



# Auto Buying Guide

## Introduction

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In the U.S., the price on the item is the price you pay for almost everything you buy. Sure you might get a discount if it's on sale or you have coupons, but you don't have to negotiate to figure out what it will cost you.

That's not true with cars. Almost everything about the deal is open to negotiation including the price, the trade-in value, the fees, and the extras. Even at "no haggle" dealerships, there can be haggling over your trade-in. If you do your homework and are good at haggling, you'll pay a lower price. If not, you are at a disadvantage and you'll pay more.

- Did you know a dealer or on-line auto service can sell or lease you a new car for exactly what the seller paid the manufacturer and still make \$500 to \$1,500 on just the car itself?
- Did you know that 0% financing might cost you more than financing at a bank or credit union – even if the bank or credit union's rate is as high as 6%?
- Are you intimidated by the auto buying process? Are you not sure whether you got a good deal?
- Do you think the web has made it safer for you to research or buy a new vehicle?

The **StreetWise Auto Buying Guide** is just for you and it works. If you follow this guide, you can typically save hundreds if not thousands of dollars on your next vehicle purchase. Thousands of DCU members have used these techniques for years and have been very happy with the results. Many have said it seemed like they were reading from the salesperson's script.

This program can be the antidote for the pressure and confusion many of us feel when buying a car. It gives you straight answers. For instance, if you come to us with a financing offer and we can't beat it, we'll tell you so.

**We can make that promise because our goals are different than the other players in the auto industry.** A dealer and their financing sources have three objectives – sell you their product or service, sell it to you at the maximum price you will pay, and make you believe you got a great deal in the process. Our job, on the other hand, is to help you buy what's best for you for as little as possible.

DCU's vision is that **All members achieve their financial goals.** You own your credit union. We exist to serve you and make your financial life better. If we achieve our vision with you, we believe you will bring more of your financial business to us. When you do, not only do you benefit, it brings us more resources to help even more members and bring new and improved services to everyone.

**Okay – let's get started.**

## The Most Powerful Tool You Have

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### You Can Always Walk Away

It's important to remember that most dealers compensate their people on commission. First of all, this means the salesperson only gets paid when they sell the car. Second, the more you pay above vehicle cost, the more they make. Third, the finance guy makes money when you buy extras or finance through the dealership.

You can't blame dealership employees for wanting to earn more money. Doesn't everybody? But you need to understand how that can influence their behavior.

Remember – no sale, no commission.

Because their number one objective is to make the sale, you are in a powerful negotiating position because you can walk away and go elsewhere at any time during the buying process. And the more time a salesperson or finance person has spent with you, the more powerful your willingness to leave becomes. They've invested their valuable selling time in you and if you walk, it was wasted.

If you don't feel you are making progress in the negotiations, often all you need to do is stand up, put on your coat, and politely but firmly explain you are leaving for a competing dealer. That is often enough to cause a change in attitude. Some members have had salespeople chase them across the parking lot to get them back or even call them at home later.

Remember, you are the one with the money and you have options.

The way salespeople are compensated also means you should rely on your own independent research to make sure the make, model, and model year of car you want is likely to be safe and mechanically sound. You should do that research before you shop.

### About auto advertising

Selling cars is big business. Auto manufacturers advertise frequently to introduce new vehicles and may also promote special manufacturer financing or leasing offers. Dealers advertise every day on television, on the radio, in newspapers, online, and by mail. Naturally the purpose of advertising is to interest you enough in a car to visit the dealership or at least call or visit their web site.

Dealer ads may promise low payments, sale prices, top dollar for your trade, rebates, and special financing offers. Some mail pieces include simulated checks payable only at the dealership. These promises often come with conditions and restrictions that may not be spelled out fully in the ad. Be a smart, wary consumer. Remember that just because a vehicle appears in an ad doesn't necessarily mean the price is reduced.

### About auto dealerships

As with most for-profit businesses in the community, car dealerships exist to make a return for their owners by providing valuable products and services for their customers. Most dealers understand satisfied customers are essential if their business is to survive and grow. The longevity of many dealerships is testimony to that. Dealers can earn money from everything they sell. That includes cars, add-ons, and financing. Some dealers have told us they actually earn more profit from their service departments than from selling cars. Just remember you can shop around for everything a dealer provides to make sure you get a fair price for what you buy.

It is true there will always be a minority of dealerships, salespeople, and finance people that attempt to take advantage of their customers or worse. They give the whole industry a bad name. Unfortunately, it is often hard for consumers to tell the difference. Fortunately by following the *StreetWise Auto Buying Guide*, your chances of getting taken by bad actors are far less.

## Auto Buying the *StreetWise* Way

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### Many negotiations – not one

Buying a car isn't one negotiation – it's many. It's your trade, the new car you're buying, the financing – and the newest, most popular profit center – warranties, protection packages, alarm systems, and other add-ons.

If you don't know what you're doing, you can save money in one area and pay too much in the other. That's why dealers can sell cars for "no profit" and still make thousands on you. And that's why you need to pay very close attention to the right steps.

### The right way, step by step

If you really want to save money and still like your car after the fourth payment, you'll have to look at the car-buying transaction in a new way. Most people find a car and adjust their budget to fit that car's payment. That's the wrong way, and usually means you spend money on car payments you should have invested or spent on more important things.

The *StreetWise* approach doesn't start with the car at all. It starts with your budget. *StreetWise* also encourages you slow down rather than speed up. Emotions in car buying should come after you've done it right.

And we define "right" as saving money and buying the right car, too. Doing it this way can literally keep thousands of dollars in your pocket. So, throw out the conventional thinking and take and consider this:

1. **All cars are bought for cash. No cars are bought with trade-ins or payments.** Trade-ins and payments only provide you cash. And right now, based upon your budget and your old car, you have an exact amount of cash available to you to buy a new car. That amount of money is called **Available Cash**, and it's made up of all the cash you have available to buy a car. For instance, the payment you can afford to make buys you cash. That's called *loan cash*. Your trade-in may give you cash. That's called *equity*. Plus there is any cash you have saved that you plan to put toward a down payment.
2. **What's your Available Cash figure?** That's easy to determine. In a minute, we're going to give you information to help you determine that.
3. **But, first think about what you can really afford to pay each month on a vehicle.** Do you want to pay more than you're paying now? Would it make your life easier if you had a lower payment? You decide. If you want a good guideline, most people should keep their car payment below 15% of the monthly gross pay. That can vary greatly depending on your personal financial situation and the size of your other monthly expenses.
4. **What would be a sensible payment for you?** Jot that on a piece of paper.
5. **How many months should you finance?** DCU will finance your car, truck, or van for up to 84 months (longer for boats and recreational vehicles). Financing longer means lower monthly payments, but you're paying vastly more money in interest, and may owe money on your vehicle for years after its useful life is over.

Finance for the fewest months that will fit your budget, and you actually can buy more vehicle. For instance, the difference on a \$20,000 loan financed for 60 instead of 72 months is only about

\$1.90 a day.\* Pay the higher payment, finance for 60 months, and, in this example, you'll save about \$1,560 in interest. And wouldn't it be nice not to have car payments for that sixth year?

\* Assumes a 5.0% APR on the 60-month loan and a 6.0% APR on the 72-month loan.

6. **Now, think about your trade-in.** We're going to give you an easy way to get a rough idea of your trade-in's wholesale value (what a dealer or buying service should give you for it.) Use that for now to get a rough idea of your Available Cash amount.

## Chapter 3

# Available Cash Calculator

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This information is designed to help you determine the maximum amount you have available to spend on a car and the estimated loan amount to reach that number. Fill in the information requested.

If the amount of **Available Cash** seems too small for the kind of car you would like to purchase, try extending the term. The same payment over a longer term will typically result in a higher initial loan amount, increasing your **Available Cash**. Or you may want to consider alternative vehicles that better fit your budget. To estimate the value of your trade, visit the CUDL AutoSmart, NADA Guides or the Edmunds web sites. Current rates and terms for DCU Vehicle Loans are available on our rates page at [dcu.org](http://dcu.org).

There are two ways to determine your personal **Available Cash**.

1. You can go to our web site and use the **Available Cash** calculator on the **StreetWise Auto Buying Guide**.
2. Or you can simply fill in the blanks right here and call the DCU Information Center at 800.328.8798 between 8:00 am and 9:00 pm weekdays and 9:00 am to 3:00 pm Saturdays, Eastern Time. We'll tell you your **Available Cash** figure, no obligation!

## Available Cash Calculator

Trade-in value	\$
Amount you owe on your trade-in	\$
Down payment	\$
Monthly loan payment you can afford	\$
Loan term (in months)	
Interest rate (Annual Percentage Rate)	%
<b>Loan Cash</b>	\$
<b>Available Cash</b>	\$

These numbers are for informational purposes. They give you a reasonably accurate Available Cash figure you can use to shop. Results for your actual loan will vary based on your final rate and loan amount.

## Excellent! Your Available Cash figure rules!

To stay within your budget, **Available Cash** is all the money you have in your car buying account. That's all the money you have to pay for everything – cost of car, taxes, title, taxes, registration, insurance – everything. Don't exceed your budget.

## Research – Then Shop

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Now, let's do a little research before you go shopping. Once you know how much **Available Cash** you have, you next need to know the hard facts about vehicles that fit your **Available Cash** figure. For instance...

- What vehicles with the features you want fit your budget?
- What do these cars cost the dealers?
- What is their safety record?
- What about the mechanical reliability of the various models? What about maintenance costs?
- Insurance costs?

Several sites can help you get answers to some of these questions. The CUDL AutoSmart and Edmunds web sites have much of this information. Remember that Edmunds is paid for by auto dealers that participate with their sales program, so be careful. NADA Guides can help you price used vehicles. Simply do research at this point and don't buy! When you've done your research, come back here for some very serious buying tips.

The ConsumerReports.org™ web site provides independent test results of most vehicles. There is a subscription fee to access information. You should also visit The Center for Auto Safety web site to check the safety record of cars you're considering. It's free.

### After doing your Research, it's time to shop for the one vehicle you like!

Your first visit to a dealership or web site poses the maximum danger to your pocketbook. Those new cars look so good. And you've waited so long. So put your emotions aside. Be wary. Slow down. Save the emotions for the moment you finally drive away in your shiny new car on budget for a change. With an extra thousand dollars or two in your pocket. Now that's something to get excited about!

### A *StreetWise* Tip: if you're buying used...

Buying used is one of the smartest things you can do because you'll pay less over all. Plus someone else gets to pay for that big drop in value when a new car leaves the lot for the first time. But buying used can also be expensive when people don't understand the specific problems used-car buyers face – on the web or at a dealership. For instance, did you know some dealers and on-line lenders charge you as much as *20% interest* on loans for three year-old cars?

Our rates are always far less because our loan rates for used cars are the same as for new. We don't think you should pay more just because you prefer a used car. Here's an example of the difference...

<b>Used Car Financing</b>	<b>DCU</b>	<b>Other Lender</b>	<b>Savings</b>
Loan Amount	\$24,000	\$24,000	
Loan Term	48-months	48-months	
Annual Percentage Rate*	5%	9%	4%
Estimated Monthly Payment	\$454	\$498	\$44
Total Interest	\$3,172	\$5,888	\$2,716

\* Actual DCU rates are determined by your credit history and are subject to change.

That's why, as a used-car buyer, you need more information than a new-car buyer. So what should you do? Finish reading this guide, even though it deals primarily with new vehicles. The information here is priceless. And then, after reading the rest of this, go to the online ***StreetWise Used Car*** section on the DCU web site.

## At the Dealership

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### Some Simple Rules to Remember:

1. **Narrow your choice to one or two models or makes before setting foot on a car lot.**

Why? Trying to think about a big list will do nothing but confuse you.

2. **Choose two nearby dealerships that carry the vehicle you like.**

If you've done your homework, where you buy isn't important as long as the dealership is reputable.

3. **Find only one car at each dealership.**

Again, more cars mean more confusion.

4. **Take control of the transaction.**

Tell the salesperson you are not buying a car today under any circumstances, but you will buy soon. Today you are just shopping and fact finding. Check the car out. Take a test drive. But be firm and don't let the salesperson lead you into any discussion of buying today. If you start to feel pressure or confusion, leave immediately.

5. **Copy all the information from the Manufacturer's Suggested Retail Price sticker before leaving the dealership (MSRP, not the dealer's sticker).**

The MSRP is the lowest priced sticker. Copy the base price of the car, the price and name/code of its options, and anything else listed on the manufacturer's sticker. For now, ignore the dealer's sticker. It contains hugely inflated profits.

NOTE: Pickup trucks, and full-size conversion vans, are not required by law to have an MSRP. So the price sticker on the window may be any figure the dealer wishes. Trucks and vans, however, have a specific cost. Copy down the stock number, the base vehicle and option codes, and prices for the truck or van you've picked. You can find cost information on trucks and vans through the CUDL AutoSmart, Edmunds, and NADA Guides web sites.

6. **Compute the dealer's invoice cost – A very important step.**

Why? Dealers want you to negotiate down from their inflated asking price, a very expensive way to negotiate. The **StreetWise** approach negotiates up from what a dealer paid for the one car you like. Don't ever think in terms of percentage discounts off dealer asking price. Don't ever think "sale" price. Know what the dealer paid for the car you like and negotiate up from that. It is hard to nail down the true dealer cost. The CUDL AutoSmart and Edmunds sites might help you estimate it and find out about rebate and incentives available.

7. **Check to see if the car will fit your Available Cash.**

It's the moment of truth. After you pay for the car, and give the dealer a profit, and pay tax and other charges, will you still be in budget? We have a simple worksheet to help you determine this, but first decide how much profit you want to pay a dealer, the last variable in the transaction.

What's a fair profit? You have a perfect right to pay all the profit you want. But if your objective is to pay the least profit a dealer will take for the car, you'll need to start negotiating up from what the dealer paid the manufacturer for the car. That figure usually includes *hidden* dealer profit. And at times, a dealership will be happy to accept cost rather than lose a sale. The only way to

know whether a dealer will do so is to offer that figure and stick to it for a while. But if starting at zero bothers you, add any figure you'd like as a profit figure.

### The StreetWise Buyer's Fact Sheet

All that information you've gathered is going to pay off. Here is where you determine how much you can offer for that car you like. **Use only whole positive numbers – no commas, decimals, or negative numbers.**

Enter the <b>cost of the car and options</b> :		\$
Enter <b>transportation charge</b> (copied from the window):		\$
Enter the total <b>registration fees, taxes, title</b> (The salesperson can give you this information):	+	\$
This is what the car actually costs the dealer:	=	\$
Enter the <b>profit</b> you want to pay:	+	\$
This is your <b>maximum offer</b> :	=	\$

### One Other Piece of Important Information

If you're planning to trade your car in, your old car's wholesale value is already included in your **Available Cash** figure. You've, in essence, already turned it into cash. But dealerships don't talk about the transaction like we do. They say "Okay, what you owe us is X dollars and your old car." That dollar figure is called the **difference figure**, and you should figure it right now for the car you like.

Enter your trade-in's <b>wholesale value</b> – the trade-in value you researched for the <b>Available Cash Calculator</b> :	-	\$
This equals your <b>difference figure</b> :	=	\$

Now compare your **maximum offer** to your **Available Cash** to determine if you are over or under budget. Do you see the importance of this little worksheet? It shows the entire transaction in its simplest terms. If your **Available Cash** figure is greater than your **Maximum Offer**, your payment is going to be within your budget.

<b>Maximum offer</b> (with your old car if trading it in):		\$
Enter your <b>Available Cash</b> from the <b>Available Cash Calculator</b> you used online or by calling our Information Center:	-	\$
This is the difference between your <b>maximum offer</b> and <b>Available Cash</b> . If the number is positive, you're under budget.	=	\$

Wouldn't that be nice? If your **Available Cash** is less than your **maximum offer**, you'll need to find more cash, expect a higher payment, or look for less expensive wheels.

## Negotiating with the Dealer

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### Negotiating the Right Way

Stay in control, keep things simple, and never be pushed. The following steps will help you.

1. **Make an appointment with your salesperson.** These men and women work hard and work on commission. If you liked the person who waited on you on your first visit, go back.
2. **Put these pieces of information on a summary sheet.**
  - The *wholesale value* of your trade-in if you're trading
  - Your **Available Cash** figure
  - Your *maximum offer* on the one car you like
  - Your *maximum difference* figure, if you're trading
3. **When you arrive at the dealership, ask to go to the salesperson's office.** You take the initiative; you take control of the situation. Tell the salesperson you are definitely going to buy a car, but not necessarily from that dealership. Say there are other cars you like as well as this one. Why say this? To increase your bargaining power.
4. **If you have a trade, ask to have it appraised.** You want the dealer to commit to a wholesale value on the car before you negotiate other parts of the purchase. Do this before you discuss the new car at all. Keep the transactions separate at this point.
5. **Agree on the wholesale value of your trade.** If the dealership offers you as much or more than your car's true wholesale value, proceed to the next step. If they won't give you true wholesale, sell the car to the used car source that put a price on it, sell it yourself (the best idea if you have the time), or go to another dealership.
6. **Make an offer and be prepared to negotiate on the new car.** You've finished talking about trades. You've agreed what they will pay to buy your car. Now it's time to see what you must pay to buy their car. Two separate transactions. Your goal now, using the cost of the car you like, is to set the scale of bargaining in your favor.

*How do you do that?* Whatever your first offer, expect the dealership to counter offer. And don't be afraid to counter offer yourself – just offer a very small amount of money. The conversation might go like this:

- Salesperson:* "What if I could give you a ten percent discount?"
- You, the smart shopper:* "No, let's do it my way. I'll offer you \$15,000. Invoice cost on that car."
- Salesperson:* "But, my boss will never accept that!"
- You:* "Well, why don't we offer it and see? I'll even sign a buyer's order saying I'll buy at that figure."

*Salesperson:* "Okay. Let me fill out this sheet. And I'll need a deposit before I can take this offer to my boss. To show him you're serious, you understand."

*You, very firmly:* "I'm sorry, I won't give you any deposit until my offer is approved in writing."

*Salesperson:* "But we're not allowed to do it like that."

*You:* "If you can't, I've got an appointment at a dealership that will."

The salesperson leaves then returns and agrees to do it your way. You've offered \$15,000. They now ask \$20,000.

*You:* "I'm sorry, no. How about \$15,025."

*Salesperson:* "What?"

*You:* "Okay, make that \$15,030."

Do you get the idea? Set the scale of bargaining in your favor. Be raised a time or two. That's part of the game. But don't be raised much. And don't give a deposit until your offer is approved in writing. Dealerships use deposits simply to make it harder for you to escape. Warning! Some dealerships, rather than taking money, will ask for your driver's license or credit cards as a deposit. We advise against that.

7. **When you reach agreement and you are looking at a completely filled out *buyer's order*, compare the *amount due* line to our *difference* figure.** If you don't see this figure, ask the salesperson. Make sure it includes tax, tag, title, and any other dealer charges. Are you on budget? If this figure is below your difference figure, you're home free. If it's above it, stop the transaction. You've just gone over budget.
8. **If the difference figure is okay, give a small deposit.** Dealers will ask for hundreds or thousands, but, unless you're asking them to order a Cadillac without air conditioning or to paint your car pink and green, don't do it. Any amount of money makes a contract legally binding. \$50 should be enough.
9. **Now be prepared to deal with one or two or even three other *salespeople*.** Even if you're paying cash or you have a credit union check in your pocket, many dealerships will insist you to talk with finance managers (also known as *financial counselors* or *business managers*). They'll also have you talk with their *after-the-sale manager*. This might be a separate person or the finance manager. As we noted earlier, this person will try to sell you warranties, "protection" packages such as rust proofing and undercoating, and add-ons such as alarm systems. Do your homework ahead of time and know if you plan to purchase these items. Do not buy them on impulse.

#### **What about dealer insurance, protection packages, warranties, and other add-ons?**

At times, and depending on where you live, it might be sensible to buy extra rust proofing and undercoating protection – though many consumer groups doubt the need for extra protection, and it will void manufacturer warranties in many cases. Do your homework up front.

And at times an extended warranty might make sense – though manufacturers' warranties are good these days. But it never makes sense to spend hundreds and thousands more than you need to for these products. Unfortunately, some dealerships are now trying to charge \$1,200 and more for rust protection they used to sell for \$200; they're trying to sell \$500 warranties for \$1,900

or more. We don't think you should spend that type of money without very carefully comparing products. Who wants to throw away an extra \$2,000?

### **How to handle the pressure.**

**StreetWise** recommends a simple approach for evaluating the value of dealership financing, insurance, protection packages, warranties, and other add-ons. After the sales pitch, which invariably presents dealership products and services as the cheapest and best, simply say something like this.

*"That sounds fine. And if your loan and products are cheaper, I'll certainly finance with you. Now, would you mind giving me a copy, completely filled out, of the contract you want me to sign so that I can compare it to other sources?"*

Banks will be happy to give you exact figures. DCU will be glad to do that, too – to tell you exactly what we will charge for the loan itself, life insurance, disability insurance, and warranties. If the dealership is cheaper, shouldn't they be willing to give you these figures, too? To the penny?

If the dealership does that, the credit union will be happy to help you compare costs, and will send you to another source if they're cheaper. But if a dealership won't give you the details, what does that say?

### **Be Prepared For the Leasing Switch.**

And don't forget, this is the time a dealership may try to switch you to leasing. Don't automatically assume it's a good deal for you. Read our **StreetWise Online Leasing Guide** at [dcu.org](http://dcu.org).

- 10. After you're finished with the finance salesperson.** Don't celebrate quite yet. If you're financing at the dealership, many will insist that you take the car home that minute. That's called *spot delivery*. But don't do it. Go home and diffuse a little. Check the dealer's figures again. Check the car over carefully and give the dealership time to fix the little things wrong with any new car. Make a list of the squeaks, rattles, sticking knobs, and scratches, and have them fixed before you agree to take the car.

If you're financing with DCU and you've come to us first, you'll most likely already have an Auto Loan Check to give the dealer. If you didn't come to us first, applying is easy online, by phone, or in person. You'll get an answer on your application quickly and we'll have you ready to roll in 24 hours or less.

- 11. When you finally pick up your new car.** Check it over carefully. Don't look at it in the rain. But if everything's okay, smile. You did it the right way and saved a lot more than change!

**Is it worth all this work?** If you care about your money, safety, and sanity, it's more than worth it. And during this whole process, we hope you'll notice that in a business filled with pressure, hype and confusion that **StreetWise** is an oasis from it all. Thanks for joining us!

**Thinking About Shopping Right Now?** You can see if you're already approved for a DCU auto loan by logging onto PC Branch. The answer is at the top of the Account Summary screen or in Message Center. If you're not yet approved, don't be concerned. Applying is fast and easy at any branch or, 24 hours a day, you can apply online or by phone at 800.328.8797 (select 3).

## Resources

Before you continue to any resources mentioned in this guide, note that you will be going to a web site hosted by a company separate from DCU. We encourage you to read and evaluate their privacy policies when you enter the site. While we strive to only link you to companies that we feel offer useful information, DCU does not directly support nor guarantee claims made by them. DCU does not have agreements with them that affect vehicle prices. It is vitally important that you negotiate all aspects of a purchase as you would with any concern.

<b>CUDL AutoSmart</b>	<a href="http://www.cudlautosmart.com">www.cudlautosmart.com</a>
<b>NADA Guides</b>	<a href="http://www.nadaguides.com">www.nadaguides.com</a>
<b>Edmunds</b>	<a href="http://www.edmunds.com">www.edmunds.com</a>
<b>Consumer Reports</b>	<a href="http://www.consumerreports.org">www.consumerreports.org</a>
<b>The Center for Auto Safety</b>	<a href="http://www.autosafety.org">www.autosafety.org</a>

## For More Information or to Apply

Visit your local branch, log onto [dcu.org](http://dcu.org), or call the Information Center at 508.263.6700 or 800.328.8797.



Digital Federal Credit Union  
220 Donald Lynch Blvd • PO Box 9130 • Marlborough, MA 01752  
508.263.6700 • 800.328.8797 • [dcu.org](http://dcu.org) • [dcu@dcu.org](mailto:dcu@dcu.org)  
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