

# DO'S AND DON'TS FOR BUYING A USED CAR

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## **PREPARATION (LOAN)**

If you are buying on credit, then remember that in shopping for a car you are shopping for two things: a car and a loan.

- A. Get your credit report and clean it up. You are entitled to one free report each year from each of the three major credit reporting bureaus. Visit the FTC web site for the most reliable information: <http://www.ftc.gov/bcp/online/pubs/credit/freereports.htm>. To obtain reports, I prefer calling the toll free number (1-877-322-8228) which enables you to ask for all three at one time. When you receive your credit reports, review them carefully. There will be instructions as to how to dispute any errors found. Errors have a negative impact on your credit score which will increase the interest rate you are charged when you borrow money.
- B. See if you can join a Credit Union. You may already be eligible. You may be in a group which could become eligible.
- C. Apply for a loan at a Credit Union or Bank and get pre-approved. Then you know your loan interest rate and can shop and compare with others or what the dealer offers you.
- D. Know what price range of car you can afford: Use a loan calculator on the Internet. These will calculate the price of the car you can afford when you input a down payment, a monthly payment amount, the number of months, and an interest rate. Generally, do not assume you can pay more than 18% of your monthly income for a car payment. And if you have applied at a Credit Union or a Bank, they can help you with this step.

Remember, the cost of credit is important. By making a \$500 down payment and paying \$200 per month for 36 months, at a 10% rate of interest you will be able to afford a car that costs \$6,700; but at a 30% rate of interest, you will only be able to afford a car that costs \$5,200.

## **PREPARATION (CAR)**

- A. Now that you know how much you can afford to borrow (and pay back!), pick a good bet for a used car in your price range: Find a copy of Consumer Reports magazine's most recent

annual auto issue published each April. The magazine publishes a section of good bets in used cars in various price ranges. For a fee, you can subscribe online at [www.consumerreports.com](http://www.consumerreports.com) and the site also has free advice on buying a car.

- B. Obtain used car values at Kelley Blue Book ([www.kbb.com](http://www.kbb.com)) or Edmund's ([www.edmunds.com](http://www.edmunds.com)). They will tell you the wholesale and retail value of any car. You will want to pay less than retail value and hopefully something closer to wholesale value.

## SHOPPING FOR THE CAR

- A. Now that you have this information, you can go shopping for the car(s) you selected. If you don't have to rely on a dealer for financing, look on the internet for cars listed in your zip code to see if you can buy from an individual. Generally, you might get a better deal. But sometimes you can find a good deal at a used car lot too.

- B. If you go to a car lot:

1. Be friendly, but always firm and assertive. The salesperson can be sizing you up to see how much he/she can get away with. Most people want to be liked and are "go along, get along" kind of people. A car dealership is NOT the place to display your easy going personality. For example:

- \* Salesperson may say something like: "If we can find you a deal on a car you like, will you buy today?" Be firm: "I'm looking. I'm not ready to make a commitment until I know more."
- \* Salesperson may say it is dealership policy to take a copy of your driver's license before you can test drive any car. OK, but you don't want your license to leave your presence (SS # can be derived from NV driver's license #, which means they can access your credit report without your permission, a violation of law but has been known to occur). Also, if someone walks away with your driver's license, it can be "misplaced" when you want to leave, thereby keeping you hostage. Also, you want the photocopy of your license returned if you don't buy.
- \* Salesperson may try to feel you out on how much you can pay per month. NEVER negotiate this way. Salespersons call monthly payment buyers "low flying ducks." Just say, the monthly payment will depend upon the price of the car, the interest rate, and the length of the loan, none of which we know yet. If he/she persists, and says, "well, how much can you spend on a car in your monthly budget," just politely say, "my monthly budget is none of your business." Negotiate the price of the car, not a monthly payment.
- \* If you have a trade in vehicle (and we'll talk about the wisdom of that later),

don't let the keys and the car leave your presence. Ride along with the used car appraiser. It will only take 5 minutes. (The keys to your trade in vehicle can be "misplaced" when you want to leave, thereby keeping you hostage).

These are examples of being friendly but firm, letting the salesperson know you can't be walked on. If you are not an assertive person, take along a friend or family member. In fact, it is best to take someone along anyway.

2. At the beginning of the process, ask if the dealer requires its customers to sign a mandatory, pre-dispute binding arbitration agreement. These typically require you to give up your right to resolve any possible future dispute in court, give up remedies and other consumer protections, and may require you to pay substantial sums to the arbitrator to decide any dispute. The salesperson may be trained to claim ignorance. Insist on an answer before proceeding. If the salesperson admits that you are required to sign a arbitration agreement to purchase a car, then consider whether you want to buy a car from a dealer which wants to take away your rights. You can always go to another dealer.
3. NEVER sign a credit application or give permission to pull your credit report until you have made a deal and have decided you want to see what terms of credit the dealer has to offer. Also, NEVER SIGN ANYTHING IN BLANK. A typical credit application is attached at p. 7.
4. Don't get steered into a car you don't know anything about. If a car you were not considering looks interesting, go back to check Consumer Reports and Kelley Blue Book. Any deal good today will be good tomorrow.
5. Ask if you can talk to the previous owner. Get as much history of the car as you can. Ask the dealer what it knows of the history of the car. Also, if you happen to be at a franchised auto dealership and are interested in buying a used car of that brand (e.g., you are at a Ford dealership looking at a used Ford), then ask for the service department's computer printout of the service performed on that car. Ask if they will pull a Carfax or other vehicle report. But understand Carfax does NOT show the vehicle's complete history. An inspection by a trained individual is the best indication of the car's condition.
6. Ask to see the title (a specimen title is attached at pp. 8-9). Nevada law, NAC 482.2695(1)(d) (attached at p. 10) provides if the dealer is not using the title to transfer ownership, then it must provide the buyer the opportunity to see the title or a photocopy of the title. There can be a lot of good information on the title.
7. Ask to see the original mileage disclosure made by the previous owner. This must either be on the title or on a document called a "Secure Power of Attorney" (attached at p. 11).

8. For every car with 75,000 miles or more, the dealer is required to conduct a reasonably thorough inspection of the soundness and safety of the engine and drivetrain and disclose in writing any defects in the engine or drivetrain known to him or which he reasonably should know after he conducts the inspection. Ask for the disclosure of defects. If the dealer says none were found, ask if you can see the inspection report (one is attached at p. 12).
9. Ask if you are permitted to have the car inspected by an independent mechanic (many will do this for around \$100). If not, I would walk out.
10. Be absolutely clear about the terms of any warranty, and get it in writing. If the dealer provides a standard warranty, ask to see it and read it before you sign a contract. If they won't show it to you, I would walk out. The FTC "Buyer's Guide," which must be affixed to the car (attached at p. 13) states whether the sale is "AS-IS" or with a warranty.
11. You should do all the things listed above BEFORE you negotiate a price for the vehicle you are considering. Now start dickering. Some dealers will make this process take hours if you let them. They want to both wear you down and make you feel like you have invested so much into the process that you will go through with it when they hatch surprises on you at the signing of the contract. Don't let them get away with it. You are free to walk out (if you haven't given them your driver's license and/or keys to your trade in!). If you are getting tired, tell the salesperson you will complete the negotiations by phone and return if a deal can be made. That will get their attention because they don't want you to leave.
12. When discussing a price, always negotiate a bottom line, out-the-door price plus tax, with no other extra charges. If you and the salesperson agree on a price, warn the salesperson you will not pay any additional charges and will walk out if any additional charges appear on the contract (which is typically later prepared by the Finance and Insurance Manager). Documentary ("doc") fees are negotiable and are additional dealer profit. Some dealers charge as much as \$599 and automatically add this to the contract. If the salesperson says a doc fee will be on the contract and is not negotiable, then ask what the amount of the doc fee will be and adjust what you are willing to pay for the car accordingly. Vehicle Theft Registration ("VTR") or Theft Protection Package ("TPP") (the names of these products change from time to time) is window etch, a virtually worthless product, for which dealers charge \$199 or more and which some dealers automatically add to the contract. There are other such "packs," as dealers call them. Tell the salesperson you do not want these add on products, will not pay for them, and will not sign a contract which contains such charges. Be firm. A Nevada car sales contract is attached at pp. 14-15).
13. If, while you are negotiating a price, you have not yet had the car inspected, tell the salesperson your offer is contingent on the car passing inspection. The last time I purchased a used car from a dealer, I test drove the car, then I orally negotiated the price (which I did by phone and fax), then I had the car inspected, and then I returned

- to sign the contract. If something is found in the inspection which does not cause you to change your mind about wanting the car but which is an unanticipated expense, you can use that information to negotiate a lower price.
14. Read the documents you are asked to sign. We have seen some dealers actually prepare and have the customer sign a lease instead of a sales contract.
  15. Anything the dealer or salesperson orally promised to fix on the car must be in writing. Almost all dealers put these promises on a "Due Bill" (attached at p. 16). Make sure anything promised is on the Due Bill, signed by a Manager, and that you have a copy. If it is not on the Due Bill, then it will never be done.
  16. Extended service contracts are often not a good deal, can be purchased elsewhere, and are routinely marked up 50% or more by a dealer.
  17. If you are making a small down payment you may wish to consider "GAP protection" to cover the risk of owing more than your insurance company may pay if your car is stolen or totaled. Historically this protection was offered in the form of "GAP insurance" sold either at the time you purchased a car or separately through an insurance agent. A GAP insurance company would pay the difference between the amount owed and the amount received if the car was lost or stolen. Effective October 2015, the Nevada Legislature has authorized the selling of "GAP waivers" where a creditor will forgive the remaining loan balance to cover that same difference. Check pricing and terms with your own insurance company or lender prior to agreeing to purchase GAP insurance or a gap waiver from a car dealer/creditor.
  18. Credit life and disability insurance is not a good deal and can be purchased elsewhere, often for half of what a dealer charges. If you want this protection, call your insurance agent.
  19. Make sure the documents state the deal you negotiated, including the price and the annual percentage rate (APR) if the dealer is providing credit. If not, WALK OUT.
  20. If you are buying the car on credit, the contract contains the federal Truth in Lending Act (TILA) disclosures. When you are handed the completed contract, you are entitled to walk out with those disclosures before you sign the contract (so you can shop and compare terms of credit). So, if for any reason you have any misgivings whatsoever about the transaction, walk out with your TILA copy of the contract and sleep on it.
  21. If you have decided to buy the car on credit from the dealer (rather than obtaining a loan from a credit union or bank), be aware that if you sign the "Notice of Rescission Rights (Option to Cancel)" on the front of the contract, then the back of the contract gives the dealer a 20 day period to cancel the deal. If I were in that situation, I personally would not (1) take possession of the car being purchased, and (2) give the

dealer possession of my trade-in vehicle or sign over its title, unless and until that 20 day period had expired or that clause was crossed out of the contract and initialed by the dealer. Tell the dealer to call you when the deal is truly “final.” Otherwise, you can be “yo-yo’d,” although today that is more difficult for the dealer (see Disclosure Form, attached at pp. 17-18).

22. I would try not to drive away the car being purchased, and try not to leave the trade-in car, unless the car's title document has been signed over. I say “try” because many dealers use a “Dealer’s Reassignment of Title” (attached at p. 19) rather than the title to transfer ownership at the time of sale. In my opinion, either the title or the “Secure Power of Attorney” is the only official place where the mileage of the car may lawfully be disclosed to you, under the rationale that you will be able to see the mileage disclosure made by the previous owner on that document, which is printed by means of a secure printing process for security reasons. Remember, you know Nevada law, NAC 482.2695(1)(d), provides if the dealer is not using the title to transfer ownership, then it must provide the buyer the opportunity to see the title or a photocopy of the title, so ask to see it. The mileage disclosure, signed by the previous owner, must be on the title or on the “Secure Power of Attorney.” No blanks are allowed. If you are allowed to see one of them, study this document carefully and make sure it states the mileage you believe the car has. Make sure there are no erasures or alterations of any kind. Unless you ask, many dealers will simply make mileage disclosure to you on the “Dealer’s Reassignment of Title.”

**MAKE CERTAIN YOU ASK FOR A COPY OF WHATEVER DOCUMENT IS USED TO MAKE MILEAGE DISCLOSURE TO YOU.** Otherwise, you have no way to prove a subsequent alteration.

If you are buying the car on credit from the dealer or have obtained a loan to purchase the car, after obtaining your signature on the “Secure Power of Attorney” or the title, the dealer will send it to DMV for processing to have your name and the lien holder’s name put on the title. The lien holder will end up in possession of the title until the car is paid off.

If you are paying for the car with cash or certified check, the dealer should sign over title to you in a hand-to-hand exchange. If the dealer does not have the title, you have no proof that the dealer even owns or has the right to sell you the car.

Nevada law provides for these events at these times:

Day 0	Contract signed (car “sold”). Dealer places 30 day placard on car. Dealer must provide smog inspection under Nevada law.
Day 20	Deadline for dealer to cancel sale if dealer providing credit.
Day 20	Deadline for dealer to provide buyer with green copy of Dealer’s Report of Sale (“green slip”) (attached at p. 20) (or do so electronically to DMV) so that buyer can register car and obtain plates.
Day 30	30 day placard expires.

## **TRADE-IN VEHICLE**

You can almost always sell your trade-in vehicle privately for more than a dealer will give you. The dealer will play with the numbers by jacking up the sales price of the vehicle you are purchasing to cover an inflated amount the dealer says it is giving you for your trade in. I always negotiate the price of the vehicle I want to buy without mentioning any trade-in. When that is done, I then ask, for the first time, what the dealer will give for the trade-in. The last time I did that, the dealer said it would only give \$500 for my trade-in. I sold that car privately for \$3,200.

## **OTHER**

For your information, I have attached a specimen of a Nevada Salvage Title (pp. 21-22) as well as information on decoding a Vehicle Identification Number (p. 23).