Project Pro$per

Presents

Basics of Car Buying

Participant Guide

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SMART CAR SHOPPING

I. BEFORE YOU SHOP

1. The Basics
   A. If you’re thinking of buying a car there’s a lot to consider.
     • What is your car BUDGET?
     • Will you finance, buy with cash, or lease the vehicle?
     • What are the vehicle’s maintenance costs?
     • How to find and buy the right car to meet your needs?

2. What is your car Budget?
   To determine what car you can afford, you will need to consider the following:

   1. Based on your situation, what type of vehicle will fill your transportation needs now and in the next few years?
   2. CAR PAYMENT (car note)- this is the monthly loan INSTALLMENT you will have to pay the bank or car dealership until the car loan is completely repaid plus interest.
   3. Insurance Cost- Car insurance is required in the State of Florida. The cost of insurance varies based on the vehicle size, year, and condition of vehicle (New or Used). Remember, your driving record and credit score also affect your insurance premium.
   4. Maintenance and Repairs- To help keep your car in excellent condition you have to do regular maintenance. This could be a monthly, quarterly, or yearly cost.
      • The most common maintenance for cars is oil changes ($15 and up depending on vehicle and local deals).
      • Unforeseen costs happen all the time. The most common repairs include - flat tires, new wiper blades, new tail or head lights, dead battery.
        o Some cars require high quality parts and oil. You want to know what your car requires before you buy it. Not all cars are the same!
5. **FUEL ECONOMY** - This is the cost of gas to use your car. Some cars/trucks have better fuel economy than others. Remember as gas prices rise and fall this will affect your monthly budget. Also, some cars REQUIRE premium gas not regular unleaded.

Here is a comparison chart showing fuel costs for various size and styles of vehicles.

<table>
<thead>
<tr>
<th>Hybrid Vehicle</th>
<th>Gasoline Vehicle</th>
<th>Gasoline Vehicle</th>
<th>Gasoline Vehicle</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.8 L, 4 cyl, Automatic (variable gear ratios)</td>
<td>2.7 L, 6 cyl, Automatic (S6), Turbo</td>
<td>3.5 L, 6 cyl, Auto(AV-S7)</td>
<td>5.7 L, 8 cyl, Manual 6-spd</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost to Drive 25 Miles</th>
<th>$1.09</th>
<th>$2.48</th>
<th>$2.10</th>
<th>$3.69</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost to Fill the Tank</td>
<td>$26</td>
<td>$50-$78</td>
<td>$39</td>
<td>$49</td>
</tr>
<tr>
<td>Tank Size</td>
<td>11.9 gallons</td>
<td>23.0-36.0 gallons</td>
<td>18.0 gallons</td>
<td>18.5 gallons</td>
</tr>
</tbody>
</table>

3. **Buying New vs. Buying Used Cars**

<table>
<thead>
<tr>
<th>Benefits of buying a new car</th>
<th>Drawbacks of buying a new car</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Warranty</td>
<td>D. Higher Price</td>
</tr>
<tr>
<td>• New cars can come with warranties up to 10 years or 100,000 miles.</td>
<td>• The purchase price of a new car is higher than a used car.</td>
</tr>
<tr>
<td>B. Latest features and options</td>
<td>E. Instant Depreciation</td>
</tr>
<tr>
<td>• You’ll have flexibility to order a new car with the features and options you want.</td>
<td>• A new car depreciates by 15% or more the minute you buy it.</td>
</tr>
<tr>
<td>C. Top Condition</td>
<td>F. Higher insurance/taxes/fees</td>
</tr>
<tr>
<td>• A new car should have no previous wear, mechanical problems or body damage.</td>
<td>• Generally higher for a new car.</td>
</tr>
</tbody>
</table>
II. NOW YOU KNOW WHAT YOU WANT...WHAT'S NEXT?

Unless you were able to pay the total cost of the car with cash, you will have to **finance** the vehicle. This means a bank, credit union or car dealership will loan you the money for the car. You will have immediate use of the car, however, you will have to repay this loan monthly (or however the contract reads) until the car is paid off. Included in this monthly installment will be interest charges. The amount of interest depends on your personal credit rating.

### A. Other factors that affect your monthly payment:

1. **Down Payment** -
   a. This is money that you have saved to put towards the purchase of the vehicle.
   b. Most financial institution and/or dealerships require some type of down payment.
   c. A larger down payment will decrease your monthly payment, and the amount of interest you pay. This is because you will borrow less money from the lender.

2. **Loan term (amount of time you will take to pay back the loan)**

3. **Property Vehicle Tax and Tags**

   Though these do not affect your monthly payment, you do have to pay these costs upfront and annually. It is illegal to drive a car without paying these taxes.

   a. Florida title and registration of a vehicle costs approximately $420.
   b. The state of Florida imposes 6% sales tax on the full purchase price.

### Benefits of buying a used car

<table>
<thead>
<tr>
<th>Benefits of buying a used car</th>
<th>Drawbacks of buying a used car</th>
</tr>
</thead>
<tbody>
<tr>
<td>G. Lower Price</td>
<td>I. Higher loan interest rate</td>
</tr>
</tbody>
</table>
| • Used cars cost less and can | • A loan for a used car may |}
|     be a better value. Buying | carry higher interest rates  |
|     from a private seller     |     because the car value |}
|     might get you a better  |     is harder to assess and |
|     price, but the seller     |     carries more risk for |}
|     may not allow you to     |     the lender.             |
|     return it                | • Older cars may not qualify |
| H. Declining Depreciation    |     for loans.              |
| • Used cars continue to      | J. Limited or no Warranty   |
|     depreciate, but cars     | • A car from a private      |
|     typically depreciate the |     seller may not carry a |
|     most during the first 3  |     warranty. Used car      |
|     years.                   |     dealers may not offer  |
|                             |     a warranty.             |
|                             | K. More Maintenance Needs  |
c. Each year when you pay for registration, you will receive a small yellow sticker that goes on your back license plate. Registration is good for year, and expires in the month of your birthday.

III. IMPORTANT NEXT STEPS

A. Can I afford these payments?

1. After you pay all of your other bills, how much money do you have available to pay the ongoing expenses of car ownership (fuel, insurance, maintenance, registration, parking, and more).

2. Try to keep your car expenses within a range you can consistently afford through life’s ups and downs (i.e. income loss, new baby, etc...).

B. TRY BEFORE YOU BUY - Used Car

1. Before buying, review maintenance documentation and check the car during the day.

2. Hire a mechanic for inspection or consult a service like Car Fax to see if it has been involved in an accident.

3. Always test drive the car whether it's new or used.

C. Where can I RESEARCH my vehicle options?

4. Research the vehicle year and model you want to purchase on one or all of these valuable consumer websites:
   i. Kelly Blue Book- www.kbb.com
   ii. Edmunds- www.edmunds.com
   iii. Google Reviews- www.google.com
   iv. Consumer Reports- www.consumerreports.org
   v. Car Fax report- www.carfax.com

1. Search for the car name with the word reviews behind it (i.e. 2012 Kia Optima Reviews)

   1. This is a report that tells you the history of the vehicle by entering the vehicle’s VIN number. The history will include any past reported accidents, correct mileage, and possibly maintenance records.

   2. Usually, the car dealer will offer you this report upon request.

   3. You the consumer can access the report at the listed website for a cost.

5. Doing research on a car before you visit the dealer or private owner, will allow you more power to NEGOTIATE.

a. Negotiating is to offer a lower price than the asking price. This is a common practice of all cultures.
b. Negotiate based on car cost and loan APR. Don't negotiate on the basis of the monthly payment for vehicle. This may cause you to pay significantly more than the value of the vehicle.

c. Things to help you negotiate for better car price
   • Larger down payment
   • Trade in vehicle value - this is a car that you currently own that you will trade in for a newer car.
   • Remember, ask the dealer for CAR FAX report to learn about the car's history and value.
   • Request the factory invoice “tissue”. This invoice will show you what the dealer paid for the car.

D. Car Affordability Activity

Josefa has a full time job where she earns $11/hour. Her monthly net income is around $1549/Month. Josefa has been diligently saving money to buy a car and to date, she has saved $4,500. She can afford $200/max a month for a car. Josefa finds a 2013 gold Toyota Corolla CE four-door sedan that is being sold by a private seller. It has an automatic transmission; air conditioning; power windows and locks; cruise control and a CD player. It appears to be in excellent condition, with 33,000 miles. The seller is asking $12,996, but Josefa only has $4,500. Put Josefa's next steps in order 1 (first) - 6 (last).

___ Buy insurance
___ Negotiate the sales price down
___ Apply for a car loan from a financial institution (to cover the remaining costs after she pays $4500)
___ Test Drive the Vehicle
___ Obtain a Car Fax report
___ Research the year, make and model of the car on websites like kbb.com or Edmunds

IV. IMPORTANT CAR TERMINOLOGY

A. Depreciation

1. Depreciation is when the value of a car goes down due to normal wear and tear over time.

2. The value of a new car can drop hundreds or even thousands of dollars the day you drive it off the car dealer’s lot.

3. Almost all cars depreciate over time, however, new cars depreciate more quickly than used cars.

4. How much your car will depreciate depends on many factors—the make, model, year, where you live and how much you drive.
B. Car Title

1. **Certificate of title** (also known as a car title or pink slip) is a legal document that establishes the legal owner of a vehicle. Car titles in the U.S. are commonly issued by the state Department of Motor Vehicles.

   1. Identifying information about the vehicle, normally at minimum its vehicle identification number, make, and year of manufacture.
   
   2. The license plate number.
   
   3. Technical information about the vehicle to define its taxation regime, e.g., its gross vehicle weight, motive power, and purchase price when new.
   
   4. The name and address of the purchaser or "registered owner" who would normally possess and use it.
   
   5. If money is owed on the vehicle, the name of the lender or "lienholder" to whom this money is owed.

C. “As Is” Purchase

   1. This car has no warranty. "What you see is what you get." The seller will not repair anything that goes wrong with the car after the purchase.

D. Options

   1. Extra items such as upgraded stereo, side airbags, sunroofs etc.. Sometimes these options can be grouped in packages like a luxury or sports options.

E. Service Contract

   1. Purchased by the buyer at the time of the car purchase and provides maintenance for a specific period of time. These contracts cost extra.

      - Questions to ask:
        - Who will fulfill the contract? Dealer, Manufacturer, Independent Contractor?
        - What are the deductibles?
        - Do you have to pay for services upfront and apply for reimbursement later?

F. Repossession

   1. This is what happens when a buyer **DEFAULTS** on a car loan. The lender has the right to retake possession of the car. Remember, until you have the car title in hand, you do not own the car.
V. SHOULD I LEASE?

When you lease a car you are entering into a long term rental agreement. This agreement allows you to use the car like you own it, but you must return it at the end of the lease unless you decide to buy the car.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>You can lease a brand new car that you may not be able to afford to finance.</td>
<td>At the end of the lease, you do NOT own the car. If you terminate the lease before the end of the contract you may have to pay fees.</td>
</tr>
<tr>
<td>Down payments are usually lower as well as monthly payments.</td>
<td>Buying the car at the end of the lease could cost you more money than if you received a traditional loan in the first place.</td>
</tr>
<tr>
<td>Your lease could coincide with the manufacturer's warranty which would mean the car is fully covered while in your possession.</td>
<td>You are limited in the number of miles that you can put on the vehicle during your lease. If you exceed that mileage, you will owe more at the end of the lease term.</td>
</tr>
<tr>
<td>If you are business owner, this may be a good option if you use the vehicle for business purposes. Ask a tax advisor for more info.</td>
<td>You are responsible for the maintenance and wear on the vehicle. You will have to pay more money at the end of the lease if “wear and tear” on the car exceeds the leasing company’s expectations.</td>
</tr>
</tbody>
</table>

VI. SMART CAR SHOPPING REMINDERS

A. Shop for your car loan

1. Shop for your loan before you shop for your car.
   - Consider asking your bank, credit union or other lender for pre-approval of your loan. If you’re pre-approved, then you can shop for a car in your pre-approved price range with confidence.
   - If you know your credit score, you can tell the score to the dealer to see what type of deal/interest rate you can get.
   - Do not authorize a dealer to run your credit if you are not interested in a specific car. This can hurt your credit score!

B. Where to shop

1. Visit local dealerships. You’ll see the cars yourself, take test drives, ask questions, and evaluate their parts and service departments.

2. Online sales like Autotrader.com, Craigslist.com, local papers.
C. Make your choice

1. Be flexible about make, model, year and color as you begin your search.

2. Be careful about extra **OPTIONS** the dealer may impress upon you.

D. Plan your buying strategy

1. Consider shopping during traditionally slow sales periods, such as late December and late summer/early fall.

2. Decide on your top price, a number you feel is fair for the vehicle, with monthly payments you can afford.

E. Before you sign

1. **BEFORE** buying a used car, make sure you have it inspected by a certified mechanic.

2. **READ** the contract carefully. Make sure it shows everything that was agreed on.

3. **NEVER** sign a contract with any blank spaces and get a copy of the contract immediately.

4. **BEWARE** of any unnecessary or overpriced extras the dealer may attempt to add. **Stay focused until you leave the dealership.**

5. **DON'T** pay “dealer prep” fees! This fee, ranges between $100 and $400, that a dealer will try to charge you for preparing the vehicle for sale. It’s already been paid for by the manufacturer.

6. **Think carefully** before you agree to an extended warranty. Some dealers may imply that banks require extra warranty protection for longer financing terms, but that may not be the case. You may not need one, or may be able to get a better deal later.

7. **Be prepared to cancel the deal if something doesn't feel right.** Remember, you can always find another car.
Glossary

As Is” Purchase- The seller will not repair anything wrong with the car or any future car mechanical issues. Before or after the car purchase.

Bumper to Bumper Warranty- covers a new vehicle for three years. As the name states, this type of warranty covers (almost) everything between your vehicle's front and back bumpers, meaning if your engine quits or oil starts leaking, you can take the car in for repairs at no charge.

Car Note- the payment that must be made periodically to repay an auto loan. Typically they are due monthly, though some lenders require weekly or bi-weekly payments.

Car Title- a legal document that establishes the legal owner of a vehicle. Car titles in the U.S. are commonly issued by the state Department of Motor Vehicles.

Dealer Fees- The cost that a dealer of a product passes onto the buyer in the overall price. Dealer costs may be exaggerated in order to receive a larger profit on the sale.

Depreciation- when the value of a car goes down due to many factors like, the make, model, year, where you live, how much you drive and the condition of the vehicle.

Down Payment- This is money that you have saved to put towards the purchase of the vehicle.

Extended Warranty- sometimes called a service agreement, a service contract, or a maintenance agreement, is offered to consumers in addition to the standard warranty on new or used vehicle.

Financing- Financing means asking any financial institution (bank, credit union, finance company) or another person to lend you money that you promise to repay at some point in the future. In other words, when you buy a car, if you do not have all the cash for it, the dealer will look for a bank that will finance it for you. Upon approval, the bank will pay the car dealer the money for the car, and then they will send you a bill each month. The bank will lend you this money if you agree to pay interest on top of the money lent to you. In other words, financing is borrowing money with a promise to repay that money and some additional fee, or interest, over a period of time.

Fuel Economy- Also known as mpg (Miles Per Gallon) – is a measure of how far a car can travel if you put just one gallon of petrol or diesel in its tank.

Lemon Law- The Lemon Law covers defects or conditions that substantially impair the use, value or safety of a new or demonstrator vehicle. These defects must be first reported to the manufacturer or its authorized service agent (usually, this is the dealer) during the "Lemon Law Rights Period," which is the first 24 months after the date of delivery of the motor vehicle to the consumer.

License Plate- a sign affixed to a vehicle displaying a series of letters or numbers indicating that the vehicle has been registered with the state.

Make - the manufacturer or brand name of a particular car (i.e. Chevy, Chrysler, Toyota, Honda).
**Model**- particular brand of vehicle sold under a Make (i.e. Honda Civic, Toyota Camry, Chevy Cruz, and Chrysler PT Cruiser).

**Negotiate**- to offer a lower price than the asking price. This is a common practice of all cultures.

**Odometer**- an instrument for measuring the distance travelled by a vehicle

**Options**- Some cars may come with additional features that are not standard to the car price therefor you have the option of spending more money to get the vehicle to your liking (i.e. Sunroof, navigation, towing package).

**Power Train Warranty**- A powertrain warranty covers the parts of a car that provide power and make it move (i.e. engine, transmission, and drivetrain).

**Quote**- The estimated cost of a product or service.

**Repossession**- When a lender takes back a car from a buyer because payments are not being made on a loan.

**Risk**- the potential of gaining or losing something of value.

**Service Contract**- a business agreement between a contractor and customer covering the maintenance and servicing of equipment over a specified period.

**Tags and Taxes**- When purchasing a vehicle, the tax and tag fees are calculated based on a number of factors, including:

- The county the vehicle is registered in.
- The vehicle weight.
- The type of license plates requested.
- Whether or not you have a trade-in.
- The state in which you live.
- New car sales tax OR used car sales tax.

**Trade In**- an arrangement in which someone buys a new car at a reduced price by giving their old one, as well as money, in payment.

**Vehicle Lease**- A car lease is a method of obtaining a new or used car that involves only paying for a portion of the car's actual cost as opposed to having to pay for the car in its entirety. So when you lease a new car you are only paying for the portion of the car you are using over the number of years in your lease agreement.

**VIN Number**- The car's vehicle identification number (VIN) is the identifying code for a SPECIFIC automobile. The VIN serves as the car’s fingerprint, as no two vehicles in operation have the same VIN. A VIN is composed of 17 characters (digits and capital letters) that act as a unique identifier for the vehicle. A VIN displays the car's unique features, specifications and manufacturer. The VIN can be used to track recalls, registrations, warranty claims, thefts and insurance coverage.

**Wear and Tear**- damage or deterioration resulting from ordinary use; normal depreciation (i.e. tires, headlight bulbs change, brake light bulb change, wiper blades change, etc...)
The Basics of Car Buying
Post Course Survey

Please answer the following questions. When finished remove this paper and hand it to our instructor. Thank you for attending our class!

1. Both new and used cars will __________ over time.

- [ ] Become More Valuable
- [ ] Depreciate
- [ ] Break Down
- [ ] I Don't Know

2. Who holds (owns) the title of your car while you make car loan payments?

- [ ] I do
- [ ] The lending institution
- [ ] I Don't know

School Name __________________________