THE CAR HANDBOOK

FROM THE OFFICE OF

MINNESOTA ATTORNEY GENERAL
LORI SWANSON

www.ag.state.mn.us

MINNESOTA ATTORNEY
GENERAL'S OFFICE
445 Minnesota Street
Suite 1400
St. Paul, MN 55101
651-296-3353
800-657-3787
TTY: 651-297-7206
TTY: 800-366-4812
www.ag.state.mn.us

This brochure is intended to be used as a source for general information and is not provided as legal advice.

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Driven to Buy a Car?

So you want wheels. And you want the best deal on wheels. You've come to the right place. This handbook contains the latest research and tips on buying cars, with crucial information concerning your legal rights as a consumer. We hope we've provided the information you'll need to make a deal that you'll be happy with.

For most of us, buying a car is the largest purchase we'll ever make besides buying a home. Today a new car will likely cost over $20,000, and, because it is legally binding, the purchase should be very well-considered.

The Minnesota Attorney General's Office hears from many consumers every Monday morning who assume they can still return the car they bought Friday night. Again and again our phones ring with the question, "Can I return the car I just bought this weekend?" Our answer is almost always, "No." **There is no three-day cooling-off period in which to reconsider a car purchase as there is with some other purchases. Once you sign on the dotted line, the car is yours.**

Once you sign on the dotted line, the car is yours.

Avoid being one of our Monday callers by doing your homework before you buy a car. In this book, we provide guidelines and references to help you decide what kind of car to buy, what you can comfortably afford, whether to buy a new or used car—or lease one instead, what options and extra protections to purchase, car rental practices to be aware of, and how to maintain your vehicle without getting run over in the process.

Car buying is intimidating to many people. For instance, how many of us know the difference between three and four cylinders? If air bags are fail-safe? Or whether an extended warranty makes sense? If you aren't car savvy, or are a little rusty on car mechanics and the latest dealer practices, you may appreciate a few tips and pointers.

We've written this book to be comprehensive enough to give you the tools you need to make a good car buy. But if you need more information about auto buying, don't hesitate to pick up the phone and call us at 651-296-3353 or 800-657-3787. We'd rather hear from you now than "the Monday morning after!"

Buying New vs. Used

Do you see yourself tooling around town in a gleaming vehicle with the latest options? Were you on the crest of the wave with your bright-red hot rod at age 20? Would you feel inferior today without an impeccable interior

to show your business clients? Then you probably won't be fulfilled without a new car.

Buying new isn't only about image. New cars have safety features that are constantly being improved. They may be less likely to rust because of better rust protection. And they're virtually problem free. With a new car there's less risk of being stuck on the highway at 20 below zero with a transmission that just went out. If something does go wrong, it's usually under warranty for several years, so you won't have to pay to fix it unless you have a deductible written into your warranty.

On the other hand, buying a new car is a financial risk. You can't know how much your car will be worth several years down the road. It will lose hundreds or thousands of dollars in value over the first two years, but you may still be paying off a loan based on its negotiated showroom price.

Many car experts say you'll come out best financially if you buy a car that's a couple of years old, after the major depreciation has occurred. Even with the cost of repairs, used cars cost less to drive. With these savings, you can save some cash for repairs and still come out ahead.

When deciding whether to buy a new or used car, ask yourself if you have the temperament to drive a car that needs periodic maintenance, or if you'd rather spend more money up front for a car that is warranted to deliver a reliable ride.

Buying vs. Leasing

Buying is more traditional. But bold headlines keep telling you that you can lease a brand new sedan for $259 a month, or a four-wheel-drive truck for $299 per month! However, you won't own the vehicle if you lease. You're really just renting a car for the long term.

So is buying more practical? There isn't an easy answer. **No matter how you look at it, leasing and buying aren't easy to compare. Take some time to read "Get a Lease on Leasing" beginning on page 43 in which we've identified some ways to compare leasing and buying by calculating your monthly payments and looking at the long-term costs of each.**

Read "Get a Lease on Leasing" beginning on page 43 for tips on comparing leasing and buying.

This is only an overview of the issues you'll face in determining whether to buy a new or used car, or choose instead to lease. Read the chapters concerning each of these choices before you make your decision. Learn the rules of the road before you hit the streets, lots, and showrooms!

What Can I Afford?

While newspaper ads and sticker prices in car windows may give you a rough idea of what a car costs, they don't tell you the total cost of owning a car. **Car costs vary based on the options, the terms of the loan, the mileage (if it's used or leased), the insurance, driving habits, and current market values.** You can figure your own costs of owning your car by filling out the chart below.

Consider monthly and annual costs to figure the cost of owning a car.

		Monthly Cost	Annual Cost
Fixed Expenses	Down Payment		
	Loan Payment		
	Insurance		
	License Fees		
	Tax		
	Other		
Flexible Costs	Gas		
	Oil		
	Tires		
	Maintenance		
	Other		
	Total:		

Figuring It Out

So how do you figure out how much owning a car will cost you? The answer can be found with research and a little guesswork. Fixed costs will be the same regardless of whether you drive just twice a week to pick up groceries or drive an hour to and from work every day. Flexible costs increase with the mileage and wear and tear on your car.

Fixed Fees

Down Payment

If you take out a loan for a car, you'll pay a percentage of the car's cost up front as a down payment. Finance companies usually require a down payment because they like to see you put up some of your own money to demonstrate your commitment to the transaction. A trade-in can also be used as a down payment.

Rebates, sometimes offered to consumers by car manufacturers, can help you make the down payment if you don't have the cash. Rebates are usually well advertised.

Your Loan Payment

Banks and credit unions frequently offer the lowest rates on loans, but car manufacturers and finance companies offer loans, too. Car dealers may also offer to provide financing. Sometimes you'll pay car dealers extra interest for this one-stop shopping convenience. Other times dealers may knock down interest rates to pass along savings they've received from manufacturers who are trying to push certain makes and models.

You should be able to negotiate the interest rate you get from a dealer. For instance, a dealership may be able to get a loan for you at six percent, but will charge you eight percent and keep the extra two percent for itself. You should ask the dealership for the exact rate the bank is willing to make the loan at and compare it to what the dealership wants to charge you. If the rates are significantly different, negotiate the difference.

If you get a loan to finance your car, the seller must provide a written statement disclosing what the payments would be with and without certain add-ons included in the purchase price.

If you get a loan to finance your car, the seller must provide a written statement disclosing what the payments would be if certain add-ons are included in the purchase price (and the loan) and what the payments would be without those add-ons.

The add-ons that must be disclosed are:

1. Service contract.
2. Insurance.
3. A debt cancellation agreement.
4. Theft deterrent device including: vehicle alarm system, window etching, body part marking system, steering lock, pedal or ignition lock, fuel, or ignition kill switch.
5. Surface protection such as undercoating, rust proofing, paint sealant, or fabric protector.

The disclosures must be in a single document in 10 point type, separate from the sales and loan agreement, and must be signed by the purchaser.

Tip: If you have your loan payments automatically deducted from your bank or checking account, you may be able to get a discounted interest rate. The automatic deduction cuts down on the lender's administration costs, so your lender may be willing to give you a break.

Questions to Ask About Your Loan

1. What's the percentage rate I'm paying?
   Always look at the annual percentage rate. It may differ from the face rate of the note if you are buying and financing extras.
2. What's the grace period for my monthly payment?
3. Is there a late charge after 10 days? 30 days? If so, how much is it?

How Do You Get a Loan?

Getting a loan is easy if you've taken care of your bank or checking account. You don't need a long credit history. Financial institutions will look at the following items when considering whether or not to grant a loan:

- A pattern of meeting financial obligations;
- More than one year at the same job; and
- No more than half of your gross income committed for fixed expenses such as rent, loans, and credit cards.

Having all of these is not always necessary, according to bankers.

Credit Problems?

If you don't meet the above profile, you still may be able to get a loan. If you have a lot of cash on hand and have found a good deal on a car, you may be able to get a loan for the balance. But if you don't have much cash and you have a bad habit of bouncing checks or missing other bill payments, you'll need to discuss with your lender how to clear your record.

Establishing good credit can be as easy as paying your bills on time for six months. Lenders typically want to help you get a loan. Establish a relationship with a loan officer, and tap into his or her expertise.

Be wary of finance companies that offer loans to high-risk individuals who are considered "unbankable." You'll pay much higher than average interest rates at these institutions.

The law requires that you be informed if your credit report is obtained in connection with your loan application for a motor vehicle loan. If a credit report is obtained, you must be given a written statement telling you that a credit report was obtained and that provides you with information on how to contact the various credit reporting agencies. If you make a request in writing, the dealer shall obtain from the lender the information regarding which credit reporting agencies have been contacted. Once you have that information, you may contact the credit bureau to determine what information is in your credit report. **For more information on credit reports, please refer to the *Credit Handbook* provided by the Minnesota Attorney General's Office.**

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Length of Loan

Several years ago, loans were usually three years in length. Now, however, loans are typically five years or longer in length to spread out the higher cost of a vehicle over a longer period of time.

If you plan to buy a new car before you pay off your current car loan, you'll end up paying two car loans at once. To keep from incurring high debt, plan to keep a car until you've paid off the loan.

Used Car Loans

Loans for used cars are similar to loans for new cars, except that lenders generally finance no more than 80 percent of a used car's value. **This total value is usually based on the "National Automobile Dealers Association's ("NADA") Used Car Guide" or "blue book." NADA's blue book can be found at the library, most bookstores, and online at *www.nadaguides.com.*** Typically you'll pay a higher interest rate on a loan for a used car than for a new one.

The "National Automobile Dealers Association's (NADA) Used Car Guide" is available online at *www.nadaguides.com*

A Loan Turns You Upside Down

When you finance a new car or truck, you'll most likely be "upside down" for much of your typical five-year loan. That means a few years down the line you will probably owe more for the car than the car is worth. This is due to depreciation (see page 12 for more information).

Knowing that you won't really own your new car until it's very used is an uncomfortable realization for some people. It's also one reason to consider buying a used car. Leasing is another option for those who don't care if they ever own a car and would rather drive a newer car all the time.

Once you determine the interest rate you'll pay for a loan, log the monthly loan payment and the total annual payment into the preceding chart. If you plan to finance options or extras such as extended warranties and credit life insurance, add these to the loan payment. (Read about extras in "It's Not Over Until It's Over" beginning on page 28.)

Repossession

When you take out a loan, the lender owns the car, not you. You risk having your car "repossessed"—taken back by the finance company—if you lose your job, are hurt in an accident, or otherwise can't make your loan payments. In that case, you won't recoup a penny of the payments you've already made. In addition, you may have to pay a "deficiency judgment"—the difference between what the

finance company sells your car for and the loan amount. Because the finance company is only obligated to sell a repossessed car in a "commercially reasonable manner," it may auction the car off at less than its retail value. For example, if you have $18,000 left to pay on your car when it's repossessed, and the finance company sells the car for $16,000, you have to pay the finance company $2,000. The $2,000 is the deficiency judgment. Adding insult to injury, you'll also have a poor credit rating as a result of not paying your loan, which means you'll have trouble buying a replacement vehicle.

Creditors who are pursuing repossession have to follow a few rules. Such as, the car may be towed from in front of your house, but the creditor may not break into your garage to get your car. Also, if a creditor loaned you money to buy a car, then the creditor can only repossess the car. The creditor cannot keep other items that might be in the car when it is repossessed.

Repossessions Can Happen Quickly

Finance companies normally aren't obligated to send letters warning you that your car may be repossessed. While they will write first to inform you of a delinquent loan, they may have a right to repossess your car if your payment is even *one day late* following the grace period.

Avoiding Repossession

To avoid the unpleasantness of repossession, call your lender immediately if you don't think you'll be able to make a loan payment within the grace period. In many cases, the lender will try to figure out a payment plan that you can stick to. But if you don't call right away, the lender may be less forgiving.

Insurance

Once you've narrowed down the car models you're considering, call several insurance agents to ask for insurance price quotes.

Insurance rates always vary based on age, sex, marital status, driving record, where you live, the number of miles you drive to and from work, and the number of miles you drive annually, as well as your vehicle's age and value. In short, if you're considered low risk, you'll pay less. If you're, say, a married couple with a teenage son at home, you're considered a high risk and will pay more than average.

Once you've narrowed down the car models you're considering, call several insurance agents to ask for insurance price quotes.

Minnesota law requires that you carry auto insurance for bodily injury, property damage, personal injury, and uninsured/underinsured coverage.

Required Insurance

In Minnesota, the minimum insurance you are required to carry includes:

- $30,000 per person and $60,000 per accident for bodily injury (This covers claims against you in addition to your legal defense if your car injures or kills someone.);
- $10,000 property damage liability (This amount is paid for claims and defense costs if your car damages another person's property.);
- $40,000 for personal injury protection ("PIP") (This covers your medical costs if you are in an accident.); and
- $25,000 per person and $50,000 per accident for uninsured/underinsured coverage (This pays the medical expenses of those in your vehicle in the event they are injured by an uninsured or underinsured motorist.).

The following are also required by lenders for the duration of a car loan:

- Collision insurance (This pays for damage if your car is in an accident.); and
- Comprehensive physical damage insurance (This covers damage if your vehicle is stolen or damaged by fire, flood or another disaster.).

Additional Insurance to Consider

Pay for more insurance? Yes. You may want more than the minimum that's required, including:

- Medical payments insurance (This pays for medical expenses of the driver and passengers in your car who are injured in an accident.);
- Towing (If your car stalls or is in an accident, towing is covered.); and
- Car rental insurance (When your car is being repaired, you can collect insurance to pay for a rental car.).

Seven Ways to Lower Your Insurance Costs

The Insurance Information Institute in New York offers the following tips to reduce your insurance payments:

1. **Comparison shop.** Shop for both fair prices and excellent service. Narrow the field by asking friends and relatives about their rates and checking the survey on page 79 for an estimate of rates.

2. **Ask for higher deductibles.** Deductibles are the amount you pay out of pocket before your insurance company covers a claim. By increasing your deductible from $200 to $500, you could reduce your collision and comprehensive coverage cost by 15 to 30 percent.

3. **Drop collision and/or comprehensive coverage on older cars.** For cars worth less than ten times the cost of coverage, it may not be worthwhile to carry collision or comprehensive coverage. Your deductible and premiums paid may be equal to or more than the amount you pay for this coverage.

4. **Buy a low-profile car.** Cars with high incidences of collision or theft, or those that are associated with a high rate of injury, may cost more to insure than those considered safer or less sought after by thieves. The Insurance Institute for Highway Safety has information regarding loss statistics and motor vehicle safety. Contact the Communications Department at 1005 N. Glebe Road., Suite 800, Arlington, VA 22201, phone 703-247-1500, or view the information available on its website at *www.iihs.org*

5. **Take advantage of low-mileage discounts.** Some insurers offer discounts to motorists who drive less than a predetermined number of miles per year or those who carpool to work.

6. **Find out about automatic seat belt or air-bag discounts.** You may receive a discount for having safety devices, such as airbags, anti-lock brakes, daytime running lights, or anti-theft devices.

7. **Ask about other discounts.** Other possible discounts may be given for owning more than one car, having no accidents in three years, being more than 50 years old, taking driver training courses, installing anti-theft devices, having anti-lock brakes, being a nonsmoker, and even being a good student.

From the Insurance Information Institute, New York, NY. For more information, visit www.iii.org.

Licensing Fees and Tax

It may be a relief to know that there are two fees that are not negotiable, motor vehicle sales tax and licensing fees! Motor vehicle sales tax in Minnesota is currently 6.5 percent (although some municipalities and counties may add an additional 0.5 to 1.0 percent). And the state has set licensing fees for the type and year of each vehicle. **To check the licensing fees on a car you're considering buying, contact the Minnesota Department of Public Safety Driver and Vehicle Services Division at 651-297-2126.**

To check the licensing fees on a car you're considering buying, contact the Minnesota Department of Public Safety Driver and Vehicle Services Division at 651-297-2126.

Flexible Costs

Fixed costs are the same whether you travel 30 or 3,000 miles a month, but flexible costs are tied directly to your use of the vehicle. These are costs for gasoline, oil changes, car washes, protective maintenance, periodic repairs, and depreciation.

The depreciation depends on the value of your car, which is influenced by its age and the number of miles you've put on it. You'll have to guess a bit on this cost. Determining other flexible expenses is easier, especially if you've already owned a car. If you've never owned a car, information is available at the library or on the Internet. The publishers of "The Complete Car Cost Guide," now publish directly to their website *www.IntelliChoice.com*. Earlier versions of "The Complete Car Cost Guide" are available at libraries and bookstores.

Fuel Costs

To figure how fast you'll empty your wallet by filling your tank with gasoline, first determine how many miles you drive per month. If you haven't owned a car, you'll have to make an educated guess. Then ask a dealer or consult a car book to determine the gas mileage of the car you're considering buying.

Example: 1,000 miles ÷ 30 miles per gallon x $3.00 per gallon of gas. Rounded off, that's 33 x $3.00, which equals $100.00 per month. (Multiply by 12 for the yearly gas expense. In this example, you would pay $1,200.00 for gasoline for the year.)

Tires, Maintenance, and Repairs

Finally, figure in the expenses of buying new tires every few years and paying for general maintenance every year. Maintenance may be as simple and inexpensive as quarterly oil, fluid, and filter changes for the first few years you own a new car. **If you plan to buy a used car, you'll want to set aside more money for maintenance and repairs.**

An Appreciation for Depreciation

While not an out-of-pocket cost, depreciation is the biggest expense you'll have on an automobile, especially a brand-new one. Depreciation makes up more than half the cost of owning and operating a new vehicle.

A new car can lose between several hundred and several thousand dollars in value the minute you drive off the dealer's lot. About 20 percent of

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depreciation costs occur within the first year. Even so, you really won't feel the sting of depreciation unless you sell your car soon after you buy it.

It's impossible to know exactly how much a car will depreciate because so much of its value is wrapped up in its popularity. But the "blue book" will give you an idea, as long as this isn't the first year the model has been sold. Look up previous years' models to see how they've held their value.

Hit the Books Before the Accelerator

Countless car-buying guides describe makes and models, covering everything from cylinders to seat comfort. How much do you really need to know about cars before you buy one? You don't have to be a car genius to buy a car you'll be happy with. Just do some soul-searching and some simple research first.

Consider Your Needs and Wants

When you start the car selection process, simply knowing that you "kind of like little wagons" or want something with "some zip" is fine. But also ask yourself, "What will I use the car for?" and, "What are my priorities?" A small wagon might be a reliable family car, whereas a two-seat sports car might be the ticket for weekend cruising. Use our checklist on page 76 to review your options.

Resale Considerations: Tips for Better Resale Value

- Avoid offbeat or less well-known makes and models. Remember the Pacer? The Gremlin? The Fiero? Where are these today? Select a popular, highly regarded model or a car from a respected automaker that will virtually be guaranteed to be well-regarded years down the road.
- Choose a car from an automaker that doesn't change its body style every year or so. If you're bent on buying a fashion-forward style, buy it soon after it's first marketed.
- Even in Minnesota, a good air conditioner is a must for raising resale value. A high-quality sound system also heightens the value.

Don't Hurry Love

The best way to avoid problems after you buy a car is to know what you need before you buy it—and not get swept away by love. Here's what happened to a poor fellow who fell for a car and made a commitment too soon.

The best way to avoid problems after you buy a car is to know what you need before you buy it.

The man was enamored with a little foreign sports car offering a fast ride and some sex appeal. He put down his money and made a long-term financial promise. This man lived in the North Woods—100 miles from the nearest foreign car dealer. He had failed to realize that every time his fast and temperamental import broke down, he'd have to have it towed 100 miles!

Frustrated and fed up, he wanted to return the car, but it was too late. He'd signed the contract to purchase the car and had to live up to his agreement, for better or worse.

Go into car-buying with your eyes open. **Before you buy a car, know what car you want. Know its value. Know if you can afford it.** Don't let love turn your head and empty your wallet.

Ask Around

Whether they're highly knowledgeable about cars or not, car owners can tell you about the experiences they've had with their cars. Quiz them to find out what they like and don't like about their cars. Listen to their recommendations, but keep in mind that their reasons for liking a car may differ from yours.

Visit the Library

Comparison shop by learning how "the experts" rate cars. "Consumers Digest" and "Consumer Reports" publish annual reports comparing models.

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Go Online

We'd be remiss if we didn't mention using the Internet for research. If you're familiar with the workings of the Internet, you may be able to access a website full of information on the vehicle you're considering. If you don't have Internet access, see if your library does.

Use your resources to narrow your choices down to three or four models. Different manufacturers design cars that are very similar, so learn which cars or trucks are basically the same. Guides often categorize cars in classes so you can easily comparison shop.

Compare Costs

If you're like most car buyers, you'll get a loan to pay off a car, so you should determine what you can spare each month. To figure your car costs, remember that the listed car price is only one slice of the financial pie—and it's usually negotiable. Insurance, depreciation, license fees, gas and maintenance make up a major part of the cost, but buyers seldom consider

them up front. Adding up all these pieces will tell you what you'll really spend monthly and annually over the life of the car. See "What Can I Afford?" beginning on page 5 for a review of how to calculate your costs.

Make a Safe Choice

Manufacturers have discovered that a majority of consumers put safety first. Therefore, manufacturers are putting considerable effort into designing cars that can minimize injuries in an accident.

Every year the National Highway Traffic Safety Administration ("NHTSA") issues reports comparing the occupant protection levels of approximately 90 automobiles. The test simulates the impact of two cars meeting head-on at 35 miles per hour. Crash-test dummies in the cars show the injuries people would have received if they'd been in the accident. To get the latest crash test results, call NHTSA's Vehicle Safety Hotline, 888-327-4236 or TTY: 800-424-9153. If you prefer, check out its website at *www.nhtsa.gov*.

The Insurance Institute for Highway Safety also has a website (*www.iihs.org*) which contains a lot of information on crash test and survivability ratings.

Safety Equipment

For optimal safety, cars should not only hold up well in a crash, but should also include safety equipment. Consider ordering the following for your car if the following aren't already standard equipment:

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Advanced Frontal Air Bags: Advanced frontal air bags are designed to meet the needs of the occupant in a variety of specific crash situations. Depending on design, advanced frontal air bag systems automatically determine if and with what level of power the driver and passenger frontal air bags will inflate. The appropriate level of power is based upon sensor inputs that can typically detect occupant size, seat position, seat belt use of the occupant, and crash severity.

Side-Impact Air Bags ("SABs"): Side-impact air bags are inflatable devices that are designed to help protect your head and/or chest in the event of a serious crash involving the side of your vehicle. There are three main types of SABs: chest (or torso) SABs, head SABs, and head/chest combination SABs.

Additional information on the specific types of SABs is available at *www.safercar.gov.*

SABs inflate in a fraction of a second and are designed to help keep your head and/or chest from being hit by hard objects both inside and outside your vehicle in serious side-impact crashes. Sensors determine whether a crash is severe enough to inflate the SABs. Unlike frontal air bags, some of the

side curtain air bags may stay inflated for several seconds during a crash for additional protection in the event of a rollover.

Safety Belts in Front and Back Seats: While some people believe it's better to be thrown free from the car in an accident and therefore don't wear their safety belts, the chances of being killed are 25 times greater if you're ejected from the car. About 60 percent of the deaths and injuries in car crashes could have been avoided if the occupants had been wearing safety belts. Further, many states require the use of safety belts. So buckle up!

Anti-Lock Brake Systems ("ABS"): Anti-lock brakes automatically pump the brakes for you when you slam your foot on them in an emergency. They may help you avoid an accident by slowing or stopping your skid while you try to turn. The downside is that if you try to pump the brakes and end up taking your foot off the brake pedal, the anti-lock feature won't work as it's designed to. You must constantly hold your foot on the brake. Learn to use anti-lock brakes properly if your car has them.

Electronic Stability Control ("ESC"): ESC systems use automatic computer-controlled braking of individual wheels to assist the driver in maintaining control in critical driving situations, such as when a driver tries to turn very hard (swerve) or to turn on a slippery road. ESC systems prevent the vehicle from understeering or oversteering.

What Should I Know About Air Bag Safety?

There are millions of cars on the road with air bags, and frontal air bags have saved 36,976 lives between 1987 and 2012. **Air bags, combined with lap/shoulder safety belts, offer the most effective safety protection available today for passenger vehicle occupants.** So what's the problem?

Air bags, combined with lap/shoulder safety belts, offer the most effective safety protection available today for passenger vehicle occupants.

An air bag activates at a force of up to 200 miles per hour, posing a risk to children and small adults. NHTSA estimates that since 1990, over 290 fatalities have been attributable to frontal air bag inflation. NHTSA reports that by 2008, however, air-bag related fatalities declined to almost zero following technological advances and regulatory changes.

In 1997, NHTSA allowed manufacturers the option to reduce the inflation power, or aggressiveness, of 1st generation air bags to lessen the likelihood of an air bag-related injury. These less powerful air bags are known as "depowered" air bags and have been in most vehicles since 1997. "Advanced frontal" air bag systems are a next-generation air bag system designed to be even more effective than depowered air bags in saving lives, while at the

same time minimizing the likelihood of an air bag-related serious injury or death. Depending on design, advanced frontal air bag systems automatically determine if and with what level of power the driver and passenger frontal air bags will inflate. Vehicle manufacturers are also required to provide detailed information in the owner's manual about the features of the advanced frontal air bag system and how it operates.

Child Safety Seats

Automobile accidents are the leading cause of death or serious injury for children, yet nearly 80 percent of children who die in vehicle crashes could have been saved by proper use of child safety seats or safety belts.

In Minnesota, children ages 8 years and under or shorter than 4 feet 9 inches must ride in federally approved safety seats, as identified on the seat. Infants under 20 pounds must ride in rear-facing safety seats, which must be secured with a seat belt, assuming that the car was originally equipped with seat belts. The fine for failing to properly restrain children is $50.

The American Academy of Pediatrics recommend that all children ride in a booster seat until they are between 8-12 years of age and at least 4 feet 9 inches tall.

When purchasing a child safety seat consider the following:

- Find out if it's been recalled for defects. Call the NHTSA Vehicle Safety Hotline at 888-327-4236 (TTY: 800-424-9153), or visit its website at *www.nhtsa.gov*. This is especially important when you buy a used child safety seat. Register your safety seat with the manufacturer so you will be notified in case of a recall.
- Make sure the seat can be properly installed in your vehicle.
- For convenience, select a seat that is easy to use and install. Try it out in the store. Are the buckles easy to lock and release? How easy is the harness to adjust? Check the instruction manual to see if it fits your needs and your car.
- Make sure a child can move his or her limbs freely, even in bulky winter clothing.
- If the seat has been in a car accident, don't use it. Replace it immediately.

Additional information including a list of inspection clinics, distribution programs, and child safety seat specialists in Minnesota can be found at *www.buckleupkids.state.mn.us.*

Additional information about child safety seats is available at *www.buckleupkids.state.mn.us*

Research Recalls

To find out if a car model has ever been recalled due to a defect, call the U.S. Department of Transportation Auto Safety ("NHTSA") Hotline, 888-327-4236, or visit its website: *www.nhtsa.gov.* The Department can send you information about any recalls or Technical Service Bulletins ("TSBs"). Information may also be available by going to the manufacturer's website and typing in your VIN ("Vehicle Identification Number").

Technical Service Bulletins are bulletins issued by the manufacturer to help automotive technicians diagnose and repair problems reported by consumers and dealership service departments. The problem is not always mechanical; it may range from diagnostic and repair procedures for a known vehicle problem to warranty and service manual updates. TSBs give both the dealership and car owners information into what issues might arise with certain models. TSBs are not compulsory repair notices so the dealer and car maker are not under any obligation to make the repairs or even notify the vehicle owners.

The Bottom Line:

- All passengers must wear seat belts.
- Rear-facing infant seats should never be placed in the front seat.
- Place children 12 and under in the back seat in an appropriate child safety restraint system.
- All other passengers in the front seat should place the seat as far back as possible to limit injuries from air bags.

For more information, contact the National Highway Traffic Safety Administration at 888-327-4236 (TTY: 800-424-9153) or visit its website at *www.nhtsa.gov.*

More information about safety equipment is available through the National Highway Traffic Safety Administration at 888-327-4236, or online at *www.nhtsa.gov.*

Where to Buy a Car

Once you've done some background work, narrow your choices to three or four models you'd like to test drive. And choose a seller as carefully as you choose a car. This chapter tells you where to start shopping for one.

Once considered rock bottom on consumer lists that rank trustworthiness, car salespeople have climbed above others in surveys today. Car salespeople have a twofold job: selling you a car and selling you a car you want. Seek out a car dealer who errs on the latter side. Shop for a dealer as diligently as you are shopping for your car.

Price isn't the only consideration in selecting a dealer, however. The service you'll receive after you buy the car is critically important, too. Ask to speak to the service manager before you buy a car. Find out when the service department is open, especially if weekends and weeknights are the best times for you to bring in the car. Also ask about the availability and condition of "loaners." Some dealers loan cars when repairs take a day or more to complete. Others will rent you a car or provide you with transportation.

Proximity is another important consideration. Having your dealership close to home saves time and gas money when servicing the car.

Ask friends to recommend dealers or seek out customers' opinions. Also, look for customer service awards proudly displayed on the walls of the dealership. Manufacturers survey the dealers' customers about the service they received and recognize top-flight dealerships. You can also call the Better Business Bureau at 651-699-1111 or 800-646-6222 for more information about a dealer.

It's Gotta Be New

New cars are sold through dealers—but what kind of dealers? There are several types, each with its own personality and sales techniques. Get to know the types, then decide which particular seller you are most comfortable with.

There are several types of car dealers, each with its own personality and sales techniques.

The Traditional Dealer

Traditional new-car dealers will typically be willing to haggle over the price of a car. They can be intimidating or extremely affable, but much of your perception of them probably will depend upon how comfortable you are with negotiations.

No-Hagglers

Many no-haggling dealerships cropped up in the 1990s to serve customers who prefer not to barter over price. But no-hagglers aren't new. The idea of selling cars at one—and only one—price was first presented by dealers who sold cars that were so sought after the dealers felt they shouldn't have to negotiate. If a buyer didn't like the price, the dealer could always find someone else who did.

The one-price strategy still works best for dealers selling high-demand vehicles. But today's greater demand for customer service has added a new dimension to car sales. Customers want good service, plus the option not to haggle, while still getting a good price.

No-hagglers *may* offer a standard discount below the sticker price and hold the price steady for all customers. The set price allows the dealership to make a decent profit, yet it reassures the customer that he or she isn't being taken for a ride. This allows a friendly relationship between the customer and the salesperson.

One no-haggling salesperson, who called himself a "service technician," said, "I steer you into the correct vehicle. I'm not just trying to sell you anything. I want you to find the 'right seat.'"

Be aware that no-hagglers may negotiate loans and *may* push extended warranties, rustproofing, credit life insurance, service contracts, and other back-end extras, as discussed on page 28.

Auto Brokers

If you want to shop price without doing the work yourself, you can hire an auto broker. Brokers may or may not get you the best deal. They are found through some credit unions, banks, discount clubs, and auto clubs such as the American Automobile Association. They may work with a handful of dealers or a single dealer. Sometimes they make their money by splitting the manufacturer's holdback with a dealer. A holdback is a set amount of money the manufacturer refunds to the dealer when a car is sold.

To find out if a broker is reputable, talk to car buyers who have used the service or call the Better Business Bureau at 651-699-1111 or 800-646-6222 to see if the broker has a good rating.

Selecting Used-Car Sellers

More than half of the people who buy used cars buy them from private individuals—and half of those individuals are friends or family members. Other used cars are usually found through ads in the classified section of the newspaper, on the Internet, and on bulletin boards, or you may see a used car with a home-made sign in the window.

Dealers, used-car lots, rental car agencies, auto brokers, and auctions all sell used cars, too. There are major pros and cons to buying from each.

There are major pros and cons to buying from dealers, used-car lots, rental car agencies, auto brokers, and auctions.

Private Sales

- **Pros:** If you know the seller, chances are good you'll be able to get honest answers about how the car was driven and kept up. The owner will usually sell the car for less than its retail value because he or she has no overhead and only small advertising fees.

- **Cons:** If you don't know the seller, you might not get honest answers about how the car was driven and maintained. Ask for repair receipts. **Be sure to check that the seller is indeed the owner. If not, the seller could be what's called a "curbstoner"—a used-car sales pro who pretends to be a private seller and more likely than not specializes in fleecing his or her customers.** You can run into title and licensing problems when you buy from anyone other than the owner. If you suspect the private seller is a salesperson posing as the car's owner, ask to see the title of the car. If the name on the title is different from the seller's, walk away.

Watch out for "curbstoners" (used-car sales pros who pretend to be private sellers).

Curbstoners

Watch out for pros posing as private car sellers. These curbstoners run classified ads, just like private sellers, but often ask to meet at a parking lot so you won't know where they live. They take advantage of buyers by overcharging for cars, often by rolling back odometers to increase the car's apparent value or by selling previously wrecked and rebuilt cars. Call the past owners who appear on the title to double-check the mileage. And be wary if a seller's phone number appears more than once in the classifieds. That's the sign of a pro.

Phone and E-mail Inquiries

Ask private sellers the following questions over the phone or by e-mail to save you unnecessary trips to look at cars. Honest sellers will tell the truth whereas a curbstoner will lie about them, so be wary.

Ask private sellers questions over the phone or by email to save you unnecessary trips to look at cars.

1. What condition is the car in?
2. Why are you selling it?
3. Are you the original owner?
4. How long have you owned the car?
5. Have you maintained the car according to the manufacturer's schedule in the owner's manual? How often has the oil been changed?
6. Do you have repair receipts I can look at? Where did you usually take the car for service?
7. Where did you buy the car?
8. Do you sell many cars?
9. Where did you generally drive the car—in the city, on long trips?
10. What is the mileage?
11. Has the car ever been painted? If so, why?
12. Has the car ever been recalled? If so, may I see verification that the problem was corrected?

13. Would you object if I took the car to my mechanic for inspection?
14. Is there anything that I'd need to do to put the car in tip-top condition?
15. Are there any liens on the car? (If so, the owner still owes money on the car and you could get stuck paying what's owed if you buy the car.)
16. Has the car ever been in an accident or a flood?

New-Car Dealers

- **Pros:** They usually have a wide selection of higher-priced used-car models because they only keep the best cars. The others go to auctions or used-car lots. Because they have service facilities, they're more likely to have made repairs on the car than have other types of sellers.
- **Cons:** Used cars from new-car dealerships may be more expensive.

Used Car Lots

- **Pros:** Besides offering a broad selection, used car lots often offer a number of less expensive, older model vehicles.
- **Cons:** Used car dealers often buy the cast-off cars from new dealers. They also buy from auctions or purchase used cars from lease fleets, taxi companies, or police departments.

See page 59 for a detailed description of Minnesota's used car warranty law.

Used car lots often don't have a service department to repair cars; instead, these operations tend to sell cars "as is." **Even so, under Minnesota law, a used car dealer must give you a warranty unless the car is excluded from the law for such reasons as having more than 75,000 miles on it or costing less than $3,000.** See page 59 for a detailed description of the law.

The dealer may also offer to sell you a service contract to cover the cost of repairs. This serves as insurance against having to pay through the nose for repairs. Read any service contract carefully so you know the deductible amount and exactly which repairs are covered.

Questions to Ask a Dealer About a Used Car

1. Where did you get the car?
2. What condition is the car in?
3. Does it have any major defects?
4. Has the car ever been in an accident?
5. Has the car ever been painted? If so, why?
6. What is the mileage? What steps have you taken to confirm the accuracy of the odometer reading?
7. Has the car ever been recalled? If so, may I see verification that the problem was corrected?

8. Has the car ever been bought back by the manufacturer as a lemon?
9. What repairs have you done to it?
10. Would you object if I took the car to my mechanic for inspection?

Rental Car Agencies

- **Pros:** Some people believe rental cars are a good deal because they're usually rented by business people for short trips to the airport or meetings, as well as for vacationers' longer, but less wearing road trips. Rental cars are usually serviced regularly, with records of their maintenance history.
- **Cons:** You don't have any way of knowing who has driven the car before you buy it. You don't know if the car was abused by one or more of the drivers who previously rented it. That's why the Minnesota Automobile Dealers Association members have adopted a standard to disclose when cars for sale are previous rentals. That way, you can make up your own mind about whether you want to purchase a previous rental vehicle. Rental cars may also cost slightly more than cars purchased from private sellers.

Auctions

- **Pros:** You can get a good deal if you really know cars and are an avid fixer-upper.
- **Cons:** Mostly professionals bid at auctions, so auctions can be intimidating for the average car buyer. Some auctions won't admit private parties.

Online Car Sales

Online car sales are becoming increasingly popular. You can go online to narrow down your search for local cars and then go inspect/drive the car before making a purchase. Many people, however, are buying cars from far away, uninspected and unseen. If the delivered car is not as represented online, it may be very difficult to resolve the problem.

Internet car sales can also be a haven for fraudulent actors looking to make easy money at the expense of others. A current car scam against people who are trying to sell their car online illustrates the point.

How the Scam Works

The scam artist may claim that he/she is buying a vehicle on behalf of a client. Once a price is agreed on, the scam artist sends a personal or cashier's check to the seller in excess of the purchase amount, requesting that the seller make payment directly to the supposed buyer, in the same amount as

Watch our for online car sales scams. If it sounds too good to be true, it probably is.

the excess payment. The fraudulent operator promises that once payment is received, a representative will pick up the vehicle. Since sellers are often in a hurry to finalize the vehicle's sale, the seller will typically cash the check and make the payment to the scam artist before discovering that the check was fraudulent. Victims of such fraud can be scammed out of thousands of dollars. Furthermore, it can be difficult for law enforcement agencies to track down such perpetrators, leaving victims with little recourse or hope of recovering their money. **Prevention is the best protection against such scams.**

Prevention is the best protection against internet car sales scams.

Tips to Avoid Internet Scams:

- If it sounds too good to be true, it probably is.
- Don't be tricked into sending payments to fraudulent actors. If an individual is actually owed a commission, their client should be the party making the payment.
- Don't be rushed. People often make poor decisions when they are hurried. If someone really wants to do business with you, they will wait until you are ready to make a legitimate transaction. Furthermore, if an individual wishes to make changes to the terms of the transaction, such as where the payment is sent, do not let your eagerness to complete the transaction blind you to potential problems.
- Know where you are sending money. If you send payments to foreign countries, law enforcement agencies may lack jurisdiction to pursue criminals there.
- Be on guard against offers that include checks or other payment instruments from overseas.
- Beware payments made by cashier's check. Even though banks may make money readily available to a customer upon cashing a cashier's check, the check may not be authentic. Checks generally must be sent to the issuing bank before payment is authenticated, a process which frequently takes several days.
- Contact the bank or financial institution that the check is drawn from to determine whether the payment is legitimate. Do not, however, use the contact information that appears on the check, which may be forged to misdirect potential fraud victims. Instead, obtain such contact information independently, through legitimate directories or other sources.
- Use a secure escrow payment service such as PayPal. Many online auction companies offer such a service for a low fee. Question demands that you use an escrow payment service you are unfamiliar with, or other unusual payment requests.

The Test Drive

You've done your research. You've narrowed your choices to a few models. Now it's time to get behind the wheel and take that all-important test drive.

You may wonder, isn't a test drive like any other type of drive? Not quite. **Keep in mind what you want to learn. You're about to make a major commitment and you want to make sure it's to the right vehicle.** The following should be a part of your test drive:

- Take the car on the road for at least a half hour.
- Drive in city and freeway traffic. See how the car starts, stops, shifts (if it has a manual transmission), speeds up on the freeway, and takes corners.
- Ask yourself how comfortable you feel in the driver's seat.
- Let a friend drive so you can see how the car feels from the passenger's seat. Try out the back seat, too, if you're buying a sedan or van.
- If it's winter, great! Find out how the car handles on snow and ice.
- Don't go easy on the car. Drive like you really plan to drive.

Keep in mind what you want to learn about a car during a test drive.

Negotiate from the Driver's Seat

Most Americans would probably rather have a root canal than haggle over the price of a car. In survey after survey, two-thirds of car buyers report that they "hate" the negotiation process. But be consoled if you're negotiating the price for a car: The margin for error isn't all that great. Most dealers markup cars as little as 10 percent for a low-end model and up to 25 percent for a luxury car. That's nothing compared with markups of more than 100 percent for clothing and jewelry.

The time when some people lose the negotiating game is at the "back-end" of the deal. They assume the vital negotiations are over when they leave the lot or showroom floor to iron out financing details. All those options, including service contracts, rustproofing, paint sealants, credit life insurance, and credit disability insurance, may be the real moneymakers for the dealer.

Playing the Game

If you don't want to haggle over the price, you may buy a car from a one-price dealer or hire an auto broker to negotiate a deal for you. But if you're among the one-third of Americans who likes to jump in the ring with the pros, put on your boxing gloves and learn the game.

Although some dealers have responded to competition from no-hagglers by softening their sales approaches, be familiar with the different methods they may use. Sometimes you negotiate with just one salesperson. This person may invest more in your satisfaction than an official "closer" would. A closer is a person who takes over for the salesperson to complete the sale.

Know the Dealer's Invoice

You may consult a resource such as the "Consumer Reports Annual Buying Guide" to find out how much the dealer has marked up the cost of a vehicle.

To find out how much the dealer has marked up the cost of a vehicle, you need to find out what the dealer paid the manufacturer for it. Check a resource such as the "Consumer Reports Annual Buying Guide."

A resource like this will often list the dealer's "invoice" for the car and for options. The invoice, however, is not the whole story. "Holdbacks" and other credits that the dealer receives from the manufacturer almost always reduce the dealer's true cost below the invoice amount.

The best thing you can do is fully research a vehicle you're interested in to see if holdbacks or other incentives apply. And don't be fooled into thinking that a car sold to you at "invoice" means it's being sold to you at the dealer's cost. There is almost always still room to bargain.

Popularity Has a Price

High demand means a higher price. If you want the most popular car of the year, be prepared to pay a little more. The upside is that a popular car may also reap you a higher price when it's your turn to sell the car as a used model.

Negotiation Strategy

Decide what you want in a car and what it's worth to you, then negotiate a fair price.

Almost everything is flexible in car sales—the price of the car, the price of the options, the loan rate and the extra services. But this flexibility doesn't mean the seller will bend over backwards for you. The seller may try to make it seem as though prices are firm. **Decide what you want in a car and what it's worth to you, then negotiate a fair price.**

Here are some suggestions to help you get the best deal possible:

- Time your purchase. The best times to buy a car are at the end of the month when dealers want to eke out a few more sales to finish the month strong, as well as during the holidays. Dealers spend lots of money advertising holiday specials, and they want to make sure to cover their costs.

- Don't mention your trade-in vehicle until the sale on the new car is negotiated. At least, that's what conventional wisdom says. This may or may not be practical in your case.
- Avoid answering sales questions about whether or not you'll be ready to commit to a purchase that day "if the price is right." Just say, "Maybe," or, "I'll think about it."
- Don't tell the salesperson if you've already arranged financing. He or she may offer a low price for the car thinking the dealership can make a profit by financing the purchase.
- Never tell the salesperson what you're willing to spend in monthly payments for the car. In fact, never let the dealer know your bottom-line price. They won't tell you theirs, either.
- Start bidding low. Offer a price that's just above the dealer's invoice price.
- Don't panic if the dealer's counter-offer is much higher than your first offer. Only raise your next offer by $100 or $200. Remember: You've done your homework. You know they're making a profit and may be getting a manufacturer's holdback, besides.
- Stand firm. The dealer should give you a lower offer to counter your second bid. Now you must decide whether or not to accept the dealer's offer.

Crossing the Line

When negotiating, remember this simple rule: If the salesperson is still negotiating the car price, the salesperson is still making a decent profit. If the salesperson walks away from you, however, you've probably crossed the bottom-line price for the car. Don't worry about hurt feelings. You're negotiating for the best possible deal you can get.

Trade-ins

When you want to sell your old car, shop around at a few different dealers to get the best price. And be sure to have it thoroughly "detailed" or cleaned before you do. Spiff up your car like you would spiff up yourself if you were going to a job interview.

Of course, you can decide to sell it on your own or through an auto broker instead. You receive the wholesale and not the retail price when you trade in your car to the dealer. Check the blue book for these values. But if your time is in shorter supply than your money, trading in your vehicle may be your best option. By trading a car in when you buy a new car, you also avoid paying sales tax on the value of the trade-in.

When you want to sell your old car, shop around at a few different dealers to get the best price.

The last question you should answer is whether or not you are planning to trade in your current car.

When you're ready to talk price on a car you've selected, the salesperson will ask if you're planning to trade in your current car—provided you own one. That's the last question you should answer. If you tell the dealer you're planning to trade in your old car, the dealer will want to lump the two transactions together, possibly putting you at a disadvantage. Here's how:

Example: Marcy Stephens wants to buy a freshly minted sedan with a sticker price of $15,000. She tells the dealer that she wants to trade in her little 1998 coupe to bring down the price. The dealer offers to sell her the sedan, complete with options, for $9,000 plus her coupe. She's ecstatic. The blue book value for her coupe is $5,000, and the dealer is giving her $6,000 for it.

$15,000.00	Sticker price
- 6,000.00	Coupe trade-in
$ 9,000.00	**Total price**

Sound good? Not really. People rarely pay the full sticker price.

If Marcy had negotiated her new-car price before mentioning her interest in trading in her coupe, her deal might have been sweeter.

First, she could have negotiated a discount off the sedan's sticker price—say $2,500. For the coupe, she may have been able to negotiate to receive the blue book value of $5,000. Her total price for the new car would have been $7,500.

Deal for the new car:		**Subtract the trade-in:**	
$15,000.00	New sedan	$12,500.00	New sedan
- 2,500.00	Discount	- 5,000.00	Coupe trade-in
$12,500.00	**Subtotal**	**$ 7,500.00**	**Total price**

It's Not Over Until It's Over

Just when you thought you could let down your guard with the dealer, shake hands, and sit down for coffee in the office, you find you have several crucial negotiations left. You still have to find the best deal on a loan and decide whether or not to pay for an extended warranty, rustproofing, credit life insurance, and other extras.

Your Options

Most car models, whether domestic or foreign, are sold in two or more "trim lines," meaning a base price and a set of options. Trim lines vary and are given such names as standard, DX, and deluxe.

Sometimes it's cheaper to buy a car in a higher-priced trim line than to buy a basic model and dress it up with options, but check out the available trim lines and the prices of options you want.

Options usually come in packages, and buying a package can be cheaper than purchasing options separately. But try to avoid being talked into options you don't want.

The Loan

Dealers offer financing for cars through auto makers or local banks. The upside to getting a loan through a dealer is convenience. The dealer can process your loan application right in the showroom office. The downside is that the dealer may mark up the loan for profit. **Shop around for the lowest rate and then tell the dealer you won't take anything higher.** Your dealer will usually match the going market interest rate. (For more about loans and your loan payment, see page 6.)

Dealers offer financing through auto makers or local banks. Shop around for the best rates.

Service Contracts (A.K.A. Extended Warranties)

Service contracts can be a significant profit item for dealers. They're like insurance policies. And, like insurance policies, they're designed not to be used.

An extended service contract supplements the manufacturer's warranty that comes with the vehicle. Compare your warranty with the service contract being offered to avoid paying for services you're already getting for free. Because competition for customer satisfaction has grown of late, standard manufacturer's warranties have improved. Since a typical warranty covers the car for three years or 36,000 miles or more, you may choose not to buy more coverage.

A service contract, however, will extend the length of time parts will be repaired under warranty. That may be helpful if you're planning to keep your vehicle longer than the time covered in the manufacturer's warranty. Check to see if the extended service contract cancels automatically when you sell your car. If you want a manufacturer's service contract, double check to be sure that the contract is indeed from the manufacturer.

What to Ask About Your Service Contract

- Does the company offering the contract have a solid reputation? Call the Better Business Bureau at 651-699-1111 or 800-646-6222 to find out.
- Do you have to prove you've followed factory recommendations for regular preventive maintenance in order for repairs to be covered?
- Is preventive maintenance covered?

- Are towing and rental cars covered?
- Do you need to pay up front for repairs before being reimbursed by the company?
- Do you have to take the car to specific mechanics?
- Is there a deductible fee for repairs?
- Does a company inspector have to view the car and diagnose the problem before it can be repaired?
- What repairs are excluded by the contract?

Protection Packages

Review protection package services such as rustproofing carefully to see if they are worth the extra cost.

Many dealerships offer services such as rust protection, fabric protection, paint sealant, or theft protection. These items may be overpriced and may not produce the desired effect. For instance, "fabric protection" may be no different than furniture/carpet guard that a consumer can buy at a retail store. "Paint sealant" is sometimes just a high quality wax at a high cost. Rust protection warranties may be included in a vehicle's factory warranty, making the purchase of the optional product unnecessary. These products often include complex exclusions, voiding the protection if the seams become rusted, or if only a portion of the metal experiences rust. Finally, "theft protection" is a product in which the VIN number of the vehicle is etched into the window of the vehicle, or branded on other parts of the car, usually at a significant mark-up in cost. The bottom line on protection packages is that they are often a high profit item for the dealership, but may be a low value product for the consumer.

Rustproofing

You know the expression: Rust never sleeps. No matter how hard car makers try to keep it down with new technologies ranging from galvanizing steel during manufacturing to spraying cars with sealants once they've hit the road, rust eventually peeks through. It's just a matter of time.

So the term rustproofing is misleading. Rustproofing may help stave off corrosion—for a few years, that is. Certainly cars on the streets today take longer to rust than those of old. But your question when buying a car is whether or not after-manufacturing rustproofing is needed.

Some experts say galvanizing during manufacturing makes additional rustproofing unnecessary. Galvanizing is a process of protecting the steel with a zinc coating that manufacturers say they've perfected in recent years.

To help consumers choose whether or not to buy additional rustproofing, the Council of Better Business Bureaus, Inc., launched a thorough study

of rustproofing practices. It found that 90 percent of vehicles made by the early 1990s already came with five-year corrosion perforation (anti-rust) warranties from the manufacturer.

Manufacturer's warranties, as well as warranties for after-market rustproofing, apply if the rust starts on the interior of the car and eats a hole through to the outside. Surface rust due to stones, scratches, hail and environmental damage are excluded from manufacturer's and most after-market rustproofing warranties.

Credit Life and Credit Disability Insurance

Credit life insurance ensures that the finance company loaning you money to buy your car will be among the first of your creditors to be paid if you die before your car is paid for. Likewise, credit disability insurance ensures that your finance company is paid if you are disabled and unable to work to pay off your car loan.

These types of insurance are usually optional. If you wish to buy this type of coverage, remember that you do not have to purchase the insurance from your finance company. Shop for the best price by checking credit life and disability rates offered by insurance companies, which often have better rates.

Closing the Sale

The Deposit

Are you absolutely 100 percent sure you're going to buy the car? If not, don't put down a deposit. If you change your mind, the seller may have a legal right to keep the deposit you made.

Before You Sign…

Read the sales contract carefully. If the dealer made you a verbal promise, say, to throw in fog lights for the price you negotiated, be sure it's in writing.

Check that:

- Everything you and the dealer have agreed to is included.
- Both the dealership manager and the salesperson have signed the contract. Otherwise it might not be valid.
- All portions of the contract are filled in before you sign.
- The contract states that you can void the agreement and get your down payment back if all terms in the contract are not met (such as failure to deliver on a specified date).

Read the sales contract carefully. If the dealer made you a verbal promise, be sure it's in writing.

Remember that you do not have a three-day cooling-off period in which to return the car!

Remember that you do not have a three-day cooling-off period in which to return the car! Before you sign the contract, understand that when you do, the car is yours! You must honor the agreement. You have no right to return the vehicle. If you decide you don't want the car, you'll have to absorb the depreciation and sell it again.

Give It the Once-Over

If your new car is being delivered from another dealership, you won't have the opportunity to look over the vehicle you're receiving. Before you accept delivery, make sure all the options and extras are on the car as specified in your contract. Also, test drive the car to be sure it handles like the one you previously test drove.

Minnesota's Lemon Law

Once you sign the contract for your new car, you cannot return the car just because you don't like it. But if it's truly a lemon, the seller is obligated to service the car, and eventually, may have to replace it or refund your money under Minnesota's lemon law.

The lemon law applies to those cars that are still covered by the manufacturer's original new-car warranty, were purchased in Minnesota and are used at least 40 percent of the time for personal, family, or household purposes. The law also covers vehicles leased for more than four months.

The terms of the law are:

- The manufacturer has a duty to repair a motor vehicle in accordance with the terms of the warranty if:
  1. The motor vehicle has a defect or problem that is covered by the warranty; and,
  2. The problem has been reported by the vehicle's owner within the warranty period, or within two years after delivery of the vehicle, whichever comes first.

- The manufacturer has a duty to refund or replace a car that has substantial defects or problems. Under the law, if the manufacturer or its authorized dealer has been unable to repair a car's problem after a "reasonable number of attempts," the buyer or person leasing a car may go through a manufacturer's arbitration program or go to court to seek a full refund of the car's purchase price, minus a deduction for use of the vehicle.

A "reasonable number of attempts" is defined as:

- Four or more unsuccessful attempts to repair the same defect; or
- One unsuccessful attempt to repair a defect that has caused the complete failure of the steering or braking system, and that is likely to cause death or serious bodily injury; or
- A car that has been out of service due to warranty repairs for 30 or more cumulative business days.

More information on Minnesota's lemon law is provided in *Minnesota's Car Laws: A Guide to Minnesota's Lemon Law, Used Car Warranty, and Truth in Repairs Act* published by the Minnesota Attorney General's Office. Contact us to request a copy.

Considering an "Experienced" Car?

The good thing about buying a used car is that it has a history. The bad thing about buying a used car is that it has a history. Experience can be a good teacher. When you buy a used car, it's possible to know the reputation of the make and model better than you would for a new car, especially a freshly minted model. You won't know, however, if the vehicle was treated properly, unless you're a good gumshoe detective. Learn to be one.

To start your research, take a trip down to the local library where books and magazines provide comparative information or go online and see what information you can find. Every April "Consumer Reports" publishes a detailed report of repair and maintenance frequency for used cars. The publication lists cars by price and provides important safety and fuel efficiency information. But don't stop there. "Road and Track," "Motor Trend," and "Car and Driver" have automotive reviews, too.

What's a Used Car Worth?

Even those who know next to nothing about cars will tell you to consult the blue book to find out what a used car's value is. But don't be thrown when you discover that the blue book is orange. The book's actual title is the "National Automobile Dealers Association's ("NADA") Used Car Guide," and it's pocket-sized. **NADA's blue book can be found at the library, most bookstores and online at *www.nadaguides.com*. Other guides also exist, including "Edmund's Used Car Prices" (*www.edmunds.com*) and "Kelley Blue Book" (*www.kbb.com*).** Car prices may vary between these books, but many dealers and loan officers

The "National Automobile Dealers Association's Used Car Guide" can be found online at *www.nadaguides.com.*

go by NADA's guide, so it's your best bet. The websites are very user friendly as well. They will ask you questions about the car, and then give you a likely price.

The blue book shows the average trade-in price, average loan price, and average retail price for each model car by year. If the car is older than seven years, look it up in the "NADA Older Used Car Guide."

The guides offer estimates only. Naturally, if the car you're purchasing was stampeded by elephants escaping the zoo, its value will be lower than what NADA lists. And don't buy the first car you look at. Comparison shop to get a feel for prices in your market.

Three Ways to Get What You Pay For

When buying a used car, you need to be even more diligent about making sure you're getting your money's worth than when you're buying a new car. New cars are expected to work perfectly. Used cars come with a history of accidents, repairs, rattles, dents, and dings.

When buying a used car, check the reputation of the seller, obtain the title information, and have the car inspected.

Following these three important steps will help protect you from being fleeced when buying a used car:

1. **Check the reputation of the seller,**
2. **Obtain the title information, and**
3. **Have a complete maintenance and body check.**

Although you can't guarantee that you'll know everything about the car if you take these steps, you'll have gone a long way toward it.

1. Check the Reputation of the Seller

Although it isn't possible to check the reputation of a private individual, you can check out a dealer. You should find out the following:

- How long has the dealership been in business?
- How does the Better Business Bureau rate it?
- Has it been sued by the Minnesota Attorney General? If so, why?

All these questions should be answered to help you feel secure that the dealer will honor any contract you sign.

Your Best Bet Is a Reputable Dealer

The best protection against fraud is to work with a reputable dealer. Call the Better Business Bureau, ask opinions of friends, and relatives and maybe even get names of former customers for reference.

2. Obtain Title Information

The title is like a résumé of your car's life, indicating how many miles it may have on it and if it is a prior salvaged vehicle. **To get title information, contact the Minnesota Department of Public Safety Driver and Vehicle Services Division at 651-297-2126.** The Department of Public Safety can verify the odometer reading and whether or not the car was salvaged. You can also demand this information from the dealer. When a car is sold to a dealership, that dealership takes control of the title. Nothing prevents the dealership from showing you that title.

1. **Obtain a CarFax Report Online:** For a fee, companies like CarFax (*www.carfax.com*) will give you specific information about the car you are looking at. Obtaining a detailed report may answer important questions such as: Is there a problem with the odometer reading? Does the car have an accident history? Does the car have a clean title?

2. **If the Car Was Totaled: By Minnesota law, the title must be stamped "prior salvage" if the car was totaled and then rebuilt anytime after June 1993.** If this is the case, you'll want to check that everything was put on the car when it was rebuilt. A previously totaled car may not be as structurally sound as another car. Have the car checked at a body shop before you decide to buy it.

3. **Odometer Readings:** The lower the mileage, the higher the price for the seller. It's no wonder billions of dollars are bilked from consumers every year by sellers who turn back the miles on odometers.

   Because about 90 percent of odometers that are rolled back come from other states, you should research out-of-state vehicles thoroughly. To get a copy of the title, you'll need to contact the Department of Motor Vehicles in the state where the former owner lives.

3. Have a Complete Maintenance and Body Check

Even if the previous owner and dealer seem trustworthy, and say there's nothing wrong with the car, have the car completely inspected by a qualified auto repair shop. Salespeople aren't mechanics. You can take the car to a gas station mechanic or to a diagnostic center. A body shop is also a good place to stop to see if the car has had body damage or has been in an accident. **If the owner won't allow you to have the car inspected, take your business elsewhere.**

To get title information, contact the Minnesota Department of Public Safety Driver and Vehicle Services Division at 651-297-2126.

Can You Read Between the Odometer's Lines?

Let's say you answer an ad for a 10-year-old car with only 50,000 miles. That's considered a "cream puff" in the industry because it has far less mileage than you'd expect for a car its age. Mr. Al Smiles, who's selling the car, is looking to grease his palm. He tells you the car was driven by a little old lady who just went to the grocery store and back. How would you check out his story?

First of all, realize that by rolling back the odometer, also called "whipping" or "busting" miles, Mr. Smiles can make a big profit. An average of more than $1,000 is added to the price of cars with rolled-back odometers, according to the National Highway Traffic Safety Administration. Odometer fraud rips off customers by as much as $3 billion a year.

By law, all sellers, private or otherwise, are required to verify that the odometer reading is accurate to the best of their knowledge.

By law, all sellers, private or otherwise, are required to verify that the odometer reading is accurate to the best of their knowledge. If Mr. Smiles knows the mileage is higher than the odometer reading either because of the odometer's mechanical limits or because of odometer tampering, he must disclose this. The law states that the seller must provide this information for all vehicles, except those that are 10 years old or older, exceed 16,000 pounds, or are not self-propelled—such as trailers or other pulled vehicles.

Signs of Odometer Tampering

If Mr. Smiles isn't forthcoming with information, check the following for signs that the mileage shown on the car is wrong:

- Numbers on the odometer look misaligned or the odometer doesn't work.
- Missing screws or loose parts on the dashboard, indicating the odometer has been disassembled.
- Unusual wear on the brake pedal, carpet, and driver's seat, suggesting more extensive use of the car than the mileage reading indicates.
- Non-original or mismatched tires on cars with odometer readings under 30,000 miles. Such vehicles should have the original tires and all the tires should be of the same brand and model.
- Dated oil-change stickers on the door jambs showing mileage inconsistent with the current reading.
- Dated repair orders or inspection certificates in the glove compartment, under the seat, or in the trunk, showing mileage inconsistent with the current reading.
- A recent title, a title stamped "duplicate," or a title issued in another state.
- A short ownership time of perhaps a month or less. The "date issued" section on the title will tell you how long the last owner had the car.

Short ownership may indicate that a dishonest dealer put the car in a spouse's or friend's name and then rolled back the odometer before reselling the car. The spouse or friend will most likely verify the false reading if you call to inquire about it.

Certified Used Cars

A dealer cannot advertise a used vehicle as "certified" (or some similar word) if the dealer knows or should have known that any of the following apply to that vehicle:

1. The odometer does not indicate the actual mileage that the vehicle has driven;
2. The vehicle has been repurchased by a manufacturer or dealer pursuant to a warranty or lemon law;
3. The title to the vehicle has been "branded" with some designation, such as damaged, flood, junk, lemon law buyback, manufacturer repurchase, non-repairable, rebuilt, reconditioned, or salvaged;
4. The vehicle has sustained damage in an accident, fire, or flood which substantially impairs the use or safety of the vehicle;
5. The vehicle has sustained frame damage;
6. The dealer fails to provide the buyer with a completed inspection report indicating all of the components inspected prior to the sale; or
7. The vehicle is sold "as is" or with some other warranty of merchantability disclaimer.

Certain requirements must be met in order for a dealer to advertise a used car as "certified."

Your Personal Inspection

Your inspection will not replace a mechanic's inspection, but you can eliminate obviously poor vehicles with a few tools and a little know-how.

You'll need to get down and dirty to do this inspection, so wear old clothes and work gloves. If that isn't your style, find a mechanically-minded friend to go with you. It's also a good idea to bring a friend to help you check the lights and exhaust when you start the car, to offer opinions on seat comfort, and for moral support.

Your inspection will not replace a mechanic's inspection, but you can eliminate obviously poor vehicles with a few tools and a little know-how.

Your Tool Kit

When you're used-car shopping, you'll need to carry the following to make your own inspection:

- **Flashlight:** to look for rust in dark places such as wheel wells, and for inspecting under the hood.
- **Rags:** to check the oil and other fluids and to clean your hands.

- **Magnet:** to detect panels filled with plastic body filler, indicating the car was in an accident. The magnet will not be attracted by plastic.
- **Notebook and Pen:** to write down your findings so you can compare the cars you're considering.

Inspecting these 12 things before buying a car can save you from paying for expensive repairs down the road.

What to Look at:

1. **Look for leaks.** With the engine off, check the pavement under the car. A wet black stain means leaking oil. A reddish stain is transmission fluid or power steering fluid. If the stain is colorless or green, it could be a leak in the cooling system. A colored stain could also mean leaking brake fluid. A clear leak that smells like gas probably is gas and could signify a fuel system leak. Don't linger over the spill because gas is toxic to breathe and highly flammable.

2. **Check the radiator.** *Never* take the cap off a hot radiator. If the radiator is cool to the touch, remove the cap and inspect the water or coolant. If it looks rusty, that could mean corrosion in the cooling system. Next, look for oil in the radiator. It usually appears as a shiny film floating on top of the water or coolant. If you see oil in the radiator, the car probably has an extremely serious problem such as a cracked head or head gasket leak.

3. **Check the battery.** Look for cracks and leaks. Find out how old the battery is. You can check the cell's fluid level in older batteries. If the plates in the battery aren't covered by fluid, the battery hasn't been properly maintained. This is an indication that the rest of the vehicle may not have been well-maintained, either.

4. **Check the dipsticks.** Look at the engine oil dipstick. A low oil level could mean the previous owner didn't maintain the car regularly. Or it could be a sign that the car burns too much oil. If the oil is gummy or dirty, it hasn't been changed often enough and the engine could be badly worn out.

   Next, check the transmission dipstick while the car is idling. A low fluid level may indicate a leaking transmission. New fluid is red. Discolored fluid could indicate a transmission problem, but it doesn't always mean trouble. If the fluid smells burnt or is discolored, have a mechanic check it out before you buy the car.

5. **Test the shock absorbers and struts.** Push down on each corner of the car. The car should not bounce more than twice. If it does, the shocks and struts need to be replaced. Remember that they are installed in pairs,

so even if only one corner of the car fails the bounce test, you will have to buy at least two new shock absorbers or struts.

6. **Check the tires.** Make sure the "wear bars" in the tread depressions don't show through. If they do, the tires must be replaced immediately. If the tires are worn unevenly, particularly if one side of the tread is more bald than the other, the car probably needs an alignment. Be sure to check the spare tire. Often, a seller puts an old tire in the trunk, so even if the mounted tires are new, you can examine the wear patterns on the spare. **If you think the car needs to be aligned, consult a mechanic before buying it.** The problem could be minor, but it also could indicate the car has been in an accident and will never align properly, or that other important parts such as the tie rods and ball joints need to be replaced.

7. **Check the tailpipe.** Run your finger around the inside of the tailpipe. Assuming the car does not have a diesel engine, it probably burns too much oil if the residue inside the pipe is greasy or sticky. White or gray powder, however, is nothing to worry about.

8. **Watch the dashboard lights.** Now you're ready to turn the ignition key to the first position. Make sure the alternator, oil pressure, and "check engine" lights go on. If they don't, it could mean a bulb needs to be replaced. Or it could mean that the seller has deliberately disconnected the lights to prevent them from signaling mechanical trouble. Start the engine. Now the lights should go out. If they don't, the car could have a problem with the systems indicated.

9. **Let the engine idle.** With the car in park, raise the hood and listen to the engine. If you hear a loud noise that sounds like a sewing machine, the car may need a valve job. Step on the accelerator and rev the engine. If you hear a rumbling or hammering sound, the rods or bearings may be bad. Either way, that can spell expensive repairs.

10. **Look at the exhaust smoke.** With the engine warm and running but still in park, press down on the accelerator and look in the rearview mirror. If the smoke from the exhaust is white, it's generally a bad sign. It might be only water vapor, but it could be a warning of a cracked engine block, head, or head gasket. Likewise, blue smoke can mean the car has bad piston rings or needs an expensive valve job. Black smoke means a too-rich mixture of gas to air, sometimes fixable with a simple adjustment, other times requiring an expensive sensor or computer

If you think the car needs to be aligned, consult a mechanic before buying it.

repair. Under normal weather conditions, the smoke should be clear and colorless when the engine is warm.

11. **Test the exhaust system.** A rumbling noise from under the car but not under the hood is an indication of a substantial exhaust leak. Have a mechanic check to see if the exhaust system needs work or if the muffler needs replacement.

12. **Test the brakes.** If the car has power brakes, step down on the brake pedal with the engine running. You should not be able to push the pedal all the way to the floor. It's a bad sign if there is less than a 1½ inch clearance. Don't just tap the brakes. Hold your foot in place for a minute or more to be sure the brakes don't give way or feel mushy.

Test Driving a Used Car

Don't let the owner take you for a ride! Insist on getting behind the wheel yourself for the test drive. Drive over hills, on city streets, and on freeways. Make sure the car doesn't pull to one side. Brake the car and check to see that the brakes don't lose pressure when you press hard on them.

If the car has an automatic transmission, see if it shifts smoothly. Drive forward and backward in an empty lot to see if there's any noise or slippage. **Be sure to turn off the radio while driving so you can listen for strange sounds coming from the engine.** Finally, if the test drive was scheduled ahead of time and the owner warmed up the engine, be suspicious. A warm engine can conceal many flaws.

Beware of Flooded or Salvaged Used Cars

Beware of flood damaged vehicles and sellers who may try to hide the vehicle's history.

Buying a used vehicle has certain risks. According to experts, however, buying a flood damaged car or truck can be especially risky and potentially very expensive. For one thing, many newer vehicle models have sensitive electronic wiring and computer components under the seats and in the dash. Although damage from small amounts of water may be reparable, serious flooding in the vehicle compartment often permanently impairs essential onboard computer systems. Furthermore, the water may damage not only electrical components, but also the structural frame and vehicle interior. Worst of all, such water damage may not appear for months or even years.

In any given year, thousands of badly damaged vehicles are cleaned, repaired, and shipped from state to state. As the thousands of cars and trucks are shipped from state to state, some sellers may try to hide the vehicle's tumultuous history. **The Minnesota Attorney General's Office urges Minnesota consumers and businesses to beware of flood**

damaged vehicles and unscrupulous sellers who may try to hide the vehicle's history.

How Car Titles are Hidden

Fraudsters often use a combination of cheap cosmetic repairs and title "washing" or "laundering" to hide a vehicle's past. Title laws vary between states, and crooks use this lack of uniformity to their advantage. Some states even lack salvaged vehicle "branding" requirements, which require title notations indicating that a vehicle has been "flood-damaged," "salvaged," "rebuilt," or other similar history. In Minnesota, for example, the registrar of titles must record the term "flood-damaged" on the certificate of title for a vehicle for which the application for title and registration indicates that a vehicle has been classified as a total loss due to water or flood damage. Such laws may not be enough, however, to protect consumers from unscrupulous dealers who often move previously totaled cars and trucks through several states until the vehicle obtains a clear or "washed" title. Minnesota titles do not reveal the original owner of a vehicle that has been sold numerous times; it only lists the current owner. Thus, if a flood-damaged car in Louisiana gets run through Kansas before finally being sold in Minnesota, the title will not reveal that the car was originally from Louisiana.

Tips on How to Avoid Flooded Cars

1. **Check the vehicle's title.** Make sure the vehicle you are eyeing has a clean title. Doing so can help you avoid numerous headaches in the future. **You can obtain title information by contacting the Minnesota Department of Public Safety Driver and Vehicle Services Division at 651-297-2126.** If you are buying from a dealership, you can also demand this information from the dealer. If the dealer refuses your demand, go elsewhere.

2. **Obtain a CarFax report.** A CarFax report can be purchased for $39.99, five reports for $49.99, or unlimited reports for $54.99 by accessing their website (*www.carfax.com*). CarFax also offers a free record check and reports the total number of vehicle history records that exist in their database for that vehicle; you can decide at that point if you wish to purchase a report. While state-based title searches can be useful, they may be limited by government data practices laws or unscrupulous means of title "washing" (shuffling the vehicle through several states). CarFax reports may contain certain information regarding the vehicle's past whereabouts and the vehicle's accident history missed by state-based title searches. Additionally, CarFax has access to information regarding

You can obtain title information by contacting the Minnesota Department of Public Safety Driver and Vehicle Services Division at 651-297-2126.

the vehicle's repairs, which can be extremely helpful. A word of caution however, CarFax may not have the complete history of every vehicle, so use this as just one tool when you are considering a used car.

A good auto detail can do wonders in concealing evidence of flooding. Take your time and conduct a thorough inspection.

3. **Conduct a physical inspection. A good auto detail can do wonders in concealing evidence of flooding. Take your time and conduct a thorough inspection.** Here are a few suggestions:
   - Look under the carpet in the trunk and under the seats. Evidence of dampness, rust, mud, or silt may indicate flooding.
   - Inspect the door speakers, windshield wipers, radio, air conditioner, and other electronics. They often won't work if there has been water damage.
   - Beware of new or mismatched items in an older car, including new electrical components, seats, and carpeting that doesn't match the interior.
   - Check for rust and excessive flaking metal on the undercarriage or springs under the dashboard and seats.
   - See if there is any obvious paint overspray indicating recent body damage.
   - Smell for a musty or moldy odor, particularly in the trunk.

4. **Go on a test drive.** Don't accept a salesperson's word that the damage was minor; demand proof.

5. **Use extreme caution when buying online.** Online car sales are becoming increasingly popular. You can go online to narrow down your search for local cars and then go inspect/drive the car before making a purchase. Many people, however, are buying cars from far away, uninspected and unseen. Remember, just because you are buying a car from Madison or Chicago, it doesn't mean the car wasn't originally flood damaged in New Orleans or Biloxi. If the delivered car is not as represented online, it may be very difficult to resolve the problem. If you do buy a car online, make sure you use a secure escrow service such as PayPal.

Final Issues

If you've decided on a car you want, then make a bid. It's a good idea to review the strategies in "Negotiating from the Driver's Seat" beginning on page 25 before negotiating the sale. If the car comes with a warranty, check it over. Read about used car warranties in "Words about Warranties" beginning on page 58. Finally, get ready to sign the contract. The car may soon be yours!

Signing the Contract

Before you sign, take out your magnifying glass—or whatever it takes—to help you read the fine print on your purchase contract. Sure, sure, everyone says that. So what specifically should you look for on a used-car contract?

- See if the warranty is noted and that you receive a completed copy of the buyer's guide.
- Make sure any agreements you made with the seller to repair the car as a condition of the sale are written into the contract.
- Check that it's in writing that the dealer has completed all federal government safety recall service needed for the car.
- Make sure all blank lines are filled in on the contract.

Remember, there is no three-day cooling-off period for car sales!

Before you sign, take out your magnifying glass—or whatever it takes—to help you read the fine print on your purchase contract.

Get a Lease on Leasing

With all the newspaper and TV ads devoted to auto leasing lately, you'd think leasing was a brand-new concept. It's not. What's new is that manufacturers and dealers are promoting leasing more than ever before. And it's working. In 2013, about 20 percent of the people who drove new cars were leasing instead of buying.

Why is leasing so popular? Is it a fad? Are people simply being influenced by well-produced ads? Or has leasing become as good a deal as buying—or even better? There's no easy answer. That's partly because leasing terms and calculations are complicated and partly because comparing buying to leasing is like comparing apples to oranges. Which one is better depends upon individual finances, circumstances, and desires. We'll try to help you sort these out for yourself, so you can judge if leasing makes sense for you.

Consider your individual finances, circumstances, and desires when deciding between leasing and buying a vehicle.

What Is Leasing and Why Is It So Popular?

Leasing is basically long-term car rental, usually lasting two to four years. You agree to pay a leasing company a fixed amount each month to drive the car, which the leasing company owns, and you also pay for insurance and routine maintenance such as oil changes. You receive a warranty, as you would for a car you'd buy. And, as with a car you own, if you damage a leased vehicle, you and your insurance must cover repairs.

It's important to note that, unlike buying a car, leasing may mean that you will always have monthly payments. When you buy a car, the car loan is

typically paid off long before the car is worn out. In contrast, leasing usually means endless payments. Although you may be able to buy the car at the end of the lease, most people who lease turn in the car at the end of the term and lease another. So the payments continue. In the long run, leasing may be more costly than buying, despite the lower monthly payments.

Then, you may wonder, why is leasing so popular? There are several reasons. With the prices of cars climbing, it has become harder and harder to afford monthly payments that will pay off a car in three years or less. And with new cars costing more than $20,000 today, loans are being stretched over four to six years. By the time you truly own a car, it may not be worth a whole lot in the marketplace. It still may be worth a lot to you, however, if it gets you where you're going and allows you to drive a car without making payments. That's something to keep in mind as you learn more about leasing.

Leasing is also popular with people who don't like driving older vehicles. They can always drive a new car needing relatively little maintenance and fewer repairs than most older cars. **If you lease a new car every couple of years, you can always drive a fairly new car. Although you will never escape monthly payments, the payments will be lower than they would be if you were buying a new car every two years. This is the main attraction to leasing a car.**

Who Typically Leases?

Leasing is a decision based on personal choice, as well as personal finances.

Leasing is a decision based on personal choice, as well as personal finances. For some people, leasing is a good idea for many reasons. For others, it's like a spin on a race track: It offers a short-term thrill, but doesn't get them anywhere in the long run. See whether or not you resemble one of the following drivers.

The Drive for Success.

If you're like Becky Gilbert, image is extremely important to your success. And if, like Becky, you're just starting your career, you might not yet be able to afford to buy the car that gives your clients the confidence that you're a "winner." By leasing, Becky has decided she can impress her clients by taking them out to lunch in a smooth-handling, mid-sized car with ample passenger room. And she can make the monthly payments required without straining her finances.

The Family That Stays Together.

Steve and Julie Smith are in their late 30s and have three young children. They want a car roomy enough to comfortably fit the family and a few friends as well as various toys, bikes, and camping gear for their summer vacations in Minnesota's scenic parks.

The Smiths are trying to make ends meet on a limited income, yet they want a car that's safe, preferably with built-in child seats and both driver and passenger air bags. They fear having to pull off the road with a carload of kids, so they also want a car with a low probability for mechanical failure.

Their wants and needs add up to a new minivan that they can't possibly afford to buy. Recently, they decided to lease a new safety-equipped minivan when the dealer told them about the low monthly lease payments they could make. For once, they didn't bat an eye at the price.

Living the Good Life.

Bob Jacobson has never been one to save. His income is steady, but it doesn't afford him the lifestyle he wants. He was turned down for a loan to buy the four-wheel-drive truck he wanted. When he found out he could lease the same truck for less each month, he nearly jumped at the chance, but he didn't feel right about it. By the time the lease was up, he reasoned he'd still have to finance the truck in order to own it. Or, he'd have to keep making payments to lease another truck and possibly come up with another down payment, too.

Bob decided to buy a less expensive car rather than leasing the truck he could not afford to buy. After four years of making loan payments he can afford, he's guaranteed he'll own a car and then have a few years of payment-free driving in which to save money for the truck he really wants.

The Pride of Ownership.

Jim Merriman made the final payment on his hatchback three years ago. His wife ribs him about driving a "beater," but in truth the car's body has held up well. Jim also has tuned up the engine on schedule and replaced a few parts. All in all, the money Jim saves by not having monthly payments makes him gleefully happy every time he sits on the sun-bleached seats.

He's even started a bank account to put away the money he'd be paying every month if he were leasing. It's growing so big he plans to use some of his savings to fly his family to Florida in the dead of winter, and he'll still have a sizable down payment left when he wants to buy a new car.

See page 83 for the "Top Ten Tips for Leasing a Car."

Why Are Monthly Payments Lower When You Lease?

The monthly payments may be lower when you lease a car than when you buy it because you're mainly paying for the car's depreciation. Depreciation is the value the car loses over the time you drive it. If a car is worth $18,000 new, and you lease it for three years, during which time it depreciates by $7,000, you pay $7,000 to lease the car (plus interest and other fees listed on your leasing contract).

If you were to buy the car, your monthly payments would have to be higher to pay off the full price of the car. Loan payments to buy a car are often spread over four to six years to bring the monthly cost down. Still, the monthly payments may not be as low as they would be if you were leasing.

To properly evaluate a lease, look at the long-term financial outcome and all the terms of the lease.

Is Leasing a Good Deal?

Does the fact that you're making lower monthly payments when you lease mean you're getting a better financial deal than if you'd bought the car? **No—to properly evaluate the deal, you need to look at the long-term financial outcome and all the terms of the lease.**

Beyond Monthly Payments

Even though leasing ads often emphasize low monthly payments, it is critical to look beyond the monthly payment to understand the total cost of a lease. Examine the up-front and back-end fees included in the lease. And, if you don't mind doing a little math, learn how the monthly fee is tabulated to ensure you're getting a good deal. (See "Raise Your Leasing IQ" in this chapter on page 56.) Sometimes the low payments that sounded so good in an ad can conceal hidden costs that add up to a poor deal. Check your lease for these important disclosures:

1. **The car's price.** Make sure the price of the car is listed on the lease. This figure, also called "capitalized cost," is similar to the sale price you would pay if you were buying the car. It is important to know the capitalized cost because it will determine how much you will have to pay each month.

2. **The trade-in value.** If you're trading in a car, make sure the amount you're receiving for the car is shown on the lease. It should be listed separately and subtracted from the car's price (capitalized cost), if you have "positive trade equity."

If you have "negative trade equity," then you owe more on your loan than you will receive in credit for the trade-in. In this case, the amount you still owe, minus the amount the dealer is giving you for your trade-in, will be added to the capitalized cost and will increase your monthly payment. The dealer will then pay off the balance on the loan for the car you trade in.

3. **Other price reductions.** Make sure any manufacturer's rebate you were promised, any down payment you're making, and any discount you negotiated for the car are listed on the lease and subtracted from the car's price. Again, if they're not specifically listed and subtracted, you may not be getting as low a payment as you should.

Trade-Ins and Outs

The value of your trade-in vehicle should be shown on your lease separately from the price (capitalized cost) of the car you are leasing.

Negative Equity

Do you owe money on a loan for your trade-in vehicle? If so, you may have "negative trade equity." You have negative equity if you owe more on your loan than the dealer is giving you in credit for your trade-in.

$13,000.00	Balance owed on loan before trade-in
- 10,000.00	Trade-in credit from dealer
$3,000.00	**Total "negative trade equity"**

By trading in your old vehicle, you won't receive a discount on your leased car, but you will reduce the amount you owe on your loan. In this example, the $3,000 in negative equity will be *added* to the capitalized cost of the car you lease. The dealer will then pay off the outstanding loan on the trade-in.

Positive Equity

If you have no payments left to make, or still have a few payments to make on your car but the dealer will pay you more to buy your used vehicle than you owe, you have "positive trade equity." In such a case, the positive trade equity should be applied in one of the following ways:

1. Subtracted from the capitalized cost, and shown as such on the lease;
2. Subtracted from the up-front payments you're making to lease the new car;
3. Given to you in cash; or
4. Some combination of these.

You have "negative equity" if you owe more on your loan than the dealer is giving you in credit for your trade-in. If the dealer will pay you more to buy your used vehicle than you owe, you have "positive trade equity."

$10,000.00	Trade-in credit from dealer
- 7,000.00	Balance owed on loan before trade-in
$3,000.00	**Total credit toward your leased car, or "positive trade equity"**

With the trade-in, you can pay off your loan and also get a discount toward your lease. Be sure the positive trade equity is shown on your lease contract—and is applied to reduce the capitalized cost.

Get the Credit You Deserve

See that the amount of your positive trade equity is subtracted from the current price (capitalized cost) of your new leased car. **If the trade equity isn't subtracted from the capitalized cost, you may not be receiving the credit you are entitled to!**

If you're trading in a car, make sure the amount you're receiving for the car is shown on the lease.

When you trade in a car, double check that the contract shows the correct price (capitalized cost) of the car you're leasing. If it's higher than you expected, don't hesitate to point this out to your dealer and get the price you had negotiated.

Tip: Consider selling your vehicle yourself rather than trading it in. That way you know exactly what you're getting for it—and you may get more than a dealer will give you.

Bumper-to-Bumper Fees

The Front End

Remember that the cost of a lease includes more than just the monthly payments. For starters, it includes the up-front payments. One of these, the security deposit, is usually refunded at the end of the lease (unless there is damage to the vehicle). Others, like a down payment, aren't refunded. You will probably have to pay an acquisition fee of $350 - $650 to take out a lease.

Before you get too excited about monthly payments of $200 on a 24-month lease, for example, check to see whether you will have to make a significant down payment. If the down payment is $2,400, that's the equivalent of paying another $100 each month you'll be driving the car.

The Back End

Fees tacked on when you turn in the vehicle at the end of the lease can add a big chunk of money to your leasing bill. Know your driving habits before you lease, so you'll be able to predict these back-end fees.

Charges that generally add the most to the cost of leasing are extra mileage and excess wear and tear, but there are others to watch for, such as a termination fee for ending the lease early. You will also probably pay a disposition fee of $250 or so, at the end of the lease.

- **Extra Mileage:** You can usually drive a fixed number of miles annually (often 12,000 or 15,000) without incurring extra charges. Any more than that may cost you between 8 and 15 cents per mile. If you're not careful about this item, you can owe a lot at the end of the lease: an extra 2,000 miles a year on a 3-year lease at a charge of 15 cents per mile could cost you $900. You can sometimes get this charge reduced by paying for extra mileage up front, but you won't get a refund if you don't drive the added miles.
- **Excess Wear and Tear:** Damage you do to the car beyond what's expected by the leasing company can dent your pocketbook. Many people who lease are frustrated when they get hit with a large bill for "wear and tear" at the end of the lease, especially if they feel the car is in good condition. Read the lease and understand what it says about excess wear and tear. Ask the dealer for a clear and thorough explanation of the standards that will be used to measure "excess" wear and tear, and write those standards into your lease.
- **Early Termination Fee:** Watch out for the early termination fee, or penalty, if you decide you want to stop leasing the vehicle before the lease term is up. This penalty can be substantial—several thousand dollars in some cases.
- **Gap Insurance:** Another potential surprise is that under many leases the early termination penalty can be triggered if you "total" your car in an accident. Because the car is no longer drivable, your lease is automatically "terminated," and you're obligated to pay off the lease. While your car insurance should cover the cost of damages, it won't cover the cost of paying off the lease. You'll need "gap insurance" for that. You can purchase gap insurance when you lease your vehicle.

Charges that generally add the most to the cost of leasing are extra mileage and excess wear and tear, but there are others to watch for, such as a termination fee for ending the lease early.

If you feel pressured to sign a contract or are unsure of what you're signing, walk away. A good deal should still be available if you decide to return to the dealership to buy or lease a car.

Finally, be sure you understand the details of the lease. Insist that the dealer walk you through it slowly. Don't be fast-talked into a deal you don't fully comprehend. Dealers currently aren't required to tell you all the elements they use to arrive at the monthly fee, but a customer-friendly dealer will.

If you feel pressured to sign a contract or are unsure of what you're signing, walk away. A good deal should still be available if you decide to return to the dealership to buy or lease a car. So take your time. Remember, there's no three-day cooling-off period! Once you sign the lease, you must abide by its terms.

Who's Who in Leasing?

Who are the players in the leasing game? While your dealer makes all the arrangements to lease you a car, the dealer is a liaison between you and the leasing company that owns the car. You make your payments to the leasing company, not to the dealer.

Leasing vs. Buying: When Ownership Is the Goal

It's not always easy to figure out if you'd be better off leasing or buying from the start if you ultimately want to own the car. Even so, it's a good idea to try to determine which makes the best financial sense for you.

To figure out what you'd pay for a car at the end of the lease, ask for the "purchase option price," or the amount you'd pay to buy your leased car at the end of the lease. Then, add in monthly interest for financing the purchase after the lease is up. While the purchase option price may be negotiable, it's what dealers plan to charge based on the estimated value of the car at the end of the lease.

Now compare leasing to financing. First, how much of a down payment could you make to lower your monthly payments if you buy the car? When you decide the size of the loan you'd need to buy the car, check loan interest rates offered by your banks or credit union, as well as those offered by your dealer, to make sure you're comparing leasing with the best financing deal you can get.

Take a Second Look

What are your reasons for considering leasing? Did you fall in love with extra accelerating power, smooth handling, or a leather interior and "moon roof" on a car you can't afford to buy? If so, rethink your decision to lease. You may be better off buying a less expensive car now and saving your money to buy the car you really want later.

How to Get a Good Deal

You can get a good leasing deal by taking a few simple steps:

- **Choose a make and model that traditionally holds its value.** Lease payments will generally be lower on a car that sells well after the lease is up.
- **Shop around. Visit several dealers and compare their offers. If you don't compare leases you'll never know if you're getting the best deal possible.** Also, look beyond the monthly payment at all the other fees and terms to be sure you're comparing "apples" to "apples."
- **Negotiate the price of the car as if you were buying it.** (Refer to the negotiating tips beginning on page 25.) It's important to note that if, during negotiations, you switch from buying to leasing the car, the dealer should still base your lease payments on the same price you negotiated for the purchase. However, in some cases, when you switch from buying to leasing, the dealer may figure your lease payment on the full "sticker price"—not the lower price originally offered when you were going to buy the car. Therefore, make sure the price (capitalized cost) you negotiated is shown on the lease and is the same as the price you negotiated if you first discussed buying the car.
- **Double-check the trade-in credit.** If you trade in a vehicle and were promised a trade-in credit to reduce the cost of your leased vehicle, double-check that the trade-in credit is subtracted from the price (capitalized cost) of the car. (See "Trade-ins and Outs" on page 47.) The trade-in credit, as well as any factory rebates or discounts you were offered, should be subtracted from the price of the car you are leasing.
- **Be wary of the extras.** Does the lease include a charge of hundreds of dollars for rustproofing on a brand-new car you only plan to drive for two or three years? How about an expensive extended warranty? Remember you don't own the car, and you already have the benefit of the factory warranty that comes with the car. Don't pay for extras that won't benefit you.
- **Two- and three-year leases are standard in the industry.** If you sign a longer lease, remember that you still have to buy the car at the end of the lease if you want to own it. Furthermore, the warranty runs out after a few years and so does that "new-car feeling."

Visit several dealers and compare their offers. If you don't compare leases you'll never know if you're getting the best deal possible.

Turning Over Your Engine

Many people who lease like the fact that the length of a lease is usually short, allowing them to frequently turn in one car for another. But if you lease, plan to keep the car for the entire length of the lease or you'll most likely pay a substantial penalty for breaking the lease.

Because the formulas for calculating these penalties are complex, ask your dealer to give you a detailed example using real numbers. Ask specific questions, such as: "What will the penalty be if I end the lease next January?"

What if I Want Out?

There is no three-day cooling-off period when you lease, just as there isn't when you buy a car.

There is no three-day cooling-off period when you lease, just as there isn't when you buy a car. So carefully consider what you're signing when you sign a lease, because you're promising to make lease payments for the full term of the lease.

Buying the Car at the End of the Lease

When the lease period is over, you can usually opt to buy the car. To decide if buying makes good financial sense, revisit the purchase option price discussed above. How does it compare with the price for a similar used car?

Sometimes the purchase option price is actually less than you'd pay to buy a similar car from a used car dealer. If that's the case, consider yourself lucky.

Trucks, for example, were unexpectedly popular in the early '90s, and many people leasing them were able to buy them at the end of their leases for a much lower price than the same truck bought from a used car dealer.

If your car holds its value better than was anticipated when you signed the lease, it's obviously smart to buy the leased vehicle for the purchase option price. If you don't really want to own the vehicle, but don't mind a little work, you can sell it immediately and pocket a profit. On the other hand, if the purchase option price is higher than the market value of the car, buying it is not a sound financial option. If you want to buy the car anyway, you may be able to negotiate with your dealer to lower the price. But if the dealer won't match the market price, walk away.

Leasing Glossary

Leasing terminology is confusing and intimidating. To add to the confusion, not everyone uses the same terminology. **Take the following glossary with you when you shop for a lease so you have the meanings of all the terms right at your fingertips.**

Take this glossary with you when you shop for a lease.

Acquisition Fee, or Assignment Fee: An additional fee charged by the leasing company. This fee usually ranges from $350 to $650 and is often included in the monthly payment. Sometimes, however, you are required to pay the fee up front.

Adjusted Capitalized Cost, or Net Capitalized Cost: The "capitalized cost" (car's price), minus any deductions to reduce the price of the car. Common deductions are the down payment, trade-in credit, and manufacturer's rebate. The adjusted capitalized cost is used to calculate your monthly payment. It is similar to the "amount financed" in a purchase transaction.

Capitalized Cost: Equivalent to the price of the car, including any tax and add-ons, extra warranties, insurance, rustproofing, or other options that you've agreed to pay for.

Capitalized Cost Reduction: Anything that reduces the capitalized cost before the monthly payment is calculated. It usually includes your cash down payment, trade-in credit, and manufacturer's rebate.

Depreciation: The value that a car is projected to lose over the period of time you drive it. It's the difference between the adjusted capitalized cost and the residual value.

Disposition Fee: A charge by the leasing company to take the car back and fix it up for sale after the lease is up. Not all leasing companies charge this.

Down Payment: An amount you pay up front to lower your monthly payment. It should be subtracted from the car's capitalized cost, or price, before the monthly payment is calculated.

Early Termination Fee: A penalty payment that may be added to the amount you owe if you terminate your lease early. This could amount to several thousand dollars.

Excess Mileage: Most leases allow for a maximum number of miles per year. Any miles driven over the limit are usually billed at between eight and 15 cents a mile.

For a glossary of terms specific to car buying, see page 80.

Excess Wear and Tear: Damage done to the car beyond the expected wear and tear from driving. Excess wear and tear is usually determined by the leasing company.

Gap Insurance: If your leased car is stolen or totaled, your insurance will pay for the damage or loss. It won't help you make payments still owed to the leasing company. Gap insurance makes up the shortfall, or gap, between the value of your car and the amount you still owe on your lease, including a possible penalty for early termination of the lease.

Gross Capitalized Cost: This is the capitalized cost for the leased car, plus the amount of any "negative trade equity" that is added to the capitalized cost.

MSRP: **M**anufacturer's **S**uggested **R**etail **P**rice, or "sticker price."

Money Factor: A number that leasing companies use to arrive at the interest charge for your monthly payment. Unfortunately, the number looks nothing like an interest percentage. It will be something like ".00375." For many leases, the general rule is that 2,400 multiplied by the money factor is the interest rate. Working this equation out, we see that a money factor of .00375 gives us about a nine percent interest rate. However, not all lease companies use the same conversion factor to convert the money factor to an interest rate.

Monthly Payment: The monthly lease payments made over the term of the lease. Generally, it includes your depreciation, interest, and taxes.

Net Trade-In Allowance: This is the amount of credit the dealer is giving you for your trade-in, after taking into consideration the loan balance on your trade-in. Depending upon the amount of your loan, you will have either "positive trade equity" or "negative trade equity." (See "Trade-Ins and Outs" on page 47.)

Purchase Option Price: What you'll pay for the car if you buy it at the end of the lease. The purchase option price is often tied to the residual value. If it is, then the higher the residual value, the more you'll pay to buy the car, should you decide to do so, at the end of the lease period.

Rent Charge: In a lease, this is basically the total amount of interest you are paying. It is also known as the "lease charge."

Residual Value: How much leasing companies have estimated that the car will be worth after your lease is up. The residual value affects the amount of your monthly payment. Dealers have books with charts estimating

the residual value, which is usually shown as a percentage of the sticker price (MSRP), and determined when the car is new. The higher the residual value, the less you will pay each month to lease your car. (See also "depreciation.")

Security Deposit: Usually the same amount as one month's payment paid up front. You'll get it back if the car is in good condition at the end of the lease.

Zero Down: When the only up-front fees you will have to pay are the tax and license fees. Thus, if a dealer offers a "zero down" lease, you should not have to pay any fees up front, such as a security deposit or down payment.

What the Leasing Company Must Tell You

Federal regulations require leasing companies to disclose certain information to consumers about the terms and costs of their lease. The information that must be disclosed includes:

Required Disclosures

1. The amount of any up-front payments (down payment, security deposit, and first month's payment).
2. The number, amount, and due dates of your monthly payments.
3. The total amount of your monthly payments over the course of the entire lease.
4. The cost of the license, registration and taxes.
5. The gross capitalized cost for the leased car.
6. The net trade-in allowance you are receiving for the car you trade in.
7. Any capitalized cost reduction.
8. The adjusted capitalized cost.
9. Rebates and non-cash credits.
10. The residual value.
11. A description of the insurance provided or required under the lease.
12. The warranty terms.
13. Who is required to take care of the car and pay for maintenance.
14. The standards for determining wear and tear (if the leasing company sets such standards).
15. Penalties for default or late payments.
16. Whether or not you can buy the car at the end of the lease and at what price (purchase option price).

Leasing companies must disclose certain information to consumers, such as the total amount of monthly payments over the course of the entire lease.

One lease term that leasing companies are not required to disclose is the money factor. However, if you decide that you want to do your own lease calculations or check the leasing company's calculations, you will need to know the money factor applied by the leasing company. If you want the information and the leasing company will not give it to you, consider taking your business elsewhere.

Raise Your Leasing IQ

The Nitty Gritty of Lease Calculations

Before you sign the contract, go over it with a fine-toothed comb—or better yet—a calculator. Checking the numbers is a little complicated but well worth the trouble. Everyone makes mistakes sometimes, and you'll pay, literally, for any wrong calculations used to figure your lease.

See the "Leasing Glossary" on page 53 for help in understanding the terms used in the following section. In this section, first you'll learn how to calculate a monthly payment, then you can fill in your own calculations. You'll also want to review the lease to make sure you understand the up-front and back-end fees, as well as any other terms that you agree to when you sign the lease.

Check Your Monthly Fee

Calculate your monthly fee before signing a lease.

The following formula will allow you to calculate your monthly payment within a few dollars of the actual payment. All you need is a pen, paper, and probably a standard calculator, unless you like to do your math by hand.

Warning: These calculations will work for most leases. However, some lease companies may use a different type of money factor and a different formula for calculating the monthly payment.

Figure Your Lease Payment

Determine and fill in the following numbers in the spaces below:

	Example:	Your Lease Payment:
MSRP (sticker price)	$22,000	_____
Capitalized cost	$20,000	_____
Net trade-in allowance	$2,000	_____
Adjusted capitalized cost	$18,000	_____
Residual value	$11,800	_____
Term of lease	36 months	_____
Money factor	.00335	_____

In this example, the sticker price (MSRP) was $22,000, but the customer was able to negotiate a lower leasing price ("capitalized cost") of $20,000. In addition, the trade-in credit reduced the capitalized cost by another $2,000 to $18,000. (Make sure that your trade-in credit and any other discounts are included in the calculations arriving at the adjusted capitalized cost.)

The monthly lease payment is made up of two parts: the depreciation charge and the monthly interest, or lease charge. It is calculated as follows:

The monthly lease payment is made up of two parts: the depreciation charge and the monthly interest, or lease charge.

Monthly Depreciation

The total depreciation charge is calculated by subtracting the dollar amount of the residual value from the adjusted capitalized cost and then dividing by the number of months in the lease. This is a measure of how much the car's value is going down each month.

(Adjusted Capitalized Cost - Residual Value) / Months in Lease = Monthly Depreciation

Example:
($18,000 - $11,800) / 36
= $172.22

Monthly Interest Charge

This is what the leasing company charges you for using its money. It is sometimes referred to as the "rent charge" or "lease charge." The monthly interest charge is calculated by first adding the adjusted capitalized cost and the residual value. Then multiply the result by the money factor.

(Adjusted Capitalized Cost + Residual Value) x Money Factor = Monthly Interest Charge

Example:
($18,000 + $11,800) x .00335 = $99.83

Total Monthly Lease Payment

The total monthly lease payment equals the monthly depreciation plus the monthly interest charge. (If you want to know approximately what the interest rate on your lease is, in most cases you can multiply the "money factor" by 2400. This conversion works for most money factors, although some lease companies may use a different conversion factor.)

Monthly Depreciation + Interest Charge = Monthly Payment
Example: $172.22 + $99.83 = $272.05

Done!

There you have it: your monthly payment. The calculation should be within a few dollars of the amount the dealer quoted. If it's not, insist that the dealer go over all the costs in the monthly payment. Are there any hidden costs? If the dealer can't explain all the costs to your satisfaction, walk away.

Note: Another way to calculate your monthly payment is to follow the steps on a business calculator with a lease program. If you do this, you will probably need to convert the money factor to an interest rate before you do the calculations. As a reminder, the usual way to obtain the interest rate is to multiply the money factor by 2400.

Final Questions

Before you sign your lease, you should review it and ask yourself the following questions:

- Was I credited for my trade-in vehicle?
- Was I credited for other discounts from the car's price, such as any manufacturer's rebate and my down payment?
- What are my mileage limitations?
- What is the penalty if I default on the lease or decide to end it early?
- Do I understand what "excess" wear and tear will mean when I turn the car in?

Leasing Form

A sample leasing form prepared by the Federal Reserve Board is available on page 84. Dealers may use a form very similar to this.

Words About Warranties

To warrant means to give proof, so when you get a warranty on a car, it's to give proof that certain mechanical and body parts are sound or will be repaired if they're not. Of course there are time limits on this. But a warranty allows you to be comfortable knowing that you won't be stuck with major repair bills soon after you buy a car. It's a nice safety feature, especially if you're buying a used car and don't have a mechanical bone in your body. If that's the case, have a good technician check the car over. Even then, get a warranty if you can.

A car typically comes with a *limited* warranty, which offers less than full coverage. Read it carefully to find out what the limits and deductible costs are.

A car typically comes with a *limited* warranty, which offers less than full coverage. Read it carefully to find out what the limits and deductible costs are.

New Car Warranties

Warranties are getting as competitive as car sales, which is good news for consumers. Most manufacturer's warranties cover repairs for three years or 36,000 miles, but warranties may vary from two years to four years and up to 70,000 miles.

To outdo each other, manufacturers are offering helpful extras like road assistance and towing. Some even throw in trip routing services and reimbursement for food, lodging, and alternative transportation if your car breaks down while traveling. While most warranties don't cover routine maintenance such as filter, oil, and other fluid changes, a few do. This perk can save you hundreds of dollars over the warranty period.

Read the fine print to discover all the coverage you're receiving. It may be more than you think. You'll want to make sure you're not being charged for any of the extras mentioned above, however. If you are, check competitive services before signing up for them.

Used Car Warranty Law

Minnesota has one of the strongest used car warranty laws in the country to protect used car buyers. Under the Minnesota used car warranty law, used car dealers must provide basic warranty coverage for most used cars and small trucks sold to Minnesota buyers.

Minnesota has one of the strongest used car warranty laws in the country to protect used car buyers.

Because this law applies to dealers only, it's important to know if you're buying from a dealer. A dealer is anyone who sells more than five used cars a year, and this person must be licensed by the Minnesota Department of Public Safety's Driver and Vehicle Services Division.

Sometimes dealers will be unlicensed and pose as private individuals. If you buy a qualifying car from an unlicensed dealer, then your car is still covered under the used car warranty law. (Cars that qualify for the used car warranty are described in "The Basic Warranty" section that follows.) You are legally entitled to all basic warranty coverage even if you don't receive any written warranty documents.

Friends, relatives, neighbors, or any other private individuals who sell you a car are not dealers, so the warranty would not apply in these cases. It also does not apply if you purchase a car from any of the following:

- Your employer.
- A bank or financial institution.
- A company that previously leased the car to you or a family member.
- The state or any county or city in Minnesota.
- An auctioneer who sells the car in connection with the sale of other property or land.

Many parts are covered by the used car warranty law.

The Basic Warranty

The used car warranty law covers used cars purchased primarily for personal, family, or household use. The terms and length of the warranty will depend upon the mileage of the car at the time you buy it. **For cars with fewer than 36,000 miles, the warranty applies for 60 days or 2,500 miles, whichever comes first.** The parts covered under the warranty for cars in this mileage range are:

- **Engine:** all lubricated parts, intake manifold, engine block, cylinder head, rotary engine housings, and ring gear.
- **Transmission:** automatic transmission case, internal parts, and torque converter; or manual transmission case and internal parts.
- **Drive axle:** axle housings and internal parts, axle shafts, drive shafts, output shafts, and universal joints. (Secondary drive axles are covered on automobiles and passenger vans but are not covered on other vehicles mounted on a truck chassis, such as utility and off-road vehicles.)
- **Brakes:** master cylinder, vacuum assist booster, wheel cylinders, hydraulic line and fittings, and disc brake calipers.
- **Steering:** steering gear housing and all internal parts, power steering pump, valve body, piston, and rack.
- **Water pump.**
- **Externally mounted mechanical fuel pump.**
- **Radiator.**
- **Alternator, generator, and starter.**

For cars that have between 36,000 and 75,000 miles, the warranty applies for 30 days or 1,000 miles, whichever comes first.

For cars in this mileage range, the warranty covers the parts listed above, with the exception of the following parts that are **not** covered:

- **Rack.**
- **Radiator.**
- **Alternator, generator, and starter.**

Parts are not covered under the used car warranty law if they are not specifically listed above.

What's Not Covered

Not all cars are covered under the used car warranty law. The following are excluded from the law and are usually sold "as is":

- Cars with 75,000 miles or more.
- Cars sold for less than $3,000.
- Custom-built cars or cars modified for show or racing.
- Cars that are 8 years of age or older.

- Cars purchased primarily for business or agricultural use.
- Vehicles with a gross vehicle weight of more than 9,000 pounds.
- Vehicles manufactured in limited quantities.
- Vehicles not manufactured in accordance with federal emission standards.
- Diesel engine vehicles.
- Salvaged vehicles.

Other Exceptions

- **Ordinary Maintenance:** The warranty does not cover ordinary maintenance, such as changing spark plugs, ignition, points, filters, fluids, lubricants and oil, and brake and clutch linings. These remain your responsibility.
- **Collisions, Abuse, and Negligence:** Repairs needed because of inadequate maintenance or taking poor care of the car are not covered. Nor is the dealer required to repair any parts still covered by the original factory warranty or parts that the manufacturer agrees to repair at no charge because a part was defective.

Lawsuits

If you have a warranty dispute with a dealer, you may have to take the dealer to court. Any lawsuit under the used car warranty law must be filed within one year after the warranty expires. The good news is you can usually settle the dispute in conciliation court, where procedures are relatively informal and you don't have to hire an attorney. (For more information, call the Minnesota Attorney General's Office at 651-296-3353 or 800-657-3787 and ask for the free brochure *Conciliation Court: A User's Guide to Small Claims Court.*)

The Buyer's Guide

The Federal Trade Commission and state law require dealerships to display the buyer's guide on the car window. The buyer's guide is a double-sided form that the dealer fills out to tell you whether the vehicle comes with a warranty and, if so, what the warranty includes. If the "warranty" box is checked, the car is covered by a warranty required by the state's used car warranty law or another warranty offered by the dealer. If the "as is" box is checked, the buyer is responsible for paying for all repairs that the car requires.

Even if the car you buy is covered under the used car warranty law, you may waive coverage for a particular covered part. If you'd rather negotiate a lower price, and take the car with a defective manifold, you must sign

The Federal Trade Commission and state law require dealerships to display the buyer's guide on the car window.

and circle a statement on the warranty that indicates that the manifold isn't working properly.

The "As Is" Disclaimer

If the "as is" box is checked on the buyer's guide, you have to pay for any and all car repairs once you buy the car.

If the "as is" box is checked on the buyer's guide, you have to pay for any and all car repairs once you buy the car. "As is" appears on about half of all used cars sold by dealers in the United States. In Minnesota, however, this disclaimer isn't allowed unless the car fits one of the exceptions to the used car warranty law.

What if a Part Breaks?

If the drive train falls off as you leave the lot or the manual transmission sticks within the time period of the warranty, you are entitled to have it fixed free of charge. You must report the problem to the dealer within the warranty period. Of course, to be fixed without charge, it must be a part covered by the warranty.

Don't just pull into the first repair place you see and then think you can present the dealer with the bill, however. The dealer must repair or replace the part. If the dealer doesn't have a service facility, he or she will tell you where to take the car. If it's inconvenient for you to go to the dealer for repairs—if you live across the state, for example—you may have the repairs done elsewhere with the dealer's consent.

Once the defective part is fixed, you'll receive another warranty, good for an additional warranty period for that particular part.

Refund? It's Dealer's Choice

It may be the dealer's choice to forego repairs if they're too expensive and refund the cost of the vehicle to you instead. In this case, the refund must include all the charges you paid, including any towing expense, minus a reasonable deduction for your use of the vehicle. The law does not give the car buyer the right to demand the full purchase price in compensation.

Extended Warranties or Service Contracts

The Minnesota Attorney General's Office encourages Minnesota automobile owners to fully understand motor vehicle service contracts, sometimes erroneously referred to as "extended warranties," before purchasing one. Although these contracts are intended to cover unexpected and costly vehicle repairs after the original warranty has expired, they may be marketed in a deceptive manner and contain fine print that limits the coverage available. Before buying a service contract, consumers should first fully understand the

terms of the contract and who is responsible for providing the coverage, and then consider the following tips:

Motor Vehicle Manufacturers or Licensed Dealers

Service contracts may be sold by motor vehicle manufacturers or their licensed dealers, but those entities are not required to meet all the requirements of Minnesota's service contract law. They are required to make certain disclosures, offer the right of return, and are prohibited from certain deceptive acts, but are not required to meet or disclose the financial requirements discussed below.

Only Buy from Reputable Companies

Determine who is selling the contract. It is not uncommon for brokers to use deceptive and misleading tactics such as impersonating your vehicle's manufacturer or dealer, or using a name that falsely suggests an association between them. Many brokers intentionally use similar names so that you may not be able to determine who they are. Some may assert that your warranty has expired, when it may not have expired, and when they do not know if you have already purchased a service contract. The Minnesota Attorney General's Office has taken action against such companies to reform their practices. **You should assess the way the service contract is marketed to you to determine if it is a company you want to do business with. Ask for references and check out the company with the Better Business Bureau at 651-699-1111 or 800-646-6222.**

Consider the way an extended warranty or service contract is marketed to you to determine if it is a company with which you want to do business.

Determine who is the provider of the service contract and who will administer and pay the claims when your car breaks down. Ask for references and check out the provider and administrator with the Minnesota Department of Commerce and the Better Business Bureau.

Find out how the contract provider ensures that it has the money to faithfully perform its obligations under the service contract. You can do this by obtaining a copy of the contract provider's registration with the Minnesota Department of Commerce at 651-539-1500. Minnesota law requires that providers back up service contracts by meeting one of the following requirements:

1. Insure all service contracts under a reimbursement insurance policy in the amount of $15,000,000 (or $10,000,000 with the Minnesota Department of Commerce's authorization);
2. Maintain the required reserve and provide a security deposit to the Minnesota Department of Commerce; or
3. Maintain a net worth or stockholders' equity of $100,000,000.

The contract should state whether the provider's obligations are insured (and tell you the name of the insurer) or whether only the provider is backing the obligations.

Carefully Review the Contract Before Purchase

A reputable company should allow you to review the contract before you buy it. Remember that sales brochures are not contracts. Review the contract before you buy it or make a deposit on it.

When reviewing the service contract, pay particular attention to the "exclusions," or those things the contract will not cover.

Regardless of what you may be told, few service contracts cover all repairs. When reviewing the contract, pay particular attention to the "exclusions," or those things the contract will not cover. The exclusions are usually listed near the back of the contract. Be wary of exclusions that may deny coverage for any reason. According to the Federal Trade Commission ("FTC"), examples of these exclusions may include the following:

- "If a covered part is damaged by a non-covered component, the claim may be denied," or
- Contracts which specify that only "mechanical breakdowns"' will be covered, may exclude problems caused by "normal wear and tear."

Look for any requirements or conditions you must meet in order to obtain coverage under the contract. Service contracts typically state that in order to be eligible for coverage under the contract, you must perform a certain type of maintenance on your vehicle. For example, the contract may require you to change the oil every three months and provide proof that this has been done. If something later goes wrong with your engine and you cannot prove that the oil was changed every three months, the company might deny your claim (even if the oil change had nothing to do with the needed repair).

Determine whether the contract has any deductibles and carefully review how those deductibles apply. For example, a contract may have a $100 deductible for each *repair* or for each *component* repaired.

Find out if you need prior authorization from the contract provider in order to have repair work done on your vehicle. People have been denied reimbursement for repairs because they did not get prior authorization before having repairs performed.

You may be able to negotiate the price of a service contract, just as you would negotiate the price of a car or trade-in vehicle.

Your bank, car manufacturer, dealer, and others cannot require you to purchase a service contract as a condition of a loan or of the sale of the motor vehicle.

Disclosure Requirements

Minnesota law requires that service contracts are written in clear, understandable language that is easy to read and includes the following:

- Identity of the parties, including the provider, third-party administrator, seller, and the buyer;
- Purchase price and sale terms;
- Amounts and terms of any deductibles;
- Coverage, limitations, and exclusions;
- Restrictions on transferability of the service contract;
- Cancellation terms;
- Duties and obligations of the buyer;
- Exclusions for consequential damages and preexisting conditions; and
- Whether the contract is insured and by whom (unless the provider is a manufacturer or licensed dealer).

If this information is not stated in the contract, do not buy the contract. If this information is stated, you may still wish to contact the Minnesota Department of Commerce at 651-539-1500 to obtain further information about the company you are contracting with.

Right of Return

Minnesota law permits a buyer of a service contract to return such contract for a full refund *if* no claim has been made *and* the buyer returns the contract to the provider within twenty days of the date the contract was mailed to the buyer, or within ten days of the delivery of the contract if the contract was delivered at the time of sale. If the provider fails to refund the buyer within forty-five days after the return of the contract, the provider is liable for a penalty of ten percent of the amount that remains unpaid for every month until the full amount is paid.

You may contact the Minnesota Department of Commerce at 651-539-1500 for information about a company offering an extended warranty or service contract.

Wheels to Rent

If you need to leave your car in the shop for repair, if you're traveling, or if you seldom need to drive at all, you may want to rent a set of wheels. You can rent anything from rental heaps to luxury sedans.

In most states, all that's required to rent a car is a valid driver's license, a good driving record, a minimum age of 25, and a valid credit card in your own name.

In most states, all that's required is:

- A valid driver's license and a good driving record.
- A minimum age of 25 years (21 in some states, 18 in a few others).
- A valid credit card in your own name. (Some places may allow you to pay cash, but you'll need to show a return airline ticket, post a deposit, and offer a long list of identifying information so you can be tracked down if you don't return the vehicle.)

Making Reservations

Car rental is easy. To help you reserve a car almost anywhere, rental companies have 800 numbers. You can also reserve a car through a travel agent. Agents can shop for the best car and rate for you. When you're ready to rent, have the following information available:

- **Dates you'll need the car.** If you're renting at an airport, be prepared to give your airline flight number and the time of arrival and departure.
- **The model and size of car you want.** You can rent one of several classes of cars. While rental companies don't share a common system for classification, you can usually rent them in categories such as economy (also known as subcompact), compact, midsize, luxury, premium, and specialty (convertibles, vans, and four-wheel-drive vehicles).

Rental companies may not be able to guarantee the model you want, but you can make a request or shop around for a rental company that offers the model you want.

When requesting a car, keep in mind how many people will be riding in the vehicle and how much luggage you'll have. You should also ask about the following:

- **Safety Features:** Air bags, child safety seats, and other safety features.
- **Options:** Air conditioning, cruise control, four doors vs. two doors, car phones, ski racks, and luggage racks. Naturally, these may cost extra. Letting the company know in advance what you need will speed the rental process when you pick up the car.

The Cost

When you rent a car you'll pay a basic fee plus several standard additional charges for the car. These commonly include fuel and mileage, but you can also get slapped with surcharges. Ask about them before you rent.

Fuel

Fuel is charged three ways, all starting with a full tank of gas:

- You can return the car with a full tank of fuel and pay only what it costs you to refill the tank at a local gas station.
- You can let the car rental company refuel your car when you drop it off. You'll be charged a rate that's higher than market value, but it may be more convenient.
- You can pay for a full tank of gas up front based on the local self-service price, but you'll get no rebate for unused gas when you turn in the car.

Mileage

Some car rental companies offer unlimited, unrestricted free mileage, while others apply extra charges for mileage, as follows:

- With unlimited mileage you may have other restrictions such as the geographic area you travel in or limited dates for rental.
- The most common way to charge for mileage is the per-mile charge. An odometer reading is taken before and after rental, and the per-mile charge is added to the final bill.
- Some companies offer a certain number of free miles and then add a per-mile charge for extra miles or charge a flat fee when you exceed the allotted free mileage cap.

Some car rental companies offer unlimited, unrestricted free mileage, while others apply extra charges for mileage.

Surcharges

Ask about the following when you make your reservation:

- **Drop-Off Charge:** Some rental agencies charge extra for dropping off a car at a location different from the one you rented it at.
- **State and City Surcharges:** Rental companies may add their own city surcharge if you're renting in a large city such as New York, Chicago, or Washington, D.C.
- **Airport Tax**: Airport fees imposed as a tax on deplaning passengers for airport car rental if you use a non-airport shuttle bus to get to the rental car company.
- **Late Charges:** Your rate may be calculated based on the day and time that you return the car. If you're late, you may incur a charge.
- **Refundable Deposit:** This can be several hundred dollars and is held against your credit card. It won't be charged to your account unless the

car comes back damaged or not to the specifications of your contract. You may be able to leave this deposit in cash, if you ask, so you don't have to limit the spending on your credit card.

- **Additional Driver Fees:** Some companies charge for additional authorized drivers.
- **Other:** You may pay a surcharge if you're under age 25 because rental companies consider your age an added risk.

Getting the Best Deal

- **Ask about weekly rates if you're considering rental for five days or more.** It is bound to be less expensive than five times the daily rate. Be aware that an early return may void your weekly rate.
- **Ask if you can confirm a price at today's rate.** Some companies will guarantee today's rate for no more than 60 days in advance, while others will extend their guarantee for a full year with a confirmed reservation. Find out about cancellation requirements.
- **Are you part of a club or organization that offers car rental discounts?** Also check for coupons you may have collected from airlines or credit card companies to reduce charges.
- **See if frequent flyer points are available with the rental.**
- **Don't assume an economy car is always the best deal.** For a few dollars more, you may be able to drive a luxury car, depending on current discounts and promotions.

Look Before You Rent

Before you rent, look over the car very carefully and make sure any existing damage has been recorded by the rental company. Otherwise, you could be responsible for the repairs of damage that you didn't cause.

Insurance and Waivers

Treat a rental car as you would your own. All car rental companies hold the renter responsible for the safe return of the rented vehicle. It should be in the same condition as it was when rented, aside from normal wear and tear.

If you are in an accident, you are liable for repairs—even if it wasn't your fault. **The good news is that Minnesota law requires all auto insurance policies to include rental cars. If you own a car and have paid your insurance, your rental car is covered, too.** The car may also be automatically covered by your credit card company. Check before you pay out of pocket for repairs. However, your auto insurance policy may not cover cars rented in another country. Be sure to check first.

Minnesota law requires all auto insurance policies to include rental cars. If you own a car and have paid your insurance, your rental car is covered, too.

Accidents Happen…and You'll Pay for Them

You have to pay for repairs if you have an accident and don't carry proper insurance or a waiver. You also probably will have to pay for the lost revenue the rental company incurs because it can't rent the car to anyone else. And you may pay an administrative fee for the processing of your damage claim. So carry insurance.

If a rental company automatically charges your credit card for an accident or demands payment at the time of the accident, ask to see a manager. Most reputable firms will work directly with your credit card company or insurance carrier for payment.

Purchasing Waivers

If you aren't insured, you can purchase a collision damage waiver (also called a loss damage waiver) from the car rental company. A waiver, which isn't insurance, is an agreement between the car rental company and you stating that the company will not hold you responsible for accidental damage or loss, and will pay for all costs itself, unless you violate the terms of the rental agreement.

If you aren't insured, you can purchase a collision damage waiver (also called a loss damage waiver) from the car rental company.

If you want a waiver you'll pay an additional cost of anywhere from $3 to $15 a day. Do your homework in advance to be sure you need this before you buy it. Companies can't require you to purchase it.

Liability Insurance

You can also purchase liability insurance. In the event of an accident, liability insurance covers you against claims by others for bodily injury and property damage up to a specific limit. Some companies provide only secondary coverage, meaning that your own insurance will be applied first to meet the state's minimum requirements. Major companies offer an extended liability package at a daily rate, with up to $1 million in additional protection. Some packages provide uninsured driver protection as well, in the event that the other driver is not insured.

Don't Let Unauthorized Drivers Take the Wheel!

If you allow an unauthorized driver to operate your rental vehicle, you may inadvertently cancel any liability protection you were entitled to under the rental agreement. This can be costly if you have an accident. Tell the rental company up front if you want others to be authorized to drive.

Personal Accident Insurance

This is available separately or in a package with options. It insures against death and certain medical expenses.

Personal Effects Coverage

This protects your luggage and personal property, but there are limitations for damage or loss. It may, for example, exclude jewelry and cameras.

Report the Accident

In the unfortunate event of an accident with a rental car, report the accident to the police and complete an accident report, just as you would if you were driving your own car. Also, notify the car rental company within 24 hours. You'll have to fill out another accident report. Be aware that any statements you make may be a permanent part of the accident report. Be truthful because your statements may be used in legal claims.

— Adapted with permission from Alamo Rent A Car, Inc.'s, "A Consumer's Guide to Renting a Car." The guide was written in cooperation with the National Association of Consumer Agency Administrators.

Get Square on Repairs

Much of the expense of owning a car comes after you buy it. You'll need quarterly oil changes and filter checks, periodic tune-ups, and new tires every few years. After three or four years of average, non-destructive driving, the muffler may roar, the brakes may grind, the windshield wiper fluid may leak, and the radio may go out. Slowly but surely, your vehicle will begin to show signs of age. And Murphy's Law says the really big repairs will be needed just after the warranty has run out!

For many people, the worst part of having a car break down is that they don't know what makes a car go in the first place. Read your owner's manual for an overview of the routine preventive maintenance your new or used car will need. Then consider investing in a simply-written car repair book.

Your Rights When Your Car Is Repaired

Know your rights before you take your car in for repairs.

Minnesota's Truth in Repairs Act spells out the rights and obligations of repair shops and their customers for repairs costing more than $100 and less than $7,500. Know your rights before you take your car in for repairs:

- You have the right to receive a written estimate for repair work, if you request one.
- Once you receive this estimate, the shop generally may not charge more than 10 percent above the estimated cost. A shop may impose an additional charge for disassembly, diagnosis, and reassembly of the item

in order to make the estimate if the customer is told about the charge before the estimate is issued.

- The shop is required to provide you with an invoice if the repairs cost more than $50, and/or the work is done under a manufacturer's warranty, service contract, or an insurance policy.
- The shop cannot perform any unnecessary or unauthorized repairs. If, after repairs are begun, a shop determines that additional work needs to be done, the shop may exceed the price of the written estimate, but only after it has informed you and provided you with a revised estimate. In this case, if you authorize the additional work, the shop may not charge more than 10 percent above the revised estimate.
- Before the shop actually begins repairs, you have the right to ask for and receive replaced parts, unless those parts are under warranty. In that case, they must be returned by the shop to the manufacturer, distributor, or other person. You may pay an additional charge for retrieving parts because the shop usually could have sold them. If a part must be returned, you still have a right to inspect it for a period of 5 days before it is returned.

Repair shops must tell you which parts will be used to repair your car. The price and quality of parts can vary widely. You might see the following:

- **New Auto Parts.** These parts are generally made to the manufacturer's specifications, either by the vehicle manufacturer or an independent company.
- **Remanufactured, Rebuilt, and Reconditioned Parts.** All of these terms mean about the same thing: Parts have been restored to a sound working condition. Many manufacturers offer a warranty covering replacement parts but not the labor to install them.
- **Salvage Parts.** These are used parts taken from another vehicle without alteration. Salvage parts are the only option for replacing parts on some older cars. Their reliability is seldom guaranteed.

How to Choose a Repair Shop

If you have a service contract, you may be required to take your car to the dealer for repairs. Check the contract. **Many service contracts require that the company issuing the service contract give prior authorization before a repair begins. If you don't get this, your service contract may not cover the repairs.**

If you're not obligated to repair your car at a particular repair shop, look around for a good repair shop before you need it so you can avoid being

Many service contracts require that the company issuing the service contract give prior authorization before a repair begins. If you don't get this, your service contract may not cover the repairs.

rushed into a hurried decision. The following are some tips for selecting a repair shop:

- Ask for recommendations. Word-of-mouth is often the best way to find a good technician. Ask friends, family members, and others to recommend repair shops or technicians they trust.
- Ask the Better Business Bureau how many complaints they've received about the repair shop.
- Be sure the repair shop is capable of performing the repairs needed.
- Shop around for the best price on repairs. Price, however, shouldn't be your only consideration in choosing a shop.

How to Find the Best Technician

A friend's or relative's referral can guide you to a trustworthy, able technician. If you don't have a referral, some objective signs of excellence can help you choose a good technician. Look for shops that display certifications such as the Automotive Service Excellence seal. Certification indicates that some or all of the technicians have met basic standards of knowledge and competency in specific technical areas. Make sure the certifications were obtained recently.

Also, ask the technician if he or she has experience working on your make of vehicle. Neither the technician's nod nor a certificate of excellence guarantee good service, but they offer a baseline for making your own judgment.

Estimate the Damage

Once you've selected a shop, get an estimate for the work no matter how trustworthy the technicians seem. Here's what you want to know:

Always get a written estimate for work to be performed.

- **Written Estimates: Always get a written estimate for work to be performed.** Make sure the estimate specifically identifies the condition that is to be repaired, the parts needed, and the anticipated labor charge. Often, tax will not be included.
- **Extra Charges:** An estimate is not an exact price. It's a good guess of what it will cost to fix your car. Make sure the estimate states that the shop will contact you for approval before performing any work exceeding the estimated amount of time or money.
- **Labor Charges:** Some shops charge a flat rate for labor on auto repairs. This published rate is based on an independent or manufacturer's estimate of the time required to complete repairs. Other shops charge on the basis of the actual time the technician worked on the repair. Before having any work performed, ask which method the shop uses for figuring the cost of labor.

- **Diagnostic Charges:** Ask if the repair shop has a diagnostic charge. Many repair shops charge for the time they spend figuring out what's wrong with your car.

When to Get a Second Opinion

Ever taken your car in for a minor repair only to be told the transmission is dying, or the U-joints are going, or some other equally traumatizing news? If you haven't, you probably haven't owned a car for long.

So how do you know if this unexpected bad news is true? Get a second opinion. For an objective opinion, consider taking your car to a repair shop that only does diagnostic work. There, a technician will figure out what work needs to be done. And since they don't actually do the repairs, they don't have any reason to inflate the price or the problem.

Get an Invoice

Actually, car repair shops should give you more than an invoice when repairs are complete. They should give you a complete breakdown of what they did, including the cost of each part, labor charges and the vehicle's odometer reading when the vehicle entered the shop and when the repair was completed.

Keep Good Records

Save all your repair receipts during the time you own the car and put them together in a file. This way you have some recourse if the fixed part breaks in short order. You also have proof of your good maintenance of the vehicle when you decide to sell it.

Resolving Disputes over Repairs

Billing, the quality of repairs, and warranties all can lead to disputes. Don't let it be "my word against yours." Keep written estimates and bills. Write down your experiences along with dates and names of the people you dealt with. **And know your rights by reviewing Minnesota's Truth in Repairs Act on page 70.**

If you have a dispute over a repair or charge, try to settle the problem with the shop manager or owner first. Some businesses have special programs for handling disputes. If this doesn't work, you may want to seek help from the Minnesota Attorney General's Office. Or, a low-cost alternative dispute resolution program may be available in your community. In addition, you may want to consider filing a claim in small claims court (also called conciliation court), where you don't need a lawyer to represent you.

Know your rights by reviewing Minnesota's Truth in Repairs Act on page 70.

An Ounce of Prevention

Staying on the preventive maintenance schedule recommended by your owner's manual may forestall large repair bills. Some repair shops also offer their own maintenance schedules that call for more frequent servicing than the manufacturer. If this is the case, ask a repair technician to explain the reasoning behind the recommendations.

Since many parts of your car are interrelated, ignoring maintenance can lead to failure of other parts or an entire system. For example, neglecting to change the oil or check the coolant can lead to poor fuel economy, unreliability, or costly breakdowns. Neglecting maintenance can also invalidate your warranty!

Call the NHTSA Auto Safety Hotline 888-327-4236 if you suspect your car has a defect.

If you suspect your car has a problem beyond normal wear and tear, call the NHTSA Auto Safety Hotline 888-327-4236 or TTY: 800-424-9153. NHTSA can tell you if the model has a manufacturing defect. NHTSA tracks the following:

- **Recall information.** NHTSA will let you know if your car was recalled for a defect. When you buy a new or used car, the dealer should check to see if there's been a recall. Also remind mechanics to check for recalls and service bulletins whenever they service your car.
- **Early warnings on potential defects.** Since all reported defects are reviewed by NHTSA, you can find out if NHTSA is investigating a problem with your model of car. If not, your reporting of a defect may open an investigation that could lead to a recall.
- **Crash test information.** Find out how vehicles fare in annual crash tests.

National Highway Traffic Safety Administration
1200 New Jersey Avenue, SE, West Building, Washington, DC 20590
www.nhtsa.gov

What to Do If You Break Down on the Road

Keep safety in mind if your vehicle breaks down on the road.

- Try to get the car as far off the road as safely possible.
- Set out flares or reflective triangles.
- Stay in the car until help arrives.
- If the car must be towed, check the owner's manual for towing instructions.
- Inquire about costs before allowing the car to be hooked up to the tow truck.
- Remove all valuables from the car if you leave it.

Resources

Top Ten Tips for Buying a Car

10. Don't sign the contract to purchase unless you're absolutely sure you want to own the car and can make the necessary payments. Always read the fine print on any contract. The contract is binding: There is no three-day cooling-off period. You can't return the car after you've bought it!

9. Have a mechanic and body shop inspect a used car thoroughly so you know the condition of the car and any repairs you may have to make if you buy it.

8. If you're considering buying a used car, always review the car's title history first, which will allow you to verify odometer readings before committing to the purchase. Check the past history through CarFax (*www.carfax.com*) or a similar company, which may give you information on accidents, past lemon law buybacks, etc.

7. If you're planning to trade in your current car, don't mention it to the dealer until you've agreed to a price for a new car.

6. Remember, a dealer's highest markups are on the back end of the sale: options, extended warranties, rustproofing, credit life insurance, and the like—so be a firm negotiator and don't pay for unnecessary services.

5. During a test drive, drive the car as you plan to drive it after you buy it: Merge into freeway traffic, stop quickly, stop on ice and snow if possible, make U-turns in a parking lot, and so on.

4. Price is important, but it isn't everything. Ask about the service a dealership will give you if you buy there.

3. Shop as diligently for a good seller as for a good car.

2. Comparison shop for makes and models by visiting the library and looking up objective car reports before you talk to sellers.

1. **Decide on your needs and wants in an automobile. Don't be swayed by friends or salespeople to buy something that you don't want.**

Keep these tips in mind when buying a car.

Give thought to engine, body, safety features, and options when shopping for a vehicle.

A Car Buyer's Checklist

What kind of engine, body, safety features, and options do you want in a vehicle? Use this checklist to help think these through.

What are you going to use the car or truck for?

(Check as many as apply.)

- ☐ Going to and from work
- ☐ Transporting kids
- ☐ Hauling equipment
- ☐ Long-distance travel
- ☐ Going to and from activities (biking, skiing, etc.)
- ☐ Other: _____

Based on that, what type of car makes sense?

(Check one or more to research.)

- ☐ Sporty two-door coupe
- ☐ Four-door sedan
- ☐ Hatchback
- ☐ Wagon
- ☐ Minivan
- ☐ Full-sized van
- ☐ Truck (small, medium or full-sized pickup)
- ☐ Sport utility vehicles (four-wheel drive*)
- ☐ Two-wheel or four-wheel-drive car
- ☐ Luxury car

**Four-wheel-drive vehicles get better traction on snow and ice than two-wheel drive cars, but they cost more.*

What standard features and options do you want?

Engine:

(Write choices in spaces provided.)

How many cylinders and valves? _____

A four-cylinder engine will get better fuel economy than a six-cylinder engine. Three valves per cylinder is common in older cars; most new cars have four valves per cylinder to increase acceleration with no fuel economy loss.

Carburetor vs. fuel injection. _____

Fuel injection is standard in newer cars and improves fuel economy and acceleration.

Automatic or manual transmission. _____

If you buy an automatic, having an overdrive option will save on fuel costs.

Safety considerations:

- ☐ Air bags: Driver and/or passenger.
- ☐ Seat belts: Shoulder straps attached to the post next to the door are safer than those attached to the door.
- ☐ Anti-lock Brake System (ABS): This is helpful only if you use the system properly. Do not pump your brakes in an emergency stop.

Body design:

- ☐ Side-door intrusion beams. These protect you in side accidents and are mandated for cars manufactured after 1997.
- ☐ Full perimeter dual door seals. These help keep doors from popping open in a collision.
- ☐ Front and rear "crumple zones." These help absorb impact in a collision.

Interior options:

(Check as many as you want, but remember, most options are sold in packages.)

- ☐ Air conditioning
- ☐ Power windows and locks
- ☐ Tilt steering column
- ☐ Interior trunk and hood release
- ☐ Cruise, or speed, control
- ☐ Rear wiper (on wagons)
- ☐ Rear defroster
- ☐ Front bucket seats
- ☐ Front bench seats
- ☐ Reclining seats
- ☐ Back-seat roominess
- ☐ Good head room
- ☐ Extra leg room
- ☐ Large trunk size
- ☐ Seat coverings
  - ☐ Vinyl
  - ☐ Velour
  - ☐ Leather
- ☐ Folding rear seats (split seats or whole-seat fold down)
- ☐ Sound system (radio, cassette, CD, MP3 player, and number of speakers)
- ☐ Built-in cup holder(s)
- ☐ Arm rests
- ☐ Vanity mirrors

Other:

- ☐ _____
- ☐ _____
- ☐ _____
- ☐ _____
- ☐ _____
- ☐ _____
- ☐ _____
- ☐ _____

Most options are sold in packages and may be more costly if purchased individually.

Car Pricing Comparison Worksheet

Copy this worksheet and use it to compare prices of cars that are the same year, make, and model sold by different sellers; cars of different years, makes, and models; or both.

	Year, Make, and Model	Name of Seller and Contact Information
Vehicle A:		
Vehicle B:		
Vehicle C:		

	Item	Seller A	Seller B	Seller C
	Sticker / Sale Price:			
	Discount:			
Options (List and Price)	1.			
	2.			
	3.			
	4.			
	5.			
	6.			
Other Options	Rustproofing:			
	Fabric Protection:			
	Service Contract:			
	Credit Life Insurance			
	Credit Disability Insurance			

Notes:

- Does the seller offer maintenance service?
- Does the seller offer loaned cars or transportation in case of repairs?
- If it's a used car, is there a warranty?
- If it's a used car, who was the last owner? (Call the owner for information on how the car held up and was maintained.)

Insurance Comparison Worksheet

Where you will keep the car? _____

Driver(s)	Age	Sex	Marital Status	Violations and Accidents (last 3 years)
#1				
#2				
#3				

Vehicle (year, make, model): _____

Miles driven to work: _____

Annual mileage: _____

Miles of principal driver: _____

Level of Coverage	Company A	Company B	Company C
Bodily Injury Liability/Property-Damage Liability:			
Personal-Injury Protection ("PIP"):			
Uninsured/Underinsured Motorist ("UM/UIM"):			
Collision Coverage:			
Comprehensive Coverage:			
Other (Misc. Coverages):			
Membership Fees:			
Total:			

Minnesota requires you to carry the following minimum insurance: $30,000 per person and $60,000 per accident for bodily injury and $10,000 for property damage liability; $40,000 for personal injury protection ("PIP"); and $25,000 per person and $50,000 per accident for uninsured/underinsured coverage.

Car-Buying Glossary

If you buy a car sold "as is," you must pay for any and all car repairs.

Anti-Lock Brakes: Brakes that automatically pump for you when you slam your foot on the brakes in an emergency stop. They may keep you from skidding while you try to turn to avoid an accident.

"As is" Warranty: If you buy a car sold "as is," you must pay for any and all car repairs. There is no warranty. "As is" must be checked in the buyer's guide displayed in the car window at the dealership. In Minnesota, a car can only be sold "as is" if the used car warranty law doesn't apply to it. (See "Used Car Warranty Law," page 59.)

Auto Broker: Someone who you can hire to help you shop for a car. An auto broker may work for a handful of dealers or a single dealer.

Blue Book: The National Auto Dealers' Association's Used Car Book, listing estimated used car prices based on model, make, year, and mileage. The pocket-sized blue book is actually orange.

Buyer's Guide: A double sided form that the dealer fills out to tell you whether the vehicle comes with a warranty, and, if so, what the warranty includes. The Federal Trade Commission requires all dealerships to display the buyer's guide in the vehicle's window.

Cooling-Off Period: While a "cooling-off" period sometimes applies to the sale of products, allowing you to return a product and get your money back, no such cooling off period law exists in car sales. Once you sign a contract to buy a car, the car is yours. Some dealers will offer a cooling off period as a marketing tool.

Credit Disability Insurance: Your finance company may require this along with credit life insurance. It ensures the finance company loaning you money to buy your car will be among the first creditors paid if you are disabled and unable to work to pay off your car loan.

Credit Life Insurance: Your finance company may require this. It ensures the finance company loaning you money to buy your car will be among the first creditors paid if you die before you pay for your car.

Curbstoner: An unlicensed professional used car seller who poses as a private individual selling his or her own car. Curbstoners sell used cars "at the curb," not at a dealership. They specialize in taking advantage of unschooled buyers.

Dealer: A car dealer is anyone who sells more than five cars in a year. A dealer must be licensed and abide by all laws that apply to dealers, including the state's used car warranty law.

Dealer Invoice: This is often represented as the price the dealer pays the manufacturer for the car. However, holdbacks and other incentives almost always reduce the dealer's cost.

Deductible: A car warranty usually specifies a "deductible" amount, an amount you must pay whenever you have a warrantied part on your car repaired.

Depreciation: The reduced value of a car after you buy it. A brand new car can lose or "depreciate" between several hundred and several thousand dollars in value the minute you drive off the dealer's lot.

Extended Warranty: This is also referred to as a service contract. It is an option you may purchase on new, and some used, cars. The extended warranty should cover car repairs over a longer period than the manufacturer's warranty, which comes with the car. Be aware that it is a high-profit item for a dealer. Check to see exactly what it includes, and remember that you can negotiate the price.

Fabric Protection: This is one of the extras you may choose to have when you buy a new car, and may be expensive because of high dealer mark-ups.

Holdback: An amount the manufacturer pays the dealer each time the dealer sells its make. Also referred to as a "kickback."

Leasing: This is like long-term car rental. You make monthly payments for the opportunity to drive a car, but the leasing company owns it.

Lemon Law: Minnesota's lemon law requires that a car seller repair or replace a motor vehicle with defects or problems covered under the warranty, which the vehicle owner reports within the warranty period or within two years after delivery of the vehicle, whichever comes first. Read "Minnesota's Lemon Law" on page 32 to see if it applies to your car.

Options: These are extras you can have added to a standard vehicle, and usually come in packages. They often include air bags, anti-lock brakes, power locks and windows, rear wiper, rear defroster, and such comfort items as velour or leather seat coverings.

For a glossary of leasing-specific terms, see page 53.

Paint Sealant: This is one of the extras you may choose to have when you buy a new car, and may be expensive because of high dealer mark-ups. Whether it actually makes the new paint shine longer is unknown.

Prior Salvage: If a car was totaled and then rebuilt anytime after June 1993, the car's title must be marked "prior salvage." It may not be structurally as sound as another car after being rebuilt.

Recall: If a car model has a defect, a manufacturer may issue a "recall" notice, meaning that the defect will be fixed at the manufacturer's expense.

Repossession: If you don't make your car loan payments, you risk having your car "repossessed" or taken back by the finance company that gave you the loan. Always contact the finance company immediately if you aren't going to make a monthly payment. The company may be willing to work with you to set up a payment plan.

Rustproofing: Meant to hold off body erosion, rustproofing is a popular extra on new cars. A type of rustproofing called galvanizing is used by manufacturers and comes with a new car. You'll pay extra for aftermarket rustproofing, and there is controversy about its worth.

Service Contract: Also called an "extended warranty," it supplements the manufacturer's warranty, which comes with a vehicle you purchase. A service contract is a high-profit item for the dealer. Make sure it offers substantially more than the standard warranty.

Title: The title shows a vehicle's ownership history. It is important to check the title of a used car and to contact past owners listed to verify the mileage and inquire about the car's maintenance.

Used Car Warranty Law: A state law that protects used car buyers. It says that used car dealers must provide basic warranty coverage for most used cars and small trucks sold to Minnesota buyers.

Warranty: All new and many used cars come with warranties. A warranty offers a guarantee that certain mechanical and body parts will be repaired if they aren't in proper working condition. The warranty is typically limited, so find out what the limitations are.

Read more about the used car warranty law in "Words About Warranties" beginning on page 58.

Top Ten Tips for Leasing a Car

10. Be careful with extras. Does the lease include a charge of hundreds of dollars for rustproofing or an extended warranty? You're only going to drive the car for a couple of years, so think about whether you really want to pay for these items.

9. Learn the jargon involved in leasing and brush up on the math involved. That way you'll be confident that you're getting the best possible deal.

8. Make sure that your trade-in and any other credits you should receive are listed on your leasing contract so that you are getting full credit for them.

7. Choose a make and model that traditionally holds its value. Lease payments should be lower on a popular model that will have a good re-sale value.

6. Understand the up-front costs. If a dealer offers a "zero down" lease, you should not have to pay anything up front other than tax and license fees. Otherwise, you might have to pay the security deposit, a down payment, and the first month's payment at the beginning of the lease.

5. Shop around. Visit several dealers and compare their offers.

4. Examine all of the fees you'll pay in addition to the monthly payment. This helps you compare "apples" to "apples" and figure out your total financial obligation.

3. Negotiate the price of the car as if you were buying it. If, during negotiations, you switch from buying the car to leasing it, the dealer should still base your lease payments on the same negotiated price. Some don't. Some revert to the sticker price, which is usually much higher.

2. Don't just look at the monthly payment. Most of the time the payment will be lower when you lease than when you buy a car, but remember: you won't own anything at the end of your lease, whereas when you buy a car it's really yours when you make the final payment.

1. **Most importantly—be sure leasing is right for you before you sign a leasing contract. Remember—there is no three-day cooling off law that allows you to return a car once you have signed a contract!**

Be sure leasing is right for you before you sign a leasing contract. Keep these tips in mind.

Federal Consumer Leasing Act Disclosures

Date _____

Lessor(s) _____ **Lessee(s)** _____

Amount Due at Lease Signing or Delivery (Itemized below)* $ _____	**Monthly Payments** Your first monthly payment of $ _____ is due on _____, followed by _____ payments of $ _____ due on the _____ of each month. The total of your monthly payments is $ _____.	**Other Charges** (not part of your monthly payment) Disposition fee (if you do not purchase the vehicle) $ _____ _____ _____ Total $ _____	**Total of Payments** (The amount you will have paid by the end of the lease) $ _____

*** Itemization of Amount Due at Lease Signing or Delivery**

Amount Due At Lease Signing or Delivery:

Capitalized cost reduction	$ _____
First monthly payment	_____
Refundable security deposit	_____
Title fees	_____
Registration fees	_____
_____	_____
Total	$ _____

How the Amount Due at Lease Signing or Delivery will be paid:

Net trade-in allowance	$ _____
Rebates and noncash credits	_____
Amount to be paid in cash	_____
_____	_____
Total	$ _____

Your monthly payment is determined as shown below:

Gross capitalized cost. The agreed upon value of the vehicle ($ _____) and any items you pay over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance) ..... $ _____

If you want an itemization of this amount, please check this box. ☐

Capitalized cost reduction. The amount of any net trade-in allowance, rebate, noncash credit, or cash you pay that reduces the gross capitalized cost ..... – _____

Adjusted capitalized cost. The amount used in calculating your base monthly payment ..... = _____

Residual value. The value of the vehicle at the end of the lease used in calculating your base monthly payment ..... – _____

Depreciation and any amortized amounts. The amount charged for the vehicle's decline in value through normal use and for other items paid over the lease term ..... = _____

Rent charge. The amount charged in addition to the depreciation and any amortized amounts ..... + _____

Total of base monthly payments. The depreciation and any amortized amounts plus the rent charge ..... = _____

Lease term. The number of months in your lease ..... ÷ _____

Base monthly payment ..... = _____

Monthly sales/use tax ..... + _____

_____ ..... + _____

Total monthly payment ..... =$ _____

Early Termination. You may have to pay a substantial charge if you end this lease early. <u>The charge may be up to several thousand dollars</u>. The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be.

Excessive Wear and Use. You may be charged for excessive wear based on our standards for normal use [and for mileage in excess of _____ miles per year at the rate of _____ per mile].

Purchase Option at End of Lease Term. [You have an option to purchase the vehicle at the end of the lease term for $ _____ [and a purchase option fee of $ _____].] [You do not have an option to purchase the vehicle at the end of the lease term.]

Other Important Terms. See your lease documents for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.

[The following provisions are the nonsegregated disclosures required under Regulation M.]

Description of Leased Property				
Year	Make	Model	Body Style	Vehicle ID #

Official Fees and Taxes. The total amount you will pay for official and license fees, registration, title, and taxes over the term of your lease, whether included with your monthly payments or assessed otherwise: $ _____ .

Insurance. The following types and amounts of insurance will be acquired in connection with this lease:

_____ .

_____ We (lessor) will provide the insurance coverage quoted above for a total premium cost of $ _____.

_____ You (lessee) agree to provide insurance coverage in the amount and types indicated above.

Standards for Wear and Use. The following standards are applicable for determining unreasonable or excess wear and use of the leased vehicle:

_____

Maintenance.
[You are responsible for the following maintenance and servicing of the leased vehicle:

_____].

[We are responsible for the following maintenance and servicing of the leased vehicle:

_____].

Warranties. The leased vehicle is subject to the following express warranties:

_____ .

Early Termination and Default. (a) You may terminate this lease before the end of the lease term under the following conditions:

_____ .

The charge for such early termination is:

_____ .

(b) We may terminate this lease before the end of the lease term under the following conditions:

_____ .

Upon such termination we shall be entitled to the following charge(s) for:

_____ .

(c) To the extent these charges take into account the value of the vehicle at termination, if you disagree with the value we assign to the vehicle, you may obtain, at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the _____ value of the leased vehicle which could be realized at sale. The appraised value shall then be used as the actual value.

Security Interest. We reserve a security interest of the following type in the property listed below to secure performance of your obligations under this lease:

_____

Late Payments. The charge for late payments is: _____

Option to Purchase Leased Property Prior to the End of the Lease. [You have an option to purchase the leased vehicle prior to the end of the term. The price will be [$ _____ /[the method of determining the price].] [You do not have an option to purchase the leased vehicle.]

This is a sample leasing form prepared by the Federal Reserve Board. Dealers may use a form very similar to this.

Consumer Questions or Complaints

The Minnesota Attorney General's Office answers questions regarding numerous consumer issues. The Attorney General's Office also provides assistance in resolving disputes between Minnesota consumers and businesses and uses information from consumers to enforce the state's civil laws. We welcome your calls!

If you have a consumer complaint, you may contact the Attorney General's Office in writing:

Minnesota Attorney General's Office
445 Minnesota Street, Suite 1400
St. Paul, MN 55101

You can also receive direct assistance from a consumer specialist by calling:

651-296-3353 or 800-657-3787
TTY: 651-297-7206 or TTY: 800-366-4812
(TTY numbers are for callers using teletypewriter devices.)

Additional Publications

Additional consumer publications are available from the Minnesota Attorney General's Office. Contact us to receive copies or preview the publications on our website at *www.ag.state.mn.us*.

- Car Handbook
- Home Building and Remodeling
- Conciliation Court
- Credit Handbook
- Guarding Your Privacy: Tips to Prevent Identity Theft
- Home Buyer's Handbook
- Home Seller's Handbook
- Landlords and Tenants: Rights and Responsibilities
- Managing Your Health Care
- Manufactured Home Parks Handbook
- Minnesota's Car Laws
- Phone Handbook
- Probate and Planning: A Guide to Planning for the Future
- Seniors' Legal Rights
- Veterans and Service Members
- Other Consumer Bulletins

MINNESOTA ATTORNEY GENERAL'S OFFICE
445 Minnesota Street, Suite 1400, St. Paul, MN 55101
651-296-3353 • 800-657-3787 • TTY: 651-297-7206 • TTY: 800-366-4812
www.ag.state.mn.us