



Transportation Program

Guide to Buying a Used Vehicle



Buying a Used Vehicle

Buying a used vehicle is a major expense that we believe shouldn't be taken lightly. We're providing this guide to you so that you better understand the risks associated to purchasing a used vehicle.

Our goal is to help you make an educated decision. Some customers expect the moon and when they don't get what they want, regardless of the practicality of the request, they stop being "happy" customers. Through education, we hope to reduce the number of would-be "unhappy" customers. **The best place to start is with the right "expectations".**

The biggest reason people go from being happy to unhappy after purchasing a vehicle can be linked directly to the condition of the vehicle after the sale.

People have to understand that used cars either have or may develop mechanical issues after being operated. The problems might show up immediately or may show up months after the purchase. What you should be concerned about is whether or not the dealer is hiding known problems or lying about them.

Setting the Right Expectations

There are over 5,000 parts and components that make up a used vehicle. There's no realistic way for a dealer to know the actual condition of that many moving elements.

When it comes to the condition of the vehicle you have to **"be Honest and Realistic with yourself"**. If you don't have the ability and tools to deal with whatever mechanical challenges may arise, don't talk yourself into believing otherwise. If you're looking for cheap transportation, don't let it become expensive repairs.

With that being said, you should consider all the terms of the transaction and weigh the risk of future repairs with the purchase price and general terms like the interest rate you might be offered as compared to what other dealers would extend to you.

Spend the time to look at what the market might yield and if you can get a better "deal" from another dealer on a later model vehicle with less mileage then that is what you do. The higher the mileage the more risk that you will have costly repairs in the near future.

The question is, can anybody really know if a vehicle has issues or if a dealer is aware of any issues? The important thing is to understand the risks in advance. We encourage you to assume the position that the vehicle you are buying most likely has mechanical issues, or that it will develop mechanical issues after you operate it. Nobody has a crystal ball to peer into the future and be able to determine whether that vehicle is going to run great for the next five years or break-down the next week.

What you have to consider is that you are getting the best possible “terms”. These terms are so attractive that regardless of the risk associated to the condition of the vehicle you got the best and most attractive deal possible.

Where does that vehicle come from?

We believe in helping you make an educated decision. Part of that education should be knowing where your vehicle came from. Used vehicles come from three sources: (i) auction, (ii) trade-in or (iii) consignment.

No matter which way you acquire a vehicle, the dealer is really just a temporary (“broker”) of the vehicle. That simply means that the dealer will take the vehicle from one party (the previous owner) and transfer ownership to a new party (the new owner)-**you!**

A dealer is simply a broker in the middle! This broker/dealer disposition doesn't mean that the vehicle does or does not have issues, it simply means that the dealer is NOT in a position to do anything about the condition of the vehicle, other than offer you extended warranties from third party companies.

Used Vehicles from Auction

The auction-house is simply a meeting location whereby sellers of used vehicles come to liquidate their vehicles. Who are the sellers? They include but are not limited to (i) banks selling their repossessed vehicles, (ii) rental car companies selling off lease vehicles, (iii) other dealers selling vehicles they received via trade-in.

Vehicles that are secured from auction do not come with a warranty unless the mileage meets the eligibility requirements from the manufacturer. They are typically “**as-is**” and that means there are no guarantees or means of legal recourse if mechanical issues present themselves to you after the purchase.

In many cases the risk that a particular vehicle has mechanical issues can be reduced if the dealer orders a **post sale inspection** (psi). A psi is conducted by the mechanics at the auction-house when requested. They perform a basic inspection of all the major components of a vehicle before they take possession of it. The psi is NOT a guarantee that issues do or do not exist. The benefit to the psi is that if during the inspection the mechanic completing the inspection discovers something wrong they are supposed to list that defect on the psi report. The dealer has the option to review this report prior to taking possession and can decline the acquisition of that vehicle if that disclosed issue is something major, like a transmission or engine problem. If the dealer takes the vehicle with that psi, they must provide it to you prior to the purchase.

Used Vehicles on Consignment

Consignment means that the owner of the vehicle is employing the dealer to help sell their vehicle. The owner retains ownership of the vehicle during the process and the dealer handles the marketing, exposure to the public and any paperwork. The owner receives the money for the purchase under an agreement to pay a small fee to the dealer for their help in marketing it. The dealer typically does NOT inspect the vehicle as they are simply brokering the transaction for the parties. The hassles of private car sales make consignment well worth the effort for both parties. The dealer's goal in a consignment is to market the vehicle to the public, facilitate the negotiations between the owner/seller and buyer, while providing options to the both parties for financing.

For the owner/seller, the dealer will ask how much they want for it and likely suggest a lower price, as it is important to price your vehicle to what the market is producing. The dealer will complete a value assessment using the National Auto Dealers Association (NADA) pricing data which is helpful in determining the sales price. Dealers also help secure a vehicle history report which is typically for the buyer's peace-of-mind.

Let's say the seller brings a vehicle to a dealer and wants \$3,000 for it. The parties agree the vehicle is worth approximately \$5,000. The dealer will most likely market the vehicle for \$3,200 which means the dealer would retain approximately \$200. In this example the dealer's goal is to get the seller \$3,000, while retaining \$200. The buyer gets a good price that is 30% below retail. All parties win in this scenario from a pricing disposition.

What about the condition of the vehicle? Should the dealer be responsible for the condition of the vehicle? Of course not! That would be unrealistic. Considering the

buyer got a great deal and the dealer made so little, it would be crazy to expect the dealer to be liable for the condition of that vehicle.

The condition of the vehicle is practically irrelevant. The sale is almost certainly “as-is”. When you purchase a vehicle on consignment it is critical to understand that the seller might owe money on the vehicle and they might not be profiting from the transaction. It would also be unrealistic to expect them to be able to cover any repairs after the purchase.

At the end of the day you should test-drive the vehicle and look it over the best you can and accept the “risk” that issues may exist or may develop after you take possession. Consider the terms of the purchase with that risk and try to make an intelligent decision.

Used Vehicles from Trade-In

A trade-in is one method in which consumers can use equity from a vehicle they already own towards the purchase of a vehicle they want to purchase from a dealer. If the vehicle meets the qualifications for acceptance as a trade-in then the dealer would offer to reduce the purchase price. The factors that determine whether the dealer would accept a trade-in depend on what is owed on the vehicle, the condition of the vehicle and whether that vehicle is marketable or not.

First, the owner/seller must have positive equity in the vehicle. Why? If the seller/owner owes more than it is worth then they are considered “**upside-down**” and instead of receiving a deduction off the value of the vehicle they want to purchase, the dealer must add to the purchase price to offset what they owe. This is not a financially smart way to purchase a vehicle. In these scenarios we encourage the owner/seller to pay down their debt to below 50% of value before attempting to trade it in. The owner/seller must understand that dealers that take trade-ins must consider the resale of that vehicle and as such expect that the dealer is only going to give the seller approximately 60% to 70% of retail value which is often the market “trade-in” value reported by the NADA. To expect to get market value from a dealer is unrealistic. If a seller wants retail value for their vehicle then they should sell it themselves privately.

The condition of a vehicle will also determine whether the dealer will accept a trade-in. If a vehicle is in excellent condition and the maintenance logs have been kept up then a dealer would consider taking it as a trade-in.

A trade-in is very similar to a consignment. The difference is that ownership actually transfers from the seller to the dealer and then it is sold to you the buyer. With a consignment the ownership of the vehicle is retained by the original owner until the sale

is complete. All other aspects to the transaction are basically the same. The dealer is simply brokering the transaction in both scenarios.

Who is responsible for the mechanical condition of the vehicle that was traded in? The answer is nobody. The condition of the vehicle is practically irrelevant. The sale is almost certainly “as-is”. It would also be unrealistic to expect the dealer or the previous seller to be able to cover any repairs after the new buyer completes the purchase.

It is the buyer’s sole responsibility to inspect and evaluate the condition of the vehicle prior to purchasing it. You should look it over the best you can and accept the “risk” that issues may exist or may develop after you take possession. Consider the terms of the purchase with that risk and try to make an intelligent decision.

Shopping vs Impulsive Buying

Shop intelligently for what your transportation needs are versus buying emotionally or impulsively on what visually stimulates you. As you shop around consider the “terms” of a transaction from each source. Build a list of possible deals and vehicles from different sources and use a pros and cons list to narrow your search. Compare what one dealer is offering you and take the best deal that meets what you really need not what you think you want.

Don’t purchase the first vehicle you see. Don’t purchase in a rush or hurry, that is when mistakes creep up. Instead, take your time and go look at different vehicles from different sources. Be patient and the right vehicle will reveal itself to you.

Prepare a Budget (and follow it)

You should understand what a budget is and cater your purchase to match your budget before you start shopping for a vehicle.

In our program we will require that you create and stick to a budget. Understanding your expenses versus your income can help you make a smarter financial purchase.

A budget also might point out how underfunded you are and suggest waiting to buy until you’ve saved up more money.

Setup a Repair Savings Account

Vehicles when operated will develop mechanical issues. It is inevitable. It is how prepared you are for those issues that you need to be focused on.

If you don't have the ability and resources to deal with whatever mechanical challenges a vehicle might have, don't talk yourself into the purchase.

You should be able to purchase a used vehicle and still have money put aside in an account for repairs. You don't want to get caught in a situation where your vehicle is disabled and you are not in a position financially to make repairs.

Our transportation program will help you become more disciplined to save money into a savings account so that you don't get caught unprepared.

Test-Drive the Vehicle

Drive the vehicle at different speeds for several miles. Look for lights on the dash that may come up. Listen for unusual noises. Take notice to how the vehicle performs on the test-drive. If you suspect something is wrong ask about it and then make sure your concerns on what you observed are listed in the sales agreement.

Inspect the Vehicle

Look at the tail pipe while it is running and see what you observe. Take notice to how clean or dirty the engine is. If the vehicle has been well-maintained, pulling the oil or transmission fluid sticks will reveal clean and clear fluids.

If the fluid is dark and dirty then the previous owner may not have kept up with the maintenance and the vehicle may have mechanical issues sooner than later. Look under the vehicle and see if you see anything other than water leaking.

Don't be fooled by looks

Use your eyes, but don't believe everything you see. Don't be fooled by how good a vehicle may look. What counts is how the vehicle runs. At the same time don't let the superficial scare you. Weathered paint may cover a mechanically sound engine. A small dent in the tailgate may just be a parking lot thump. Don't think signs of misuse or abuse automatically. Use common sense to identify and separate the big potential issues from the cosmetic inexpensive ones.

Consider the Extended Warranty

Notice that we said consider NOT automatically purchase. There are pros and cons to extended warranties. If a dealer offers to give you an extended warranty “thrown-in to the deal”, then take it.

Before purchasing an extended warranty we recommend you go online and look up reviews on the warranty company. Take the time to see what other people are saying about their experiences when they needed to use the warranty. Do your due diligence on the warranty company.

In order to get an extended warranty you have to be a dealer. Many dealers use this exclusive access to markup the warranties which ends up costing you more than they will every pay back.

Many dealers try to tell you it’s a “Limited-Time-Offer”. This is ludicrous because you can purchase an extended warranty through any dealer from about a dozen different companies at any time. The dealer is just telling you it is a limited time offer to pressure you into buying it now at the inflated price they have set. What you want to do is consider the actual price of the warranty NOT from the dealer but from the warranty company. You should consider whether the markup by the dealer is reasonable or frivolous.

Ask your advisor about securing a list of warranty companies. They can help you better determine which extended warranty is best for your budget and needs.