

How to Buy a Used Car

Without Being Taken for a Ride



What you need to know before
buying a used car or truck
to get a good vehicle at a fair price.

MCRC The Voice For Maryland Consumers
MARYLAND CONSUMER RIGHTS COALITION

The Maryland Consumer Rights Coalition (MCRC) is a non-profit organization that works to advance and protect the interests of Marylanders through research, education and advocacy. MCRC strives to make the marketplace fair and safe for consumers.

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Car dealers are experts when it comes to squeezing every last dime from their customers.

They attend seminars on buyer psychology to learn exactly what to say to make a sale. They hire finance consultants who explain how to finagle contracts so that even if they give you a bargain in one area, they're able to gouge you somewhere else and still make a very attractive profit. This is their business and they are very, very good at it.

In short, car dealers are ready for you. Are you ready for them?

Some dealers are good corporate citizens, but sadly, there are many others who won't hesitate to stick you with a rebuilt wreck, a truck with flood damage, or a car that a manufacturer was forced to buy back because it was defective. These vehicles may endanger your safety and lead to huge repair bills down the road.

But even if you avoid one of these truly awful vehicles, how do you improve your odds of getting a good car that really meets your needs? How do you know if the price is reasonable? How do you get a good loan?

Read on.

MCRC's Top 10 Car-Buying Tips

- 1 Decide on the kind of car that meets your needs and how much you can afford to pay before you leave the house,** taking into account the cost of gas, insurance, and an allowance for future repairs. Keep things simple by narrowing down the kind of cars or trucks you want to just two or three models.
- 2 Shop for a loan before shopping for a car.** Find out how much a credit union or bank will lend and at what rates you can borrow. You do not need to accept the loan offered by the dealer—to save money, you can and should arrange your own loan. Even if you have trouble arranging a loan for yourself, you can and should negotiate with the dealer over the loan offered to you.
- 3 Make sure that your credit report is accurate before you shop for a car loan.** Lenders decide what interest rate you should pay based on your credit report, but many credit reports have errors. Get those errors corrected.
- 4 Find out how much your trade-in is worth before you visit any dealer,** and prepare a strategy for how you are going to handle negotiations on its value.
- 5 Never buy a car the first day you see it.** You need time to research the car and its history. When the dealer asks, “What will it take to sell you this car TODAY?” the correct answer is: “I won’t be buying today. I’ll need a day or two to do research.” If the salesperson tells you someone else will snap up the car if you pass on it, you should realize he/she is just trying to pressure you.

- 6** **Don't make the #1 car-buying mistake:** Most salespeople will ask something like, "About how much are looking to spend a month?" Answering this seemingly friendly question is the #1 mistake buyers make. Giving a dealer this information means you will have lost control of price negotiations before they even start. First, negotiate a fair cash price for the car, then negotiate a good interest rate for your loan, and then discuss the value of your trade-in. These should be three separate negotiations.
- 7** **Identify a knowledgeable mechanic** and a body shop that can inspect any car you are serious about buying to evaluate whether it is in good condition and whether it has been involved in any accidents. Don't buy a vehicle if the seller won't let you have it examined by a professional.
- 8** **Learn what you can about the car's prior use.** When you have found a car you like and have taken it on a thorough test drive, ask the seller to provide you with a vehicle history report and be sure to check the government's database to make sure the car is not on its list of salvage or flood-damaged cars.
- 9** **Decide whether you want all the extras that car dealers try to sell,** like credit life insurance, extended warranties, and other products. Ask if the dealer requires you to sign an "arbitration clause," by which you agree never to sue the dealer no matter how fraudulent his conduct. Avoid dealers who insist on arbitration clauses whenever possible.
- 10** **Don't allow anyone to pressure you!** Remember, you can always walk out of the dealership. It's the dealer who feels pressure to make a sale. You will have the upper hand by using the tips in this booklet.

Find in-depth information on all these topics in the online version of this guide by going to www.marylandconsumers.org and clicking on the Consumer Advice section.

How to Find a Reliable Car or Truck

The more you know about a car before buying it, the better. If you knew a car hadn't had an oil change in 30,000 miles, or that its frame had been damaged in a serious accident, you would look for another car. If you were considering buying a car from someone with a complete set of service records that show the car has been well maintained, you'd be more inclined to purchase it.

Ask the seller these questions:

1. Has the car ever been in an accident or had water damage? What are its three worst problems?
2. What was done to the car to prepare it for sale?
3. If you're shopping at a dealership, ask if the car was a trade-in or if it was purchased at auction. (Dealers generally know very little about auction cars' history.)
4. If it's an auction car, did it come through the line on a green light, a yellow light, or a red light? (Green is best; red probably signals trouble.)
5. Does the dealer have the car's repair and maintenance records? These documents can help illustrate conscientious care—or potential problems. (A private seller should certainly have these documents and be willing to show them to you.)
6. What is the seller's basis for any statements made about the car? Is there documentation to back up the claims? *Remember, some dealers just make stuff up.*

Keep in mind, you can't rely on a salesperson or a private owner to volunteer any negative information about a car. Unless you ask a question that directly calls for them to provide you with unfavorable information, they are not going to offer it.

Have a used vehicle inspected by a mechanic and body shop.

If the dealer or private seller will not allow you to have the car inspected, don't buy it. Make an appointment to bring the car to your mechanic so you can learn about any problems you should anticipate in the first year or two and to get an estimate of what it will cost to fix them. If you don't already have a trusted mechanic, ask your friends and neighbors for recommendations or look online at cartalk.com or aaamidatlantic.com.

Take a used vehicle on a good test drive.

Always take the car for a test drive of at least 20 to 30 minutes. Turn down the radio so you can listen for sounds that may warn of existing or impending problems. Be sure you see how the car does going up hills and at highway speeds. On an empty road or parking lot, where you have a good margin of safety, remove your hands from the steering wheel while the car is going forward to see whether it pulls to one side. Also see if it pulls to one side when using the brakes. Drive the car in reverse. Try parallel parking to see how hard it will be to steer at low speeds.

Is it better to buy from a dealer or a private seller?

There is no simple answer. There are advantages and drawbacks to each.

Dealers:

You can learn about their reputation ahead of time by doing an online search of the company's name and by checking with the Better Business Bureau.

A dealer will probably provide at least a short-term warranty.

Dealers must put their cars through the state safety inspection.

Dealers are required to disclose slightly more than is required of private sellers.

- ✘ A dealer might not know much about the car's history.
- ✘ A dealer might insist you sign a contract with an arbitration clause, meaning you waive your right to a jury trial even if you are scammed. MCRC advises against buying a car from a dealer who insists on an arbitration clause.

Private sellers:

The car may cost less because the seller is not paying for employees, rent, and overhead.

Seller should be able to provide service records to give you a clearer picture of the car's history and answer your questions. (Of course, you don't know if the seller is showing you all the records or telling you the truth.)

- ✗ Seller has no legal obligation to disclose anything negative about a car unless directly asked.

Other things to keep in mind

1. Ask the seller for both a CARFAX and AutoCheck vehicle history report, and you should visit www.nmvtis.gov to see if the car is listed as damaged by flood or salvaged—keeping in mind that none of these sources is a guarantee that the car is in good shape.
2. Never buy a car sight unseen (especially over the Internet).
3. Be especially wary of small dealerships that do their own financing. They often sell to people so desperate for a loan they can't be picky about the quality of a car.
4. Cars sold at auctions open to the public tend to be those cars that dealers have declined to purchase. If it's not good enough for them, it's probably not good enough for you.
5. Don't buy a car at night or in the rain or snow when it's hard to spot problems.
6. Insist on seeing the title before you hand over any money. Check to see if any liens are listed (meaning an existing loan must be paid off before the seller can give you a good title). If there is a lien, make your check payable jointly to both the bank that has the lien and the seller.

For a helpful reference, see
"MCRC's 20 Questions to Ask Your Auto Dealer" on page 18.

Safety, Reliability, and Lemons

Before you buy, research the safety record of the year, make and model you are considering. Sources include www.nhtsa.gov, www.iihs.org, or www.autosafety.org. Ask the seller for CARFAX and AutoCheck vehicle history reports, and read up on what Consumer Reports says about the car—find it at the library or at www.consumersunion.org.

Also beware of “lemon laundering.” A car bought back by a manufacturer under one state’s lemon law because of unrepaired defects might be resold in another state without disclosure that the car was a “lemon.” If a dealer presents the car as a “reacquired car” or “program car,” be especially inquisitive about its prior history. There is a high likelihood of continuing problems with any car previously repurchased by a manufacturer under a state lemon law. Avoid them like the plague.



Paying a Fair Price for a Used Car or Truck

At the risk of stating the obvious, dealers are in business to make money, so they have studied the market and buyer behavior for years. Research shows that dealers tend to quote higher prices to women and minorities, so for these groups it makes even more sense to be well prepared for the negotiating process. But the following information is crucial for all car buyers to keep in mind.

Don't make the #1 car-buying mistake!

Don't disclose the monthly payment you'd be willing to pay.

The salesperson usually opens with this question: "About how much are you looking to spend a month?" Answering this question is the #1 mistake buyers make. Why? Because the dealer wants to combine the car price and the loan into one package with an attractive monthly rate. But if that monthly rate goes on an extra year or two, you will end up paying thousands of dollars more than you should have. Instead, you must first negotiate carefully over the cash price of the car. After there's an agreed-upon price, tell the dealer you've investigated financing already so you'd like the very best rate he can provide. These should be two separate transactions.

Don't let the dealer get your credit report before you negotiate the price.

This is just the dealer's way of trying to figure out how large of a payment he can stick you with, so politely decline when they ask if they can pull your report.

Before you sit down to discuss price with the dealer, research what the car is worth.

Go online to cars.com, craigslist.org, and similar sites to review prices. Keep in mind you will be seeing the asking price, not the negotiated price, which is probably lower. Also check www.nada.com or www.kbb.com. Ask to see the Black Book (not Blue Book!) price of the car—that is, what a dealer should expect to pay for the car wholesale at an auction. You generally should not pay more than \$2,000 above the Black Book price listed for a car in “average” condition unless the car is really pristine.

Negotiate a good price.

1. Have examples of comparable models that are selling for less to show the dealer you are knowledgeable about the market.
2. Assume that you and the seller will meet in the middle when making your first offer. If the car is marked \$15,000 and you want to pay \$13,000, offer \$11,000. Don't increase your bids by too much at one time.
3. Buy at the end of the month when salespeople are eager to meet their monthly sales quota.
4. Buy in the winter when sales are slower.
5. Don't buy in March, April, or May (if possible) because people have their tax refunds then, and dealers might have more power because they have more buyers.
6. Don't be afraid to walk away from a negotiation. Chances are the dealer will eventually get to your desired price. And if he doesn't, it's okay: You now have more experience in negotiations—and another car will always come along.

"What will it take to sell you this car TODAY?"

"I won't be buying today. I'll need a day or two to do research."

Should you buy (and pay more for) a "certified pre-owned" car?

Dealers offer "certified" used cars, saying they have undergone a rigorous pre-sale inspection. But you have to be just as careful with a "certified" used car as you would with any other used vehicle. "Certification" is only a word, unless the dealer is honest. If certified cars don't come with a better warranty, there is not much point in paying more for them.

Ask if the dealer offers a money-back guarantee.

Some dealers give buyers a chance to cancel their purchase within a short period of time. If a dealer does not offer a money-back guarantee, that's one more piece of leverage you have in negotiating a good deal for yourself.

Should you give a deposit?

The only time you should provide a deposit is after you have a sales contract that both you and the dealer have signed.

Read more about negotiating techniques in the online version of this guide by going to www.marylandconsumers.org and clicking on the "Consumer Advice" section.

Financing Your Used Vehicle Purchase

If you're not paying cash for the car's full price, be sure to investigate financing *before* you start shopping. This will help you get the best possible rates. It also will help you learn how much car you can afford. Dealers make money off the loans they offer, so you should always negotiate not just the price of the car, but also the interest rate on the loan.

Before you step onto a car lot, talk to a credit union and to your bank to find out what rate they will offer you based on your specific credit history and financial situation. Use this information to bargain for a better interest rate at the dealership. Or simply go with the loan from the credit union or bank. Remember, you are not required to get your financing at the dealership.

You can also research auto loan rates at places like www.bankrate.com and www.LendingTree.com. Even if you have bad credit or no credit history, you should still shop around and bargain for the best rate you can get. And be sure to check your credit score for mistakes; a mistake that lowers your score could cost you thousands of dollars in higher rates. Anyone can apply for a free credit report at www.annualcreditreport.com. For help correcting errors, check www.ftc.gov.

Beware of false promises that your loan has been approved.

Among the stack of papers a dealer might put before you when you are signing for the loan is a "Special Delivery Agreement" or "Spot Delivery Agreement" or "Conditional Bailment Agreement." Whatever the name, its small print says the financing is subject to approval by a third party (that is, whether or not you get the loan depends on a bank or other source that hasn't yet approved it). What this means practically is that if you sign this paper, you could drive your new car home and then get a call a week or two later saying the financing fell through. The dealer will likely then ask you to agree to a larger down payment or a higher interest rate—meaning

you'll end up paying a lot more for that car. They might even try to charge you a fee for every mile you've driven the car!

Make sure the car is really yours before taking it home!

Here's what you need to know:

1. The Maryland Motor Vehicle Administration tells dealers they may not use these types of forms that make the deal contingent on approval by a third party. However, this rule is not strictly enforced so many dealers still use them.
2. You can always walk away from the deal. If the dealer wants to re-negotiate, you can simply say, "No. Please return my trade-in to me (if you had one) and I'll give you back your car."
3. The dealer is counting on you not wanting to give back the car: You might be embarrassed to give it up after having shown it to friends and family, and who wants the headache of going through the whole car-buying process again?
4. If you really want the car and the dealer insists on a contingency form, go ahead and sign it *but don't take the new car home*. Keep your old car until the dealer's financing is approved and the entire deal is truly finalized. That will make it easier to walk away from the transaction if the dealer comes back with a contract that is worse for you, and it will put pressure on the dealer to keep the rate you negotiated.

How to Handle Your Trade-In

Avoid the second-most-common mistake made by consumers: failing to keep negotiations about the value of their trade-in separate from the negotiations over the price of the new vehicle. If you let these two negotiations become joined, you may find that all of your equity in your trade-in disappears into the monthly payment, and you'll have nothing to show for it. Negotiate over the cash price of the vehicle you are buying first. Then, after you have agreed upon a price for your purchase, allow the dealer to evaluate your trade-in.

Before you ever visit a dealer, find out how much your trade-in is worth by investigating the asking price for similar cars in the newspapers and online. If the dealer won't give you a fair price for your car, you may choose to sell it yourself. Sometimes, donating your trade-in to a charity for a tax deduction can make sense, too.

If you do trade in your car, make sure the dealer agrees, in writing, to pay off any remaining loan as part of the deal: Your Buyer's Order contract should have the Vehicle Identification Number of your trade-in and it should indicate the amount the dealer is crediting you for the trade-in.

This should happen even if you owe more money on the trade-in than the dealer is giving you for it. (That is, if you owe \$3,000 on the trade-in but the dealer will only give you \$2,000 for it, the dealer will pay off your entire \$3,000 loan balance but add \$1,000 to the financing of the car you are buying.)

If it is the case that you owe more on your trade-in than it's worth, as in the above scenario, think long and hard about trading in your car for a newer model: Adding debt from a trade-in onto debt for your new purchase can send you into a spiral of financing that might be hard to escape.

Be wary of dealers who offer more for your trade-in than it's really worth. Some dealers act as if they're giving you a great deal, but they actually bump up the price of the new car to make up for that "great deal" on your trade-in. Be sure you understand what's really going on.

Managing the Paperwork

When the dealer writes up the sales contract, check it carefully to be sure it accurately reflects the prices you've agreed on, and to be sure the dealer hasn't included charges for items you may not want and may never have discussed—some dealers automatically include charges for things like extended warranties or credit life insurance without even discussing such charges with their customers! On the sales contract, you will need to handwrite in this phrase "Subject to inspection by buyer's mechanic and body shop, to be completed within 24 hours." Make sure the dealer signs the sales contract with this notation, and initials the addition, before you sign the contract or take your car to a mechanic for inspection.

Assuming the inspection goes well, call the dealer and say you'll be in to sign all the final papers, and ask that they be ready for your signature. This will save you time. If the inspection reveals any problems, you then may need to either cancel the deal (if the problems are serious) or re-negotiate the terms of purchase. Always read the documents you are being asked to sign. When the documents are presented to you, ask what each one is for and read enough to know if it makes sense. If you have any questions, don't hesitate to ask.

One thing you should find out is whether the sales contract and loan contract contain an "arbitration clause." Under most arbitration clauses, the consumer gives up the right to go to court and the right to participate in a class action lawsuit. These are extremely important rights and MCRC advises against giving them up.

Extended Warranties and More

Although dealers often present extended warranties at a fixed price, the price is actually negotiable. But don't be pressured into buying coverage from the dealer as part of your transaction—you can purchase mechanical breakdown insurance from third parties, such as Geico (www.geico.com) or others (for example, www.warrantydirect.com). Knowing the price you would have to pay to one of these companies will be helpful in negotiating a fair price for any product offered by the dealer.

Whether or not you should buy an extended service contract depends on a variety of factors. Can you afford the cost of the service contract up front? Will you be able to afford the cost of repairs later on if you have no contract? How reliable is the model you purchased? One advantage of buying coverage from the dealer is that the cost of the warranty may be financed as part of your car loan.

Many dealers urge consumers to purchase insurance that will pay off the loan in the event of the consumer's death (credit life insurance), or in the event of the consumer's disabling injury or illness (credit disability insurance). This insurance is very expensive for the protection you get and consumer advocates generally don't recommend it. Increasingly, dealers are promoting "GAP insurance," which is designed to pay off your loan in the event your car is stolen or totaled in an accident. Think about purchasing GAP only if you have paid more for the vehicle than it's really worth—in which case you should rethink whether you want to buy the car in the first place.

Some dealers want you to buy "etch" protection, in which the dealer etches numbers into the glass of the vehicle, which is said to deter auto thieves. Some dealers might claim you need this protection to obtain a loan, but that is almost never true, and you should ask for proof of that claim. Most consumer advocates believe "etch" is highly profitable for the dealer but nearly worthless to you.

Warranties and Your Legal Rights

If you are buying a low-mileage vehicle, check if the manufacturer's warranty can be transferred to you. Most dealers will provide some form of warranty. If a dealer refuses to provide any warranty, be extra cautious. Carefully read the terms of any warranty that the dealer does provide. In Maryland, dealers are prohibited from selling cars "as is" unless the car has at least 60,000 miles and is at least six years old. If a dealer insists on selling a car "as is," think twice about buying it. The Maryland Consumer Rights Coalition strongly urges you not to buy a car that the dealer insists on selling "as is."

Many people believe there is a three-day cooling off period during which you have a right to cancel your purchase. This is a myth. The truth is, when you and the dealer sign the papers and you drive the car off the lot, the deal is done. Neither party can cancel.

Even if you've followed all of the tips in this brochure, it's possible your car or truck may develop problems. If the problems are serious and arise fairly soon after the date of your purchase, you may have some remedy against the dealership where you bought the car. To find an attorney who can discuss your options, click on the "Find an Attorney" tab at the website of the National Association of Consumer Advocates, www.naca.net or the "Lawyers and Expert" tab at the website of the Center for Auto Safety, www.autosafety.org.

Remember that nearly all sales by private owners are "as is," meaning no warranty of any kind is provided, though you may still pursue a claim if the seller fraudulently deceived you.

The Bottom Line

Getting a good deal on a car takes effort. But if you follow the steps outlined in this booklet, you will stand a much better chance of getting a reliable vehicle at a fair price. And you'll feel good about the transaction instead of always wondering if you got taken for a ride.



For those who want to delve more deeply into the topics discussed in this buying guide, a more comprehensive version can be viewed on our website. Visit www.marylandconsumers.org and go to the "Consumer Advice" section.

MCRC's 20 Questions to Ask Your Auto Dealer

After you have shopped for a good car loan and after you've taken a good test drive and settled on a car that you are truly interested in buying, and after you have researched what's a fair price for the car and any trade-in, MCRC recommends you ask the following questions before you sit down to negotiate the final purchase price. Even some honest dealers may not have answers to every question, but use this list to learn as much as you can.

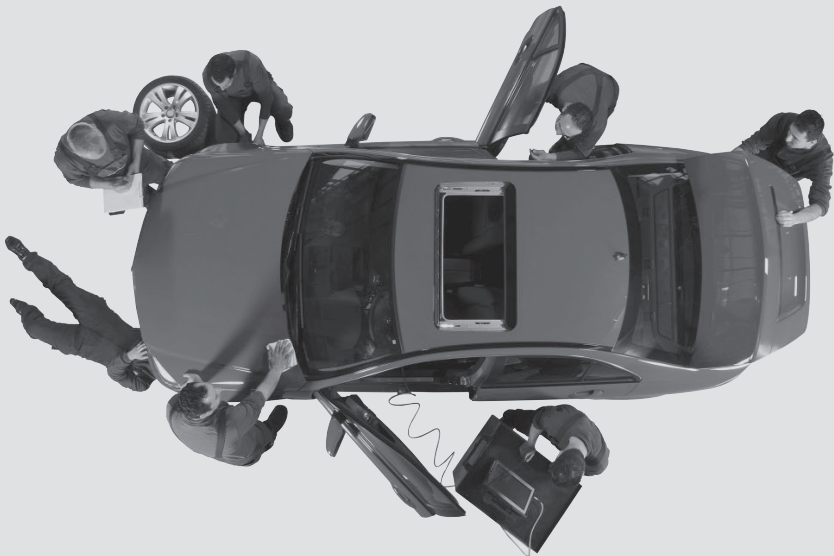
- 1** Did you acquire this vehicle as a trade-in? Please show me the form that the prior owner completed about its condition/use.
- 2** Do you have records showing maintenance, service or repairs for this vehicle? Please provide me with copies.
- 3** To your knowledge, has the vehicle been involved in an accident or sustained flood or other water damage? Please explain.
- 4** If you acquired this vehicle at auction, was it sold under a green, yellow, purple or red light? (Green is good, red is a sign you should be extra cautious.) What announcements were made at the auction?
- 5** What inspection did your dealership perform of the vehicle and what repairs, maintenance or service have you done since acquiring it?
- 6** What is your asking price? Will you negotiate with me over the price of this vehicle as well as the prices for an extended service contract, GAP policy, insurance products or other items you offer for sale?
- 7** What does a current Black Book (not Blue Book) state as the value of this vehicle in "average" condition? If your dealership believes the vehicle is in better than average condition, please explain why.

- 8 Are arbitration clauses included in your Buyer's Order, Retail Installment Contract or in any add-on product documents? Will you agree to delete the arbitration clauses?
- 9 If you arrange my loan, will you give me the lowest interest rate you are quoted or will you mark up the interest rate? Is so, by what amount?
- 10 Do you agree to not send my financial application to more than one financing source without obtaining my prior consent? (Frequent requests for financing spread out over several months—three in February, four in April, etc.—show up in your credit history and can lower your credit score and make it harder for you to get a good interest rate.)
- 11 Will you provide me with a fully completed (no areas left blank) copy of the Retail Installment Contract so that I may review it and shop at other dealerships?
- 12 Was this car previously repossessed?
- 13 Was this car previously used for commercial purposes—that is, was it used for short-term rentals, as a taxi, police car, as a demonstrator, or was it registered to a business?
- 14 Will you check and inform me whether this used vehicle is on the government's list of salvage and flood damaged cars at www.nmvts.gov?
- 15 Will you provide me Autocheck and Carfax Vehicle History Reports for this vehicle? (Look these over before negotiating.)
- 16 Will you let me take this vehicle to have it inspected by my mechanic?

continued...

MCRC's 20 Questions to Ask Your Auto Dealer

- 17 Has this vehicle passed the Maryland State Safety Inspection within the past 60 days?
- 18 Are there any safety recalls that have not been performed?
- 19 Do you have the title to the vehicle in your possession? Will you show me the title today before I buy the vehicle?
- 20 Do your documents make financing contingent on approval of a bank or other third party? If the answer is yes, MCRC recommends you tell the dealer you will not take delivery of the vehicle until you are notified in writing that the financing contingency has been waived and that the vehicle truly belongs to you.



This booklet is a public service of the Maryland Consumer Rights Coalition, www.marylandconsumers.org. It is not and shall not be considered legal advice. Consult an attorney if you have any legal questions about vehicle purchase, financing, warranty or legal rights. While this booklet refers to possible sources of information about vehicles or auto financing, MCRC does not endorse or vouch for these sources.



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