An automobile might be one of the most important items you will ever purchase. Buying, leasing, maintaining, and selling an automobile involve many legal issues. Earlier in this unit, you learned how the law affects car owners in cases of repair fraud and repossession. Now you will apply some other concepts you have already studied—comparison shopping, contracts, warranties, and credit—to automobiles.

**Buying a Car**

When you shop for a car, you should consider: (1) safety, (2) price, (3) quality, (4) warranty, and (5) fuel economy. Unfortunately, many consumers fail to compare safety features when shopping for a car.
Safety features are important because, in an average year, one out of every three motorists is involved in an automobile accident. Federal law requires car dealers to provide a pamphlet that outlines the safety features of all new cars. This pamphlet includes information on acceleration and passing ability, stopping distance, and tire load. In addition, a prospective buyer should always check visibility from the driver’s seat. Check for blind spots, windshield glare in strong sunlight, and positioning of inside and outside mirrors. You should also check whether you can reach all the controls while sitting in the driver’s seat with the seat belts fastened, and consider what protection is afforded by bumpers, safety belts, and air bags. If you have child safety seats, be sure they fit the car. With high gasoline prices, shopping for fuel efficient cars really matters. Cars that are fuel efficient can save money and help protect the environment.

In considering price, remember that virtually no one pays the sticker price for a new or used car. Discounts are common. The size of the discount depends on the time of year, your negotiating ability, special sales, manufacturer’s bonuses, rebates, and other factors.

You should compare quality, fuel economy, warranties, and the dealer’s capability to make repairs the same way you compare safety features and price. Many new cars have “bumper-to-bumper” warranties covering most parts, except batteries and tires, against defects for 36,000 miles or 36 months, whichever comes first. Some manufacturers warrant the engine and drivetrain for a longer period. Other manufacturers offer a warranty as part of the purchase price but also make available an extended warranty (a service contract) for an additional cost. Warranties vary, so be certain that you read and fully understand exactly what protections the warranty provides.

In some instances, used cars come with warranties. The Federal Trade Commission now requires used-car dealers to place a large sticker—a “Buyer’s Guide”—in the window of every vehicle offered for sale. The sticker must indicate whether the vehicle comes with an express warranty. If it does, the sticker must detail what the warranty includes. If the sticker says the car comes “as is,” this means no warranty is provided. In some places, however, state law prohibits a car from being sold “as is.” Finally, the sticker will advise you to get all promises in writing and to have the car inspected by a mechanic before you buy it.
Although car warranties are now easier to read and protections have been expanded, there are still time or mileage limits (or both) on warranties. Also, a warranty may become void if you fail to perform scheduled maintenance or if you misuse the car. Always be sure the warranty and any additional promises are in writing. Keep these papers in a safe place.

Problem 28.1
In addition to the purchase price, what other costs should you consider when you are deciding to purchase a car? Where can you find information about each of these costs?

Financing a Car
Most new-car buyers and many used-car buyers make their purchases on credit. Buyers may select the length of the repayment period, which may be as long as five years. The longer the repayment period, the lower the monthly payments will be. However, longer repayment periods also result in a larger amount paid in interest. Figure 28.1 on page 347 shows the total interest charges on a $6,000 loan for a used car at a 10 percent interest rate over various repayment periods. Actual interest rates for car loans will vary depending upon a variety of factors, including whether the car you are purchasing is new or used. Interest rates are generally lower on new cars because of the higher price of the vehicle. Interest rates also vary based on your lender, your creditworthiness, and general economic conditions.

Internet Resources for Car Buyers
Car shoppers can get price information for used cars, pricing for new cars, quality reviews, and information on available financing at the Kelley Blue Book Web site (www.kbb.com). Begun in 1926, the Kelley Blue Book is the industry standard for evaluating cars. Much of the information is also available in Spanish.

Safety information is available from the U.S. Department of Transportation’s National Highway Transportation Safety Administration (www.nhtsa.dot.gov), which has a special online feature that allows you to compare crash and rollover tests for various cars, light trucks, vans, and SUVs. Tire information is also available at this site.
Automobile financing is usually available from car dealers, banks, credit unions, and finance companies. When you are comparing finance charges among lenders, make certain that you are comparing the same down payment and repayment periods for each loan. In comparing terms, you will mostly be concerned with the annual percentage rate (APR). The Truth in Lending Act requires that creditors give you written disclosure of important terms of the credit agreement before you sign it, including APR, total finance charges, total amount financed, and charges for late payments. However, you should also read all the terms carefully so that you can answer the following questions:

- Will finance charges be refunded if the loan is repaid early?
- Will there be fair warning in the event of a repossession?
- Is there a penalty for late payments? If so, how much?
- Will all payments immediately become due if a payment is missed?

**The Case of…**

**The Used-Car Purchase**

Having saved $1,000 from her summer job, Sasha responded to an ad for “Like New! One-Owner Used Cars.” A salesperson for A-1 Used Cars watched Sasha wander around the lot until she was attracted to a bright-red compact car. Sasha told the salesperson that this car looked just right for her. He replied, “You’ve made a good choice. This is an excellent car. It will give you many years of good service.”

Although the sticker price was $3,550, the salesperson thought that he might be able to get Sasha a $50 discount because she was “a nice young kid getting her first car.” After conferring with the sales manager, he explained to Sasha that she could have the car for $3,500 and that the dealer could arrange to finance the car and sell her all the necessary auto insurance.

Sasha knew that she would need a loan and that auto insurance was required by law. Her excitement increased as it appeared that all her needs could be met in one stop.

Sasha saw a sticker on the car’s window indicating that this car came with a warranty. The salesperson told her that A-1 Used Cars would make any repairs to the engine for damage not caused by her misuse for 30 days or 10,000 miles, whichever came first. Now she felt confident about using all of her savings as a down payment. After all, what repair bills could she have with such a nice car accompanied by a terrific warranty?

**Problem 28.2**

a. Make a list of things Sasha should have done or thought about before going to A-1 Used Cars.

b. Make a list of things Sasha should have done at A-1 before agreeing to buy the car.

c. What promises, if any, did the seller make to her? Did he say anything that could be considered puffing? If so, what?

d. What are the advantages and disadvantages to Sasha of obtaining financing and insurance from the dealer?

e. Taking into account your lists, role-play Sasha’s encounter with the salesperson.
Leasing a Car

Rather than buying, many consumers opt to lease cars. Under a lease agreement, the consumer does not own the car but pays a monthly fee to drive the car for a certain time period. At the end of the term, the consumer can pay an agreed-upon amount—which may equal the rest of the car’s value—to purchase the car. More often, he or she returns the car, pays any required end-of-lease charges, and “walks away,” owning nothing. The lease agreement usually restricts mileage and wear and tear, imposing additional fees for exceeding the limits on those terms. The agreement also includes provisions for an initial down payment, security deposit, and other fees. The customer should make sure that the warranty covers the entire lease term as well as the number of miles he or she is likely to drive.

Typically, monthly lease payments are lower than monthly loan payments. However, you do not own the car at the end of the lease as you do after paying off a loan. Under the federal Consumer Leasing Act, consumers have a right to information about the costs and terms of a vehicle lease.

Rather than buying or leasing a car, some people take advantage of car sharing. In many urban areas, car sharing companies make cars available for rent by the hour. Consumers rent the car by phone or online, pick it up from a reserved parking spot, use it, and then return it to the same parking spot. Rental fees usually include fuel and insurance. Drivers may need to be 21 or older. Many people who car share make more use of other transportation options such as walking, biking, and public transit. Car sharing also reduces traffic congestion and fuel consumption.

**Problem 28.3**

Nathan is buying a used car for $7,000. He can make a down payment of $1,000 and needs to borrow the remaining $6,000. Assume that credit is available only from the source listed above.

a. What is the total cost of the car if the term of the loan is 24 months? 36 months? 48 months?

b. If Nathan borrows the money, which credit arrangement would be least expensive in the long run? Most desirable?
What to Do in the Event of an Auto Accident

- **Check for injuries.** Get medical help if it is needed.

- **Route traffic around the accident.** Set up road flares or another emergency signaling device to alert other drivers of the accident. Another motorist or bystander can also stand at a safe distance at the side of the road and caution motorists to slow down and drive around the accident. This keeps everyone safe.

- **Call the police, even if the accident is minor.** Some insurance companies may require the police report of the accident.

- **Exchange information with the other driver(s).** Include names, addresses, and phone numbers; license and registration numbers; makes, models, and years of cars; and names, addresses, and phone numbers of insurance agents.

- **Look for witnesses to the accident.** Get the names, addresses, phone numbers, and e-mail addresses of any witnesses. This includes passengers in all vehicles involved in the accident. Doing so can prevent disagreement concerning how the accident actually happened.

- **Do not tell the other driver(s) the extent of your insurance.** Do not confess guilt, do not indicate that your insurance company will take care of everything, and do not sign any paper indicating you were not injured.

- **Note the name and badge number of the police officer who comes to the scene of the accident.** Your state law may require that you file an accident report with the police.

- **Make careful notes about the accident while the information is fresh in your mind.** Be sure to describe the specific damages to all vehicles involved. Also note details such as the location of the accident, weather conditions, road conditions, and visibility.

- **Contact your insurance agent as soon as possible after the accident to file a claim.** Give your agent as much information as possible about the accident. Follow his or her instructions carefully to avoid problems later.