

# Vehicle Acquisition

In an ideal world, a car dealer helps you find the perfect car for you at the perfect price, and you drive away with a smile on your face and many happy years ahead of you. And that's how it does work for many of those who did their homework in advance, learning how to navigate the process and how to work with dealers. Because some dealers put more emphasis on their profits than on their customers' satisfaction, educated car-buyers must know what they want and for how much, so that they make the transaction smooth and comfortable with no regrets as they leave the lot.

## Preparing to Buy a Vehicle

If you are about to buy a vehicle, here are some important things to consider.

### Know what you want

*A popular recommendation is that your total monthly car payments should not exceed 20% of your take-home pay.*

*Think of the future costs that your car will incur. They might affect your decision to buy.*

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It is a good idea to write down what you want in a car. This goes for buying new, buying used, or leasing. If you shop at a dealer, the salesperson will want to know your preferences anyway; this saves him or her valuable time. Write down requirements such as these:

- The price range you want to spend
- Type of vehicle—sedan, SUV, minivan, etc.
- Make
- Model
- Features you want
- Mileage range
- Age range
- How much you can afford to spend each month, if you finance
- Any other preference: color, engine size, luxury options

Do you want your vehicle new or used? Here is a quick review of the advantages of each:

### Buying new

- You can get it the way you want it
- There is less of a history behind it
- Better safety features
- Better technology
- New warranty
- Better fuel efficiency
- Maintenance included
- The feeling of having a new car

## Buying used

- Less expensive (this is the biggest advantage)
- Insurance costs less, on average
- You can still get a warranty
- Parts may cost less
- Scratches and dings to the car are usually less stressful to look at

## What costs should you consider? Estimate the true cost of ownership

Your monthly car payments are one thing. Have you considered the true cost of ownership over the course of the vehicle's life? Although one car you like might be less expensive to buy than another one you like, it may ultimately be more expensive to maintain over time. This is important to remember when you just can't decide between two choices and you need a little nudge to move you in one direction.

You might save \$1,000 or so by going with one of the two, but the purchase price is only the most immediate and obvious price. Think of three, four, or ten years down the road. Is the insurance on one more expensive than the insurance on the other? How will the make and model affect your gas consumption? Will there be special maintenance needed? How does the depreciation compare? Does one of them get tax credits?

## What is involved in the true cost?

You might find that you can afford to buy the cheaper one but not afford to own it at time goes on. Here are the main costs of ownership to consider as you own your vehicle:

- The price of the vehicle
- Taxes
- Fees for registration
- Fuel
- Gas mileage
- Insurance
- Maintenance
- Repairs
- Tax credits
- Financing—that is, the interest you must pay on your loan
- Depreciation
- Trade-in value
- Dealer service contract or other warranty
- Fees for registration
- Fees for emissions testing (in some states)

Online calculators can help you plug in the variables above to arrive at an estimate that spans a certain time period. Ultimately, you will want to put certain costs—repairs, gas, regular maintenance, fees, insurance—into your monthly budget. It's also a good idea to set up an emergency fund that you can tap if you have a big sudden expense.

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Question 1:

**What is a vehicle's cost of ownership made of?**

- The price you paid for it
- **The various expenses you will pay for the vehicle over the time that you own it**
- Its depreciation
- The interest you will pay on your loan

**ANSWER:** The various expenses you will pay for the vehicle over the time that you own it. Cost of ownership takes into account any costs you will pay while owning it.

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Question 2:

**Cars with the lowest prices will necessarily have the lowest costs of ownership over time.**

- True
- **False**

**ANSWER:** False. True cost of ownership can actually be higher, based on factors such as tax credits, depreciation, maintenance, and other important aspects.

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Question 3:

**What is probably the biggest advantage of buying a vehicle used instead of new?**

- The state of the safety features
- **The price**
- The amount of maintenance included
- The fuel efficiency

**ANSWER:** The price. For most people, price is the biggest advantage.

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## Leasing a Vehicle

To buy or to lease? Auto leasing has grown greatly in popularity as an alternative to owning. Leasing isn't just a matter of plopping down some rent every month in return for the use of a nice car. You also have responsibilities.

### How it works

Leasing means paying for the use of a vehicle over a specific period of time. When you sign a lease, you agree to make regular monthly payments on it, maintain it, pay taxes on it (including sales tax), pay license fees, and buy insurance for it. As part of the lease, you agree to keep the vehicle for a certain number of months (the maximum is usually 48 months) and then turn it in at lease end. With many leases, you have the option of buying the vehicle at the lease's end.

When your lease ends, you must turn the vehicle back in to the leasing company with no more than expected wear and tear, and within the mileage limit specified in the contract. If you go over this limit, you must pay a fee. If there is damage, you must pay for that.

## A word about insurance

Although you are leasing rather than buying, you still must maintain auto insurance on your car. The coverage may be more or less than you would normally buy. The price varies by company, but a typical contract might require \$100,000 of liability coverage per person and \$300,000 per occurrence and \$50,000 for property damage, and both comprehensive insurance and collision insurance. As with any form of insurance, it pays to shop around before you buy and to look into all available discounts that insurance companies offer.

To help you decide whether to buy or lease, let's look at the major pros and cons.

## The advantages

- The convenience of turning in the car at lease's end rather than having to sell it or trade it in.
- You can usually pay less with leasing, though this depends on several factors. Generally, you pay for the portion of the vehicle that you will actually use in time.
- There is usually little or no down payment required.
- The sales taxes you pay on your monthly payments are tax deductible in most states.
- Sales taxes are spread out, since they are levied on the monthly payments.
- You can negotiate the value of the car.
- Most leases come with gap insurance included. Gap insurance pays off the difference between what you owe on the lease and what the car is worth in the event that it is totaled.

## The disadvantages

Before you sign on the dotted line, consider these disadvantages:

- You might be required to pay more for insurance on the vehicle than you would pay on a car you bought.
- If you are a perpetual leaser, you will be stuck with car payments that never end.
- You will be penalized if you exceed the yearly mileage limit. This limit is usually 10,000–15,000 miles and varies according to company.
- If you buy the car when the lease ends, you'll pay more than if you had bought the car outright.
- Breaking a lease early results in a big termination fee.
- You will most likely have no equity in the vehicle.
- If there is damage or excessive wear and tear, you will have to pay to have those repaired.

## Should you lease?

So is leasing a good idea for you? Consider the following things as well:

**Want to customize?** Since the vehicle does not belong to you, you can't make any changes to it. That means no repainting or customizing.

**How do you treat your cars?** If you are tough on your cars or irresponsible, you will have to pay for any damages and any wear and tear that is deemed excessive.

**Are you financially stable?** Your financial situation should be stable if you want to lease, because you will be committed to your auto. Ending your lease early will cost you extra, and you may also have to pay all the remaining payments.

**How much do you drive?** Estimate how much you drive in a year. Is it more than the amount specified in a lease, meaning between 10,000 and 15,000 miles? If it is, you'll have to pay fees for the excess mileage when the lease ends.

**How is your credit?** You need a very good credit rating in order to lease. If your credit is poor, you may pay a higher lease rate (which is factored into your monthly payments).

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Question 1:

**When you lease a car, who pays for the insurance on it?**

- The dealer
- **You**
- The dealer and you split the cost down the middle.

**ANSWER:** You. You must pay for the insurance on it.

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Question 2:

**Most car leases state an annual mileage limit.**

- **True**
- False

**ANSWER:** True. The limit is usually between 10,000 and 15,000 miles.

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Question 3:

**If you are leasing a new vehicle and planning to drive it more miles than are allowed in the contract, \_\_\_\_\_.**

- You can do so without an extra charge
- **You will have to pay a fee for the excess miles**
- You will have to return the vehicle early

**ANSWER:** You will have to pay a fee for the excess miles. The contract specifies a certain number of miles that you can drive.

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## **Building Your Vehicle Budget**

### **Responsibilities of owning a vehicle**

Owning a vehicle is a big responsibility. Although we associate it with freedom, many older people joke that their cars actually own them. They have to make payments on it, they have to pay for insurance, they have gas prices to worry about, and they must worry about getting into accidents. And then there is the looming threat of big repairs. If the engine dies, do you have \$2,000 sitting around to fix it?

*Your total monthly car payments should not exceed 20% of your take-home pay.*

*It is a good idea to set up a separate fund for big repair costs.*

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## Budget accordingly

Most people will set aside money every month to pay for a vehicle, whether it is to buy it in one lump sum or to pay off a loan over time. How much can you afford to pay for a new car, truck, minivan, or other vehicle? Factor that in so that you don't get sold on something you can't afford. A dealer will ask you how much you can afford so that he or she knows what to offer you. Having a specific number handy can help you when it comes time to negotiate with a dealer. Will you be buying with a lump sum, or do you need to take out a loan? The answers to these questions will influence your budget.

A popular recommendation is that your total monthly car payments should not exceed 20% of your take-home pay.

## Sources of financing for a vehicle

You have many sources at your disposal.

**The dealer.** Many car buyers finance their purchases through their car dealer, who has access to loans offered by a number of finance companies, banks, and savings and loans. Generally, when you buy a car, the salesperson will ask you if you plan to finance your purchase, how much you plan to provide as a down payment, and what type of monthly payment you can afford. The major benefit of going through the dealer is convenience, as you can buy a car and finance it in one stop. The major disadvantage is that the terms of the loan may not be as favorable as you can get elsewhere.

**Your bank or credit union.** Borrowing from a financial institution, whether a physical one or an online one, is another option. Before you fill out a loan application, check and compare rates for loans at various banks or credit unions. Once you find the financial institution with the best terms for the type of loan you want, you can apply for the loan either before or after you've found the car you want to buy. By applying before you find a car, you can get pre-approved for a loan, leaving you in a strong position when negotiating a price on the car you want to buy at a car dealership.

## Estimate ongoing costs for insurance, gas and maintenance

Your budget should include money set aside for regular expenses. That means insurance payments (which you can pay once every three months, six months, or year if you want), gas, regular maintenance like oil changes and tire rotations, annual license renewal, and unexpected repairs. Once you have owned a car for a while, you can estimate all but the unexpected repairs and budget them as needed. For the unexpected repairs, it is a good idea to set up a separate fund at your bank or credit union and add to it every month so that you will breathe easily when a big repair comes.

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Question 1:

**When financing a car, your options include \_\_\_\_\_.**

- Brick and mortar banks, credit unions, and savings and loans
- Internet banks
- A loan from a relative
- **All of the above**

**ANSWER:** All of the above. You have several available options.

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Question 2:

**Before you buy a car, you can get a pre-approved loan from a financial institution.**

- True
- False

**ANSWER:** True. This can be to your advantage when negotiating the terms of the deal.

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Question 3:

**If your take-home pay after taxes is \$1,000 a month, then your car payments should ideally be how much at the most?**

- \$100
- **\$200**
- \$400
- \$500

**ANSWER:** \$200. A popular recommendation is that your total monthly car payments should not exceed 20% of your take-home pay.

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## Choosing a Vehicle

### How to research potential vehicles

A simple Google search for a phrase like "used car sites" will bring up a plethora of Websites that list used cars being sold around the country, usually at dealerships. Sites like [cars.com](http://cars.com), [usedcars.com](http://usedcars.com), [autosite.com](http://autosite.com), [autotraders.com](http://autotraders.com), [carwizard.com](http://carwizard.com), and [carprices.com](http://carprices.com) are common. A search on your local Craigslist will bring up used cars from both dealerships and individuals. Of course, there is still your local newspaper, which will advertise available cars and dealer specials.

*Carfax provides online vehicle history reports on used vehicles.*

*It's important to be the one in control of the negotiations.*

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There are also sites that provide more useful information than just listings. [Edmunds.com](http://Edmunds.com) and [Consumer Reports](http://Consumer Reports) are among the most popular.

### Compare prices

Compare prices of cars you are interested in. The Kelley Blue Book lists both wholesale and retail prices for used cars. The wholesale price is what the dealer originally paid for it. The retail price is what the dealer is charging you for it. The Kelley book will give you a sense of what a particular make and model is worth, on average, so that you can assess what dealers are asking. You can also go to Kelley's [Website](http://Website) and search for cars and get information, reviews, and car value information.

The Consumer Reports Used Car Price Service, which you can find online, provides full reports on used cars.

## Finding car histories

You may have heard of [Carfax](#), a Web-based service that provides vehicle history reports on used vehicles. Many dealers now offer Carfax reports for their vehicles. You can also get them online by providing some basic information about the vehicle in question. Some services are free, and others must be purchased.

## Talk to mechanics

Sometimes, auto mechanics will buy a used car that the previous owner decided was too expensive to fix, and offer it for sale on the lot. Many new car dealers will also sell used cars on their lots. And it can help to ask family or friends if they are interested in selling a vehicle. Some of them can give you a good deal (and possibly interest-free financing).

Speaking of mechanics—get the vehicle inspected by a good, trusted mechanic. It could save you a ton of money down the road.

## Negotiating a fair price

For many people, negotiating for a good price on a vehicle ranks up there with getting a root canal. But learning to negotiate can save you a lot of money. First, though, get the preliminaries taken care of. Identify the car you want, arrange financing, and locate some sellers. Know what add-ons you might want. By the time you get to negotiating, the price should be the only thing not settled on. Here are some things to know about negotiating:

**Haggling.** Even if a vehicle is advertised with a "no haggle" price, there is still sometimes room to haggle, so it is worth considering.

**Know the value of the vehicle you're negotiating.** This can work in your favor if the salesperson is asking a price that's higher. Consult a source such as the *Kelley Blue Book* for values. Check more than one price guide (such as Edmunds).

**The prices involved.** When you negotiate, you want to pay close to the dealer's price (the wholesale price), which is what the dealer paid for it. The dealer will want to stay close to its *retail* value (which is higher) for maximum profit. There will also be the "blue book value," which will not be listed and which will most likely be somewhere in the middle. In case the dealer's cost isn't apparent or you can't get it from the dealer, you can find it online on sites like [Autosite.com](#) and [Consumerreports.org](#).

**How it begins.** The dealer will probably ask you how much of a monthly payment you can afford to pay. Because dealers have ways of arranging financing, they know how to squeeze extra dollars out of you even while staying within your monthly payment range. This is why experienced car-buyers put off telling the dealer how much of a monthly payment they can make until after they have settled on a price.

**Don't go first.** Experienced negotiators wait for the dealer to name the first price; that way, they can go lower, something they probably couldn't do if they were the one to name the first price.

**The attitude.** Cultivating an air of detachment also works in your favor (in other words, be ready to walk away if need be) because a salesperson who sees that you are attached to a car has a lot of leeway with you.

**Trade-ins.** Knowledgeable negotiators recommend not bringing your trade-in into negotiations until you have first agreed on a price for the car.

**Take control.** It's important to be the one in control of the negotiations. That might mean telling the dealer you need to go home to think about it. Dealers expect this. They will likely call you over the next few days to sweeten the deal, either with a lower price or some free add-ons.

**Compare prices, too.** Get quotes from several dealers and bring them with you to negotiate. Using them can make dealers compete for your business; they might match other offers.

**In closing.** Once you have agreed on a price, you will get the sales contract. This contract will list additional costs such as sales tax, document fees, and perhaps service fees. Know about these beforehand so that you will have a more accurate price that you will ultimately pay. You can [view a sample sales contract here](#).

## How to register your vehicle

Once you've finally got your vehicle, you have to register it with the Department of Motor Vehicles. This involves getting the title to it. The title is a legal form that establishes you as the legal owner of the vehicle. When the vehicle is titled in your name, you are recognized as the owner of it. If it is titled in more than one person's name, then all of those people own it. That means that they are also held responsible for paying fees, taxes, insurance, and accident expenses. You should always think carefully before sharing a title. The process varies somewhat by state, as do the fees. If you buy a new car, the dealer and the lender will handle the paperwork on the title. The lender will keep the title until you pay off the loan, then mail it to you.

If you buy a used car from a private seller, you'll need to have the seller sign the title over to you. You and the seller can handle the title transfer by signing the appropriate sections on the back of the title.

Next, you need to go down to the DMV to register the transfer. The paperwork you need will usually include the signed title, which will include the vehicle identification number (VIN) and odometer reading, and possibly a bill of sale showing the purchase price. Your DMV will then record the title transfer and reissue the title in your name. You will also need to get your own license plates and pay sales tax on the vehicle.

You can find a sample title at <http://www.wisconsin.gov/Documents/dmv/vehicles/title-plates/title-sample.pdf>.

You can find the application at <http://www.dot.wisconsin.gov/drivers/forms/mv1.pdf>.

The title is an official document. For protection, make sure it is not kept in your vehicle. Keep it among your records at home.

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Question 1:

**When negotiating the price of a car, which starting point is likely to save you the most money?**

- The asking price of the car
- **The dealer's price**
- The manufacturer's suggested retail price
- None of the above

**ANSWER:** The dealer's price. The dealer's price is what the dealer originally paid for it. Negotiating up from this, rather than down from the asking price, may save you more money.

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Question 2:

**When shopping for a car at a dealership, what might be the purpose of mentioning other dealerships that are offering the same car?**

- **The dealer might match their prices.**
- To get the dealer off your back.
- To make you look more intimidating.
- There is no purpose of mentioning those other dealerships.

**ANSWER:** The dealer might match their prices.. The intimidation might work for some, but the main purpose is to make the dealer compete with the other dealers to get your business.

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Question 3:

**If you show interest in a vehicle on the dealer's lot but you decide to walk away during negotiations, what can you expect the dealer to do in response?**

- **Call you later and make you another offer**
- Ignore you
- Give you all the time you need and not call you
- None of the above

**ANSWER:** Call you later and make you another offer. As a rule, if you show interest, the dealer will want your business and may contact you with a new offer.

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## **Insurance and Maintenance for Your Vehicle**

If you have a car, truck, minivan, or other vehicle, you most likely already have auto insurance on it. It's required in some form or other in nearly every state. Most drivers understand the need for auto insurance because they know that the costs of an accident can be very high (even into the hundreds of thousands of dollars), and insurance is not prohibitively expensive. It's a small price to pay for peace of mind while you're behind the wheel. But does your insurance cover what you need it to cover? Does it cover too much or too little?

*Liability coverage pays for damages that you cause to someone else.*

*States require minimum levels of liability insurance.*

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## Liability coverage

Liability coverage is so named because it pays for damages that you cause to someone else. It does not cover you. Liability coverage is offered for two scenarios: bodily injury and property damage. Actual coverage amounts vary, and you can increase yours for an extra charge on your monthly premium. Bodily injury covers medical and rehabilitation expenses when an insured driver causes bodily harm to another person and is deemed responsible for it. Property damage pays for property that an insured driver destroys; for example, if he or she hits a fence or another car. States require certain minimum levels of liability insurance. The insurance covers anyone driving the insured vehicle with the owner's permission.

Liability coverage is often presented as a series of three numbers separated by slashes, e.g., 25/50/10. These numbers refer to the three limits on bodily injury per person, bodily injury per accident, and property damage are covered separately. Here are examples from three states:

- Wisconsin: 50/100/15
- Minnesota: 30/60/10
- California: 15/30/5

*\*Source: The American Institute of Certified Public Accountants*

Liability also covers legal fees if you are sued and found responsible for causing damage to another.

## Other coverage

You can supplement your liability coverage with other forms of coverage:

- **Collision.** Collision coverage is for crashes. It pays for damages to a vehicle; if the vehicle is totaled, it pays the cash value of the vehicle. Collision coverage is optional, but if you take out a loan, the lender may require you to carry it.
- **Comprehensive.** Comprehensive coverage is for damages to your vehicle that are caused by incidents other than collisions. Examples of these incidents are theft, vandalism, weather damages, or hitting animals.
- **Medical payments and personal injury protection.** Medical payments and personal injury protection both cover medical expenses incurred by you and your passengers in an auto accident. They may also cover lost wages in some cases. Personal injury protection is mandated in some states.
- **Uninsured/underinsured.** This covers you if you are hit by someone who has inadequate liability coverage, either because they don't have enough coverage or any coverage at all. The other party must be at fault, however. The insurance company pays for bodily injury losses.
- **Loss of use.** Loss of use coverage reimburses you for the inability to use your vehicle if it is being repaired for an insured loss. An example covered expense is a rental car.
- **Towing/Roadside assistance.** Towing and roadside assistance coverage pay for costs due to road breakdowns.
- **Personal property.** Personal property in a damaged vehicle is typically not covered under the policy; you usually must claim it under your homeowner's or renter's policy. But there are exceptions: some insurance carriers will cover devices that are intended for automobile use, such as navigation devices.

Be sure to keep your insurance card in your vehicle. And if you are in an accident, it is a good idea to not admit fault, as that should be settled later by the experts.

## Keep your vehicle in good condition

Long ago, a car would last about 100,000 miles or so before dying, even when you took good care of it. These days, you can reasonably expect a car to go twice as many miles, but you still have to take good care of it. Why? It reduces the chance of having big repairs, and it ultimately saves money in the long run. Changing the fluids and getting tune-ups on a regular maintenance schedule will ultimately prove less expensive than big repairs.

## Should you get an extended warranty?

An extended warranty (also called a service contract) is a prolonged coverage that extends past the life of an original warranty that you had on the auto. It costs extra and offers a certain amount of coverage, such as repairs, labor, or parts. Details of coverage vary greatly according to contract. An extended warranty is offered by the manufacturer, the retailer, or by various warranty sellers. Extended warranties may have exclusions in them and should be understood thoroughly before buying.

But should you get one? On the positive side, an extended warranty can buy you some needed peace of mind, and it can save you a lot of money in repair costs. On the other hand, it can cost a good chunk of money, and you may end up never needing it. These warranties are a big source of profit to those who sell them. Ultimately, you must consider the likelihood of your vehicle needing repairs and whether the repair costs would justify the cost of an extended warranty. The only way you will know for sure that you need one is to see it in hindsight.

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Question 1:

**Which of the following is true regarding automobile liability insurance?**

- To protect the public, even someone who steals your car is covered.
- A spouse not named in the policy is usually not covered.
- No one not named in the policy is covered.
- **The insurance covers anyone driving the insured vehicle with the owner's permission.**

**ANSWER:** The insurance covers anyone driving the insured vehicle with the owner's permission. It is not necessary that such a person be named in the policy.

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Question 2:

**Liability coverage on an automobile insurance policy covers damages that you cause to \_\_\_\_\_.**

- Yourself
- **Other people**
- Both you and other people

**ANSWER:** Other people. Liability covers others, not you. Other forms of coverage will cover you.

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Question 3:

**If someone steals a precious ornament from your car, that theft would be covered under \_\_\_\_\_ coverage.**

- Uninsured motorist
- **Comprehensive**
- Collision

**ANSWER:** Comprehensive. Comprehensive coverage pays for non-collision damages.

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## **Summary of Vehicle Acquisition**

Buying a car or truck involves some of the same steps as buying a home. There's financing to deal with, there's insurance and warranties, and there's the question of whether to buy used or new. There is also the question that more and more young people are asking, which is, "Do I even need a car?"

This tutorial covers some important things you should know before you begin searching for a vehicle. One's means of transport will be one of the biggest single purchases made in life.