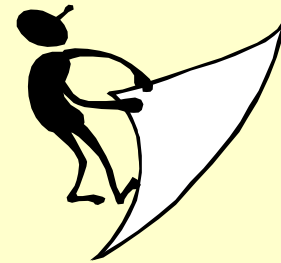


# Chapter 6

## Buying & Selling a Car

**Ken Long**  
**New River Community College**  
**Dublin, VA 24084**  
**<http://www.nr.cc.va/fin107>**

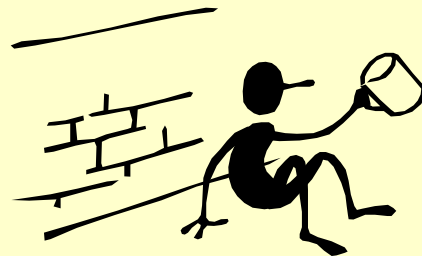
**What are the  
advantages of a new  
car over a used car?**



- Dealer will take trade in on old car
- Lower monthly payments due to a longer term loan
- Bank loans are easier to obtain
- More protection against unexpected expenses
- Interest rates are lower
- Longevity

# What is the disadvantage of buying a new car?

About \$21,000

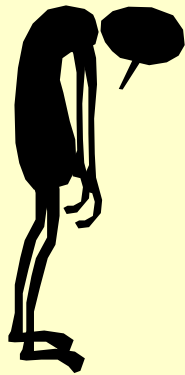


# How much do new cars depreciate?

About 50% in two years



**If I borrow \$20,000 at  
10% for 5 years, what are  
my monthly payments?**



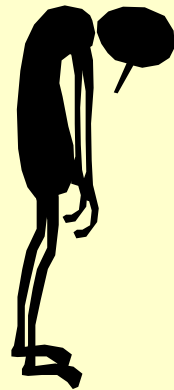
**\$425**

**How much will I have  
paid after two years?**



**\$9,772**

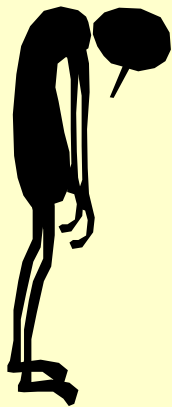
**How much interest will I  
have paid after two years?**



**\$3,252**

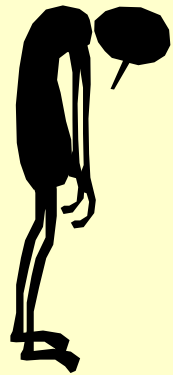


**How much will I still  
owe after two years?**



**\$13,480**

**How much will I pay  
over 5 years?**



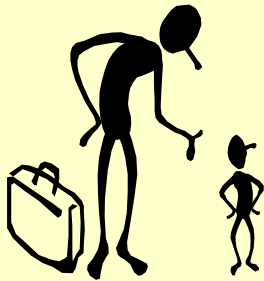
**\$25,500**

**If I can't make  
payments and return my  
car does this hurt my  
credit report?**

Even if you make payments  
after the car is sold at  
auction it will be recorded  
as a willing repossession

# What happens if I have an accident after two years?

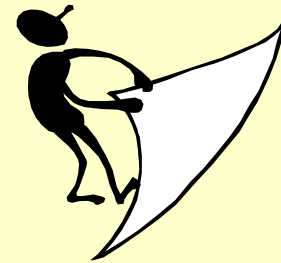
The market value will be  
about \$10,000, you still  
owe the bank \$3,480



# What are other expenses when buying a car?

- Insurance
- Personal property tax
- Sales tax

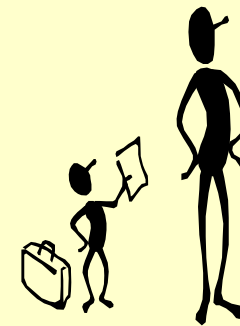
# How do I buy a new car?



- Be careful about financing and insurance
- Look at the doorjam for date of manufacture
- Turn off the radio
- Test drive without the salesperson
- Wait till the end of the month
- Offer 4% over dealer's cost
- Check out a “no haggle” dealer

# What is a warranty?

An assurance by a seller to a buyer that the goods purchased will service the buyer as promised





# What is an extended warranty?

Offers protection beyond  
the standard warranty



# **Are extended warranties a good bargain?**

Sometime, especially if you  
buy it just before the  
regular warranty expires

# **What is an auto service contract?**

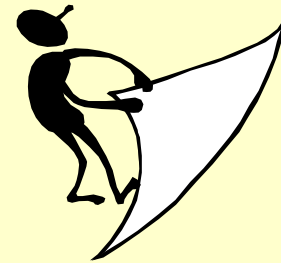
Pays for the maintenance  
not covered by the regular  
warranty, or kicks in after  
the warranty expires

# Are auto service contracts a good bargain?

Sometimes, make sure  
you adhere to the strict  
guidelines in the contract



**Why are people buying fewer new cars?**



- The average price is about \$21,000
- Cars last longer
- Leasing has become more popular
- There are more good used cars
- Cars are not the status symbol they used to be
- New cars have fallen from 3 to 11 on the average person's wish list

# How do I find a used car to buy?

- Ask friends, look ...
- in the newspaper
- along side the road
- for auctions

**How do I know the  
value of a used car?**

**NADA**

**Official Used Car Guide**



# Where do I find a NADA Guide?

Most libraries, banks & city  
hall have monthly issues,  
also on the Internet at

<http://www.nada.com>



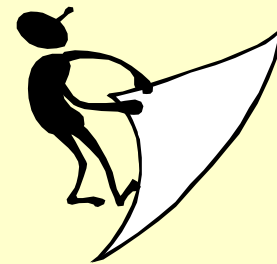
# What three prices are listed in the NADA Guide?

- Average trade-in
- Average loan
- Average retail price

# **Car dealers sell cars at the NADA price, is this good?**

Not usually, car dealers use the average retail price which is higher than the average trade-in price

# How do I use the NADA Guide?



- Make adjustments for a car in better or worse than average condition
- Use table to adjust price for low or high mileage
- Use the trade-in price
- Find make and model
- Look up the year

# What are general tips?

- Offer the average trade-in price after making mileage and repairs adjustments
- When in doubt have the car checked out by a mechanic
- Consider sales person
- Never be in a hurry

# **If I cannot pay cash, how do I finance a car?**

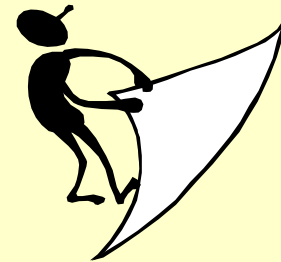
- Take advantage of special promotions from a dealer
- Take out the loan for the shortest time possible

# Should I get a personal loan or an auto loan?

- An auto loan may be less expensive than a personal loan
- With a personal loan you get the title instead of a bank

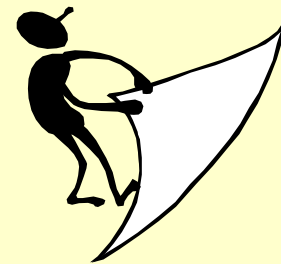


# What are references beside the NADA Guide?



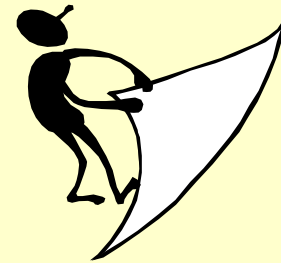
- CompuServe & Delphi Internet
- Car Price Network
- Complete Guide to Used Cars
- Consumer Reports December Buying Guide
- Consumer Reports Auto Price Service
- Edmunds New Car Prices

# How do I sell a car?



- Never let a stranger take the car for a test drive
- Stipulate time people can call
- Advertise
- Determine the market price using the NADA Guide
- Clean the car inside and out
- Use newspaper to compare

**Give me some tips  
when selling a car**



- Request a down payment to take the car off the market
- Cancel the insurance after any loan is paid off
- Sign the title & registration & make out a bill of sale, keep a copy for yourself
- Contact division of motor vehicles to determine transferring of title
- Accept only cash, money order or convenience check
- You must pay off any lien that a bank has on the car to obtain the title

# Should I lease a car?

Leasing may offer lower payments, but is not the most cost effective way to finance a car



# **What is the difference between leasing and renting a car?**

You cannot return the car  
without paying a stiff  
penalty before the lease  
contract has expired



# Who are the best people to lease a car?

People who ...

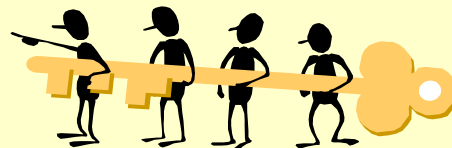
- drive 12,000 & 15,000 miles a year
- own their own business
- have a stable income
- like to drive a new car
- always trade in their old car

# Give me some tips when leasing a car?

- Consider a balloon payment loan
- Reduce the price by giving a down payment
- Know the car's selling price

# What is acquisition fee?

A lump sum you agree to pay the leasing company for arranging financing



# What is capitalized cost?

The total price of the vehicle you plan to lease, including title, license fees, taxes, insurance, and warranty

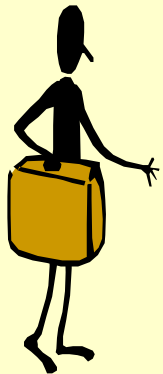


# **What is the capitalized cost reduction?**

The nonrefundable down  
payment, sometimes  
called “cap”

# What is residual value?

What the leasing company says your car is worth when the lease ends



# What is gap insurance?

Additional insurance  
above your collision  
car insurance



# What is early termination?

What you owe the leasing company if you terminate your lease early



# What is excess mileage?

The miles you drive the car  
beyond your free miles



# What are excess wear & tear charges?

Charges applied for damage done that is more than normal, determined by the leasing company



# What are disposition fees?

Cost of preparing your old leased car for sale after you turn it in, final cleaning, shipping etc.

**END**