Buying a New Vehicle

Shopping for a new car can be an overwhelming task. A new vehicle purchase is considered the second most expensive purchase for consumers after a home. It is important that consumers thoroughly research a new car before making a purchase. Consumers can protect themselves from making hasty decisions and being pressured by dealers by doing their homework and obtaining as much information as possible about the vehicle before visiting the dealership.

The Invoice Price

The invoice price is the manufacturer's charge to the dealer. Dealers can sell cars at or below the invoice price and still make a profit. Check publications at a library, at a bookstore, or on the Internet such as www.edmunds.com or www.kelleybluebook.com to obtain the invoice price for specific models. If freight is already included in the invoice price, make sure freight is not added again to the sales contract. The invoice price should be your starting point from which you determine what to pay for the car.

Check for Rebates

It is important for new car purchasers to deduct from the invoice price all rebates that they are qualified to receive. Check the newspaper or Internet sources such as www.kelleybluebook.com or www.edmunds.com for current rebates. Some rebates may not be available if a consumer chooses a manufacturer's special financing rate. Additionally, special manufacturer financing may only be available to consumers with good credit.

To determine if it is better to take a manufacturer's rebate or special low financing, consumers should compare the cost of purchasing a car reduced by the rebate and financed through an outside lender with the cost of purchasing the vehicle without the rebates but with the manufacturer's special financing. Calculators, available on the Internet at sites such as www.bankrate.com/brm/calculators/autos.asp can help assist consumers in determining whether to choose a manufacturer's rebate or special financing.

The Monroney Sticker Price

Consumers should not purchase the car based on the sticker price affixed to the car at the dealership. Rather, consumers should negotiate up from the invoice price. The Monroney Sticker Price shows the manufacturer's suggested retail price (MSRP), the base price, the manufacturer's installed options with the manufacturer's transportation charge, and the fuel economy mileage. The MSRP is required by federal law and is affixed to the vehicle.

Supplemental Sticker–Take Caution

Sometimes dealers will put a supplemental sticker next to the Monroney Sticker on a new car. This supplemental sticker includes additional options that the dealer has installed. Consumers may not want to purchase these options, as their prices may be highly inflated and profitable for the dealer.

Know What You Should Pay

Consumers should do their homework before negotiating the price with the dealer. Consumers should always go into the dealership knowing the invoice price for the specific model and options they are seeking to purchase. Knowing the invoice price, minus any applicable rebates, gives consumers a starting point from which to begin negotiations. Consumers can find out the car invoice cost by researching publications through a variety of sources. Check publications at a library, at a bookstore, or on Internet sites such as www.edmunds.com or www.kelleybluebook.com to obtain the invoice cost for specific models and options.

Get a Copy of Your Credit Report and Shop Around for Financing
If a consumer is planning on financing their new car purchase, they should obtain a copy of their credit report from one of the three credit reporting agencies before they begin shopping for a vehicle.[1] Consumers should then take the time to shop for the lowest finance source. To obtain the lowest financing source, consumers should obtain financing quotes from their local banks, credit unions, and Internet sites such as www.bankrate.com.

By obtaining their credit report and shopping for the lowest financing source, consumers will protect themselves from being charged an unreasonable and unnecessarily high interest rate when purchasing a new car. Vehicle purchasers have every right to finance a new car with a lender that is not associated with the dealership.

Dealer-Arranged Financing–Get the "Buy Rate"
When a dealer arranges car financing for a consumer with a bank or other credit provider, the interest rate charged to the consumer will often include a payment to the dealer. This payment to the dealer comes at the expense of the consumer. The lender quotes the dealer the lowest interest rate the buyer qualifies for, which is commonly referred to as the "buy rate," and the dealer quotes a higher rate to the buyer. The difference between the dealer- offered rate and the "buy rate" is called the "yield spread premium."

Some dealers never disclose to consumers the "buy rate" or the amount of money the dealership is making for arranging financing ("yield spread premium"). If you finance through the dealer, you want the "buy rate." **Ask the dealership to disclose to you, in writing, both the "buy rate" and the "yield spread premium."**

Consumers should compare financing quotes from the dealer with quotes from their local banks, credit unions, and the Internet, and choose the lowest annual percentage rate.

Taxes, Title, and Doc Fees
Under Illinois law, a dealer may add to the contract a "documentary fee" for processing documents and performing services relating to the closing of the sale, as well as taxes, license, and title fees. However, the documentary fee is illegal if it exceeds $300.00[2]. Consumers should read all documents carefully to protect their money and avoid paying more than is necessary for a new vehicle.

Trade-In
The first thing a dealer may ask a new car purchaser is if he or she is trading in an old vehicle for a new one. **Consumers should not discuss the trade-in of their vehicle until after the purchase price of the new car is finalized.** It is extremely important to keep the trade out of the new car purchase negotiation.

Learn the value of your trade-in vehicle before you go to the dealership. Check with lending institutions or on Internet sites such as www.kelleybluebook.com or www.edmunds.com.

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[1] Information on how to obtain a credit report can be obtained from the Illinois Attorney General's fact sheet, *Credit Reporting*, at https://illinoisattorneygeneral.gov/Page-Attachments/FreeCreditReport.pdf.
[2] As of January 1, 2020. Adjusted annually by the Consumer Price Index.

Some dealerships want their purchasers to believe that they are getting more for their trade-in vehicle. Therefore, the dealer may inflate the trade-in price. However, the dealer may also inflate the purchase price. This practice is commonly referred to as the "double bump." This is especially likely to happen when you owe more money on your trade-in than it is worth and the dealer is attempting to demonstrate to a lender an equity that does not exist. The result is that you will be deeper in debt.

Consumers who owe money on their trade-in vehicles should follow up with the dealer to make sure the trade-in vehicle loan is promptly paid off. Consumers are responsible for the trade-in vehicle loan until it is paid off by the dealership.

After the Sale

After consumers have negotiated the sale price of the purchased vehicle, dealerships will attempt to sell products and options such as rust proofing, scotch guard, gap insurance, credit life and disability insurance, pin striping, window etching, and floor mats. These extra options are usually highly inflated to maximize dealer profit and may not be advisable for purchase. **If a dealer informs you that a bank or lending institution is requiring purchase of any of these "after sale" products, ask the dealership to put this demand in writing.**

Extended Service Contract

A service contract or extended service contract may be offered to the purchaser to provide for the repair of certain parts or problems. These contracts are offered by manufacturers, dealers, or independent companies and may or may not provide coverage beyond the manufacturer's warranty. Keep in mind that a manufacturer's warranty is included in the price of the car, but a service contract costs extra.

An important factor in the decision to purchase a service contract is the length of time you plan to keep the vehicle. For instance, if you already have a three-year warranty on the car and you plan to keep the car for three years, a service contract is unnecessary and will cost you extra money. Do your homework and know exactly what you want in a vehicle to avoid being haggled by the dealer.

Extended service contracts are a high-profit item for the dealer. For example, an extended service contract may cost the purchaser $1,500; however, it might cost the dealer only $500. Like other products at the dealership, extended service contracts may be negotiable—ask the dealer for their cost and negotiate.

Spot Delivery

Consumers utilizing dealer-arranged financing should not sign a financing contract or take possession of a vehicle if there is any doubt concerning the approval of the lender. In a practice known as "spot delivery," dealers agree to take a down payment and allow the buyer to take the car home before financing is finalized. Before executing a financial contract and taking possession of the purchased vehicle, consumers should demand that the dealership put in writing that the financing from the dealer-arranged lender is finalized.

A common example of spot delivery is a situation in which a consumer decides to purchase a particular car for $8,000 after paying a $500 down payment and giving a trade-in. The dealer lets the purchaser take the car home, while making the purchaser believe that a loan at an interest rate of 11% is attainable. After the purchaser drives the car for a few days, the dealer tells the purchaser that he or she must bring the car back because the financing could not be approved for 11%. Instead, the dealer claims that the lender will only finance the car at a rate higher than 11%, such as 16%. The consumer can and should bring the car back and walk away with their deposit and trade-in with no obligation. Instead, the psychological effect this practice has on purchasers makes them think they are obligated to put more money down, find a cosigner for the vehicle, or find another car, when in fact there is no obligation to do any of these things.

Consumers should be aware that, under Illinois law, if the purchase of a vehicle is conditioned on the purchaser having an acceptable credit rating to the dealer and the dealer can not obtain financing for the consumer at the contracted terms, the dealer must return to the purchaser any down payment or trade-in under the contract. **Consumers do not have to bring additional money for the down payment, pay a higher interest rate, or find a cosigner.** If the dealership does not secure financing at the contract terms, Illinois law requires consumers to return the car to the dealership and requires the dealer to return to the consumer their down payment and trade-in.

No Three-Day Right to Cancel

Dealers are not required by law to give car buyers a three-day right to cancel. The right to return the car in a few days for a refund exists only if financing is not approved. However, some dealers may, by contract, offer a right to cancel.

Please visit
www.IllinoisAttorneyGeneral.gov

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