First and Most Important:

**MAKE A BUDGET!!!!!!!**

- Be realistic about how much you can spend, consider all the costs involved in owning a car: purchase price, interest on a loan, insurance, maintenance costs, repairs, registration, tolls, gas, and potential traffic or parking tickets.

**DO YOUR RESEARCH**

- Get your credit score. A good credit score is of the utmost importance because it determines how good your loan interest rate will be. A score in the mid-700s or higher will get you the best loan rates. Get a copy of your credit report at [www.annualcreditreport.com](http://www.annualcreditreport.com).

- The point of buying used is to save money, so research the car model you want before you shop. Determine what car best fits your budget, after all, it is better to have a working car than a beautiful one you can’t pay for.

- **DO NOT USE STUDENT LOANS.** Student loans are not income: they will end once you graduate, and you have to pay them back. When making your budget, consider long-term income and what your financial status will be in the near future.

- Get independent quotes for financing and pre-approval before you go to the dealer, because it is better to have outside financing than to rely on the dealer. You can get this from your bank or credit union or at online sites such as [www.bankrate.com](http://www.bankrate.com).

- Check the consumer union monthly reports or annual buying guide at your local library. You can also check with the Department of Transportation and Auto Safety Hotline (1-800-424-9393).


- Find someone to go car shopping with you so that you can have someone other than the dealer to confer with. Keep in mind that anything not in writing is probably not enforceable, so get all promises made by the dealer in writing.

### Financial Terms You Should Know…

**5Cs of Credit:**
- **Character** – How responsible do you look?
- **Capacity** – Have you borrowed more than you can pay back?
- **Capital** – How much do you have in the bank?
- **Collateral** – What assets do you have that can be taken away if you don’t pay your loan back?
- **Conditions** – What is your current economic status?
- **Acceleration** – Provides that entire balance will be due if you miss one payment.
- **Prepayment Penalties** - This is a fee that a borrower is expected to pay if he/she chooses to pay off the debt prior to scheduled date.

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<tr>
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The table displayed below shows what you end up paying on a car loan of $8,000, based on the loan rate you get and the length of the loan. As the table shows, a 5-year loan will get you a lower monthly payment, but you end up paying a lot more at the end of the loan period. A 3-year loan, however, requires slightly more per month, but your overall cost is significantly reduced. This is why it is important to consider all the loan variables in order to choose the one that works best for you.

**YOU CANNOT TRUST THE DEALER:** It is better to get your own financing than to rely on the dealer, because dealers are not obligated to give you the lowest rate.

- Get the buy rate – this is the lowest rate for which you qualify.
- Demand disclosure of the buy rate from the dealer in writing.
- Put down as much money as possible because it will get you a better interest rate.
- Get the shortest term you can afford. Never do a 5-year loan; you’ll end up paying substantially more than the car is worth.

**READ THE FINANCING AGREEMENT CAREFULLY BEFORE YOU SIGN!**

What to look for when reading the contract:
- Everything that has been promised by the dealer.
- No blank spaces; fill them all in yourself.
- Excessive document processing fees. It should not exceed $150.
- Check to make sure all warranties are listed and nothing says “as is.”

**Students’ Legal has information on:**
- Renting Apartments in DeKalb
- Expungements
- The Court System
- Identity Theft
- Credit and Credit Cards

### Current topics >>>

- Northern Illinois University Division of Student Affairs & Enrollment Management
- Students’ Legal Assistance

Call to schedule an appointment 815-753-1701

**Funded by NIU Student Association**

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**The Legal Huskie**

**Issue #2**

**Financing**

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Getting the best deal!

What to know about negotiating when buying a car...

Car Dealer Quotes: “You’re getting a great deal! I’m practically giving this car away! This is just a standard contract; it’s the same at all dealerships. You won’t be able to find a lower rate. This is just a beautiful car!”

Car financing rates vary greatly from bank to bank, and dealership to dealership. The rate at the dealership may not be the best rate. Check out the website BankRate to find a list of rates at banks in your area, but do not stop there! Local credit unions can sometimes give you the best rates, so look around for loan information before looking for vehicles.

Ask specific detailed questions about the cars you are interested in. Has this car been in any accidents? Are there any mechanical problems with this car? Does this car have any flood, hail, or other damage, visible or not? Etc. Try to get these answers in writing as proof later on, otherwise this is why shopping with someone comes in handy (they can be a witness!)

Never buy a car “as is.” This shifts problems with the car onto you. The only thing the car must do is run. This is known as the warranty of merchantability, and requires a car to be suitable for its ordinary use (able to be driven).

For more information take a look at our Used Car Buyer’s Guide. Specifically take a look at the section discussing “Warranties” and “Questions to Ask the Dealer.”

Getting help >>>

Insurance...

Minimum Liability vs. Full (or Comprehensive) Coverage

- Minimum liability insurance is required in Illinois. You must have coverage of $20,000 for injury or death of one person in an accident, $40,000 for injury or death of more than one person in an accident, and $15,000 for damage to property of another.
- State law does not require comprehensive or full coverage insurance, but if you buy the car with a loan, the lender will usually require you to purchase full coverage insurance.
- Many factors affect the cost of full-coverage insurance: The make, model, and year of the car, as well as your age and driving record. Many insurance companies will give you a quote online, so shop around for the best bids.
- Ask about discounts and the cost of your deductible (this is what you will have to pay if you file an insurance claim).

Use ‘Table A’ on page 15 of our Used Car Buyer’s Guide to compare insurance quotes!

The Right to Cancel a Contract or Return Goods

Some people mistakenly believe that the law guarantees the buyer a “grace period” to cancel a contract after completing the transaction. THIS IS NOT TRUE. The only exception is the circumstance where an unsolicited (someone you didn’t ask) salesperson comes to your door, in which case you have 72 hours to cancel the sale, measured from the time you were given notice of the right to cancel. Most car dealerships will not take a car back once you’ve signed a contract, retail stores, on the other hand, have lenient return policies. This is not their legal duty, but they allow it to develop customer loyalty.

If however the item, or vehicle, is defective or you were told it would work for a specific purpose but does not, then you have a right to return the merchandise and receive a refund. These are known in the law as a “Warranty of Merchantability” and the “Warranty of Fitness for a Particular Purpose.”

Common mistaken beliefs:

- I can cancel this contract because there is always a “grace period” to do that.

Unfortunately, this isn’t true. See “The Right to Cancel a Contract or Return Goods” in this issue for more information, and be sure you really want what you are buying; you may be stuck with it!

- I’m a student. There is no way I’ll qualify for favorable loan terms.

Actually, your credit score determines if you will qualify for favorable loan terms. Get a free copy of your credit report and find out from different banks what loan rates you qualify for. Don’t let the car dealerships use the fact that you’re a student to trick you into agreeing to a loan with unfavorable rates. Students can still have good credit.

- Co-Signing is no big deal...

You’re kind of right, it’s actually a huge deal! If the person you co-signed with cannot pay off the debt, you are still responsible for the debt. The same is true even if the person files for bankruptcy, leaves the country, or even dies!

After-sale products, or “add-ons,” are great. The dealer says I need them!

These “add-ons” are typically over-priced and not needed. An example is rustproofing and paint “protection.” New cars are built with rust-resistant materials, and the same results can be achieved by putting on a coat of wax for a fraction of the price. See Back-End Products and Services for more.

The dealer’s mechanic checks out the cars before they go on the lot. He’s got me covered!

Have an independent mechanic check out the vehicle. Dealer mechanics can make temporary repairs, or repair only necessary problems. Even if your mechanic doesn’t find anything currently wrong with the vehicle, he may be able to let you know what will need repair in the near future. This will give you an advantage when it comes time to negotiating or lets you know to walk away immediately!

Don’t Be Fooled!!

Before car shopping, go loan shopping. Try to find the loan with the lowest interest rate. The higher the rate, the more you will end up paying for the car in the long run. Be realistic about what you can afford for your monthly payments, take into account how much you make, hours, and income. Also, factor in the cost of upkeep for the car, as well as insurance. Some websites can estimate the cost of owning a car to give you a general idea of what it will cost. Visit www.bankrate.com and scroll to “Total Cost of Ownership.”

The length of your loan usually affects your interest rate. Keep in mind that a 60-month loan means it will take 5 years to pay off the loan if you make the minimum monthly payments! Also the amount of money you will put at a down payment, or the amount the dealership will give you for your trade-in, if you have one, will lower the monthly payments.

Banks are usually willing to work with you to get your business. Make sure to give accurate information so that you can actually afford the loan they offer you. When you get a car loan, the car is considered “collateral.” This means that, if you stop or cannot pay the car loan, the car will be taken back (repossessed) by the bank or lending institution. When this happens, the car is sold, the amount it is sold for is deducted from your balance, and you are still responsible for the remaining balance on the loan even though you no longer have the car!

This “Total cost calculator” is a great place to begin to see what your monthly payments could be, or to see the effect that making extra payments will have on your existing loan. This calculator will also show you the savings from paying off your loan early.

Some loans penalize early payments: Look at your specific loan to determine if this applies to you.