Voluntary repossession looks as bad on your credit as if the creditor came and took the property from you. The only difference is that if you voluntarily return your vehicle, you could save on some fees associated with its collection. Either way, the derogatory notation will stay on your credit bureau file for seven years.

Remember, preventing repossession is easier than trying to dispute it afterwards. If you are unable to make a timely payment, contact your creditor or lessor immediately.

Insurance

Before you can drive your vehicle out of the dealership, you need to have appropriate car insurance. Most states require you to purchase a specified amount of insurance coverage. Creditors and lessors have minimum requirements spelled out in the lease agreement or installment contract. Listed below are the most common forms of coverage:

Liability

Type of Coverage	What is Covered
Liability	Liability insurance pays for bodily injury and property damages (expenses) to other drivers and their vehicles, if you are at fault. This might include medical bills, lost wages, repair or replacement of things you damaged in the accident and legal costs for your defense.
Medical Payments	Regardless of who caused the accident, reimburses drivers and their passengers for medical and funeral expenses.
Personal Injury Protection or "No Fault Insurance"	Some states have "No Fault" insurance regulations that may include medical payment insurance and payment for lost wages.
Uninsured/ Uninsured Motorist	If a hit-and-run driver or someone who doesn't have insurance strikes you, it pays for your injuries; pays out if the driver who injures you causes more damage than his or her liability insurance covers.

Minimum requirements for liability insurance might be imposed by the state in which the vehicle is registered.

Higher limits of liability insurance are required by lease agreements. These can be more costly and not available depending on the applicant's driving records and other factors.

Physical Damage

Type of Coverage	What is Covered
Collision	Covers damage to your vehicle resulting from a collision with another vehicle or object unless the other party or their insurance company has agreed to pay for the damage.
Comprehensive	Covers damage to your vehicle by events other than a collision such as flood, fire, hail, theft, or vandalism.
Rental Reimbursement	Coverage for vehicle rentals if your vehicle is damaged or stolen.
Towing and Labor	If your vehicle breaks down on the road, pays for towing and labor charges.
Auto Replacement	Pays for the full replacement value of the car, even if these costs exceed its actual cash value.

Collision and comprehensive coverage usually have a deductible (the amount that you must pay the repair facility for work when vehicle is being repaired).

All lease vehicle agreements require physical damage coverage for the term of the contract or lease agreement.

Buying Insurance

One of the most important decisions to make when buying or leasing a vehicle is buying insurance. Insurance is a cost attached to the life of your vehicle; therefore, it is important to shop around for the best price and the best coverage. The following is a list of things to consider when buying an insurance policy:

- Review your insurance needs and circumstances.
- Shop around, contact several companies to compare benefits, coverage, exclusions, and premiums.
- Do not make quick decisions; compare policies from different insurance companies.
- Be sure that your application is complete and accurate.
- Write a check to the insurance company, do not pay in cash.
- Your policy and proof of insurance cards should arrive within 60 days; if you don't receive it, contact the company and agent.
- Read your policy to make sure everything is correct and ask your agent to explain any terms that are not clear.
- Keep in mind that you don't need several policies from different companies; you only need one good one.

Factors in Setting Rates

If your vehicle has certain features, you can save on insurance. Safety features such as airbags, anti-lock brakes, and anti-theft devices often qualify a vehicle for premium discounts. Vehicles are also rated by insurance companies on collision repair costs, claims experience and popularity among thieves. The better the rating, the lower the costs for comprehensive and collision insurance.

The following is a list of factors used by the insurance companies to determine rates:

Type of vehicle: Make, model, year, safety features, repair and theft record

Personal characteristics: Age, gender, marital status, previous insurance claims, type and frequency of vehicle use (for example, commuting)

Geographic location: Statistics on accident, theft and vandalism in cities; whether you live in a city or a small town (usually rates are higher if you live in a city)

Driving record: Number and type of moving violations, points on your record and years insured with the company

Insurance credit scores: Your insurance score is calculated using information from your credit report which could impact the amount of your premium.

Your insurance company cannot use the following rating criteria to determine how much you should pay for automobile insurance:

- **credit history,**
- **bankruptcy,**
- **employment status,**
- **whether you own a credit card,**
- **how long you have lived in your current home,**
- **not-at-fault accidents,**
- **whether your vehicle is owned or leased, and**
- **whether there was a period of time where you had no automobile insurance coverage.**

Gap Protection

An optional insurance product offered by insurance companies is known as loan/lease gap protection. This type of coverage is optional, but its worth having in the event that your vehicle is totaled before it is paid off or the lease period is up and you owe more on the car than it is determined to be worth as a total loss. For example, if you owe $8,000 on your loan, but the value of the total vehicle is only $6,000 then that is all the insurance company is obligated to pay for the loss of your vehicle. You will still owe $2,000 on a car that you no longer have. If you have loan/lease gap coverage, the $2,000 will be covered by your gap agreement.

To determine whether you need to purchase loan/lease gap coverage just compare what is currently owed on the vehicle with its current book value. If there is a substantial difference that you could not afford to pay out of pocket if the vehicle is totaled, then is worth looking into this insurance option.

Disability Insurance

Another insurance option offered by insurance companies is disability insurance. Industry experts say that disability insurance is the most overlooked of all personal insurance products. People usually insure their cars, homes, lives, but have a tougher time insuring their income. In the event of a disability, however, bills such as mortgage or rent, utilities, food, loans, clothing, and auto expenses will still need to be paid. Disability insurance will help protect against financial risk by providing benefits at a level proportionate to pre-disability earnings. The way benefits are paid, the amount and frequency are all determined by the policy contract.

Optional After Sale Products

You may be offered a variety of products that could enhance the operation or appearance of your vehicle once you have chosen the vehicle you want to buy.

Some of the products you may be offered are:

- DVD Player
- CD Player
- Sunroof
- Truck Bedliner
- Heated Seats
- Leather Seats
- Alarm System
- Security System
- Navigation System

All of these products and any other additional products that you might want will cost you an additional amount of money that will be added to the sales price. You have the right to choose or refuse any optional products presented to you. Some people buy the same vehicle but end up with different monthly payments because of the options they have chosen to add to their vehicles.

Vehicle options and their impact on your payment

Car A		Car B	
Selling Price	$21,000.00	Selling Price	$21,000.00
Alarm/Security System	$800.00	DVD player	$500.00
Moonroof	$1,250.00	Custom Tires	$300.00
Cash Down Payment	$2,000.00	Cash Down Payment	$2,000.00
Total Due at Signing	$2,000.00	Total Due at Signing	$2,000.00
Amount Financed	$21,050.00	Amount Financed	$19,800.00
Loan Term	48 months	Loan Term	48 months
APR	10%	APR	10%
Finance Charges	$4,576.00	Finance Charges	$4,300.00
Total of Payments	25,626.00	Total of Payments	$24,100.00
Monthly Payment	$534.00	Monthly Payments	$502.00

Exercise

Place a check next to the item included in the payment amounts listed in Car A and Car B options and their impact on your payment":

Options	$502.00 Monthly Payment	$534.00 Monthly Payment
Alarm		
DVD player		
Moonroof		
Custom Tires		
Credit Life		
Service Contract		

Adding optional products has an impact on the amount financed as well as in your monthly payment amount. Negotiate with the dealership to include some of the optional products in the already agreed selling price of the vehicle. Sometimes, the dealership will offer you a package that includes the optional products you are interested in at a lower price.

As discussed above the following are other optional products on the finance contract or lease agreement might be:

- **Credit Life Insurance:** an option to choose life insurance to cover the credit extended with a finance contract or lease agreement
- **Disability Insurance:** insurance that will cover your scheduled monthly payments in the event of a sickness or disability
- **Gap Protection:** a product that pays the difference between a total loss insurance settlement and the net schedule payoff of your finance contract or lease agreement.

Service Contract

Unlike vehicle insurance, the service contract covers repairs due to mechanical or electrical failures that occur during normal use of the vehicle. This product is likely to be offered to you when you purchase or lease a vehicle, particularly a used vehicle.

A service contract:

- Supplements the vehicle warranty
- Protects vehicle owners against unexpected major covered vehicle repair expenses
- May provide convenience options, like car rental, when your vehicle is being repaired

Typically, service contracts provide repair protection for mechanical and other components that can range in cost from a few dollars to a few thousand, like replacing an engine. Some convenience options like rental, towing and even maintenance may be offered as part of the package.

Before you purchase a service contract, determine what warranty comes with the vehicle. Most new vehicle warranties provide coverage for a specified period of time. Once you know what warranty comes with the vehicle, you can evaluate what you need and what you can afford.

Questions to Ask Before You Purchase a Service Contract

Need	Afford
Will you keep the vehicle after the warranty expires?	Can you afford a more expensive monthly payment
How important to you are the various service contract features?	Can you afford to pay for the contract in cash to avoid additional finance or rent charges?
Will you be able to pay for a major repair bill?	

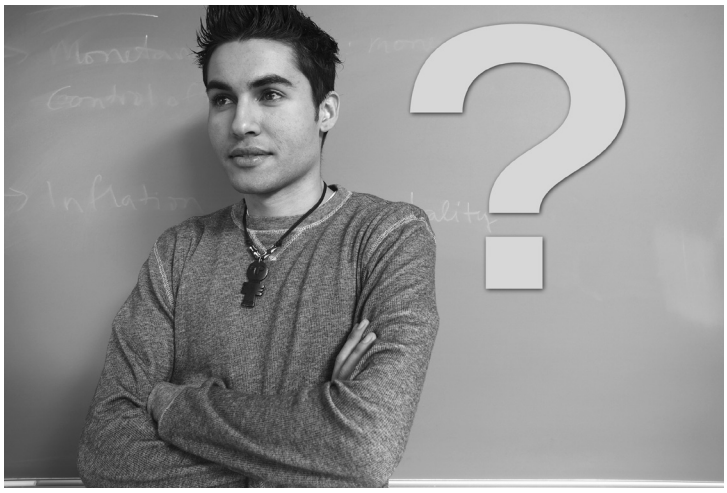
Self-Test: Are You Ready to Buy a Vehicle?

This self-evaluation should give you an idea of whether you are ready to buy a car. Please make a check mark on the appropriate column as you answer the following questions:

Questions	Yes	No
Are you sure you want to buy a vehicle?		
Do you have stable income and stable employment?		
Do you plan to keep the same vehicle for the next few years – depends on the reason for which you are buying the vehicle		
Have you created a budget so you know how much you can afford?		
Do you have an established credit history?		
Do you pay for your bills on time?		
Do you have money saved for a down payment, insurance and car registration?		
Have you considered different finance/lease options?		
Are you ready to take on an additional monthly payment?		
Have you weighed your wants vs. needs to arrive at an affordable car payment?		

If you answered "yes" to the majority of questions listed above, you are probably near-ready to buy a vehicle.

If you answered "no" to the majority of questions listed above, particularly questions 2, 3, 5, 6, 7,8 and 9, you probably need a longer time to get ready to buy.



Section Review

Circle the correct answer:

1. Optional gap protection can be added to the lease agreement.
   a. True
   b. False

2. An example of additional items that can usually be added to the finance contract is
   a. Gap Protection
   b. Credit Life Insurance
   c. Service Contract
   d. All of the above

3. Optional Credit Life Insurance is only available with a lease agreement.
   a. True
   b. False

4. What is the purpose of a service contract?
   a. Adds additional time to the vehicle warranty
   b. Protects owners against unexpected auto repair expenses
   c. Pays for all vehicle repairs regardless of the circumstances
   d. All of the above

5. Your monthly payment can be lowered with a down payment
   a. True
   b. False

6. When you finance at the dealership, you are entering into an installment sales contract between you and the dealership.
   a. True
   b. False

7. A copy of the vehicle lease agreement should be carefully read
   a. True
   b. False

8. Options costs that may result in a higher car payment might be
   a. Heated seats
   b. DVD player
   c. Leather seats
   d. All of the above

9. Term is the length of the lease agreement or finance cont
   a. True
   b. False

10. A Finance Charge is the total dollar amount you pay to u
   a. True
   b. False

Additional Learning Resources

Federal Trade Commission (FTC) — Provides free online consumer information and resources for auto leasing, purchasing and financing

National Association of Auto Dealers (NADA) — Web site provides auto financing resources for consumers

Kelley Blue Book — Provides consumers with car pricing and values for new and used cars, and resources for auto financing

Web Sites and Contact Information

- Edmunds
  Web site: www.edmunds.com
- National Automobile Dealers Association
  Web site: www.nada.org
- Kelley Blue Book
  Web site: www.kbb.com