

# Montana Legal Services Association

## 4 Tips for Buying a Used Car



Providing, protecting, and enhancing access to justice.

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## 4 Tips for Buying a Used Car

In this article we'll talk about 4 used car buying tips:

1. Budgeting and research
2. Making a deal
3. Reading the contract
4. Montana's lemon laws and buyer's remorse laws

### Budgeting and Research

The best thing that you can do for yourself when buying a used car is to allow enough time to come up with a budget and research your options. Before you go out looking for what kind of car you want, come up with how much you can afford and what you actually need. The car you want might not be the one you can afford.

### Budgeting

When you're coming up with a budget for a car, you'll want to ask:

- What can you afford?
- How much is the total cost?

Talking about money isn't easy. Coming up with an amount that you can afford can be hard and uncomfortable. Here are some tips can help you figure out how much you can afford:

- Check your debt to income ratio
- Pull your credit report and FICO score
- Keep one month of savings
- Come up with the total cost
- Reach out to help from a non-profit financial education service.

Your **debt to income ratio** is how much total debt you have compared to your total income. You will need a full picture of all of your monthly debt payments, like mortgage, credit cards, and student loans to come up with a correct figure. You'll also want to include all of your income, even benefits like food stamps. To figure out your debt to income ratio, divide your total monthly debt by your total monthly income. Then move the decimal point two spaces to the right.

For example, your total monthly debt is \$20 and your total monthly income is \$100.  $20/100 = 0.20$ . Move the decimal to the right two points. 20% is your debt to income ratio.

**A general rule is to try to keep your debt to income ratio below 20%.**

Money lenders base how much they think you can afford on your **credit report and credit score**. Your **credit report** shows all of the debt you have taken on for a certain amount of years, usually for 7 years. It will show if you are staying up on payments, have fallen behind, or if debts have been turned over to collections. You can get a free copy of your credit report from each of the Credit Reporting Bureaus once a year at: [annualcreditreport.com](http://annualcreditreport.com).

Your **credit score** is based off of your credit report. Money lenders will base their interest rate off of your credit score. There are different credit score companies. But, FICO is the most common score that most banks and credit unions use. To get your FICO credit score, you may need to pay a fee. Some credit companies offer your credit score as a free service, but be sure to read the fine print. Having your credit score may give you a good idea of how much you will need to pay in interest. The higher the score, the lower the interest rate, which means you will end up paying less money overall.

You might have heard that it can hurt your credit score if lots of lenders do a “hard pull” on your credit report. A hard pull is when someone pulls your credit report for a potential loan. That’s different than a “soft pull,” like when you look at your own credit report. You have a **14 day Hard Pull Window**. That means that each new hard pull on your credit report within that 14 day window won’t affect your credit score. When you go out looking to buy a car, try to get all of your hard credit report pulls into that 14 day window.

It is a good idea to have **one month’s worth of expenses in your savings**. That includes all of your regular expenses for a single month, like rent, groceries, and other bills. Keeping one month of savings will help you if something happens to you or a family member. It could help you from missing a car payment.

OK. Now that you’ve come up with what you can afford, it’s time to think about **how much is the total cost?**

When you buy a car, you’ll need to be able to afford:

- Total price, including document fees
- Interest on your loan

- Car insurance
- Tags (title fees and registration)
- Maintenance and upkeep
- Unexpected events.

The total interest that you pay on your car loan is based on your **APR** and **loan term**. APR stands for **annual percentage rate**. Many banks and credit unions have their lowest APR for a car loan posted on their website. The amount you pay in APR will be based on your credit score.

The **loan term** is how long you'll have to make payments. It is a good idea to avoid any car loans longer than 3 years because you will end up paying more in interest. As an example, for a \$10,000 loan at 6% interest over 3 years, you'll pay a total of about \$952 in interest. If you make that loan longer to be 5 years, the interest you pay is almost double at about \$1,600. You're paying about \$650 extra just to lower your monthly payment.

You can play around with APR, loan term, and total loan to find out how much you would pay in interest using a free online loan calculator.

The law requires you to have liability car insurance. Many money lenders will make you have **full coverage car insurance** while you pay off your loan. Full coverage car insurance is more expensive than liability insurance. They do that in case anything happens to your car so that you aren't out of a car and they don't have to come after you for the rest of the loan. So, full coverage will cost more but it's a good idea should anything happen while you're paying off your car.

You'll need to pay **tag fees to title and register** your car. Tag fees will include local taxes and fees, plus state fees. If you title a car older than 11 years, it's a one-time cost of \$87.50, plus other fees for permanent registration. A car less than 5 years old will cost \$217 to register, plus other fees and taxes. The tag and title fees in Montana are usually more expensive for new cars. Find out the tag and title fees by year of model in Montana.

Don't forget that all cars require **maintenance and upkeep**. As just an example, you'll need to replace your tires every few years. That will cost at least a few hundred dollars each time. There is lots of other regular upkeep you'll need to keep your car running.

It is a good idea to think about what you need a car to do. If you mainly use your car to haul around a family of six, keep in mind that a mini-van will often be cheaper to own

than an SUV. This is because a mini-van uses less gas and has less expensive tires than a full sized SUV. A mini-van is also less expensive to insure.

You might have an **unexpected event**, like losing your job or having a medical emergency that results in lots of medical bills. Keep maintenance, upkeep, and unexpected events in mind when you come up with a budget.

Remember, it is a good idea to keep your debt to income ratio below 20% and have one month's worth of savings.

There is **free and low cost help with coming up with a budget**. If you're looking for help online, you can check out:

- [Consumer.gov](http://Consumer.gov)
- [Smartaboutmoney.org](http://Smartaboutmoney.org)

You may be able to get personalized financial education from a local non-profit like Homeward. Learn more about financial education from Homeward.

## Research

It is a good idea to find out as much as you can about a car before you buy it. You'll find links at the bottom of this page to websites where you can find reviews and price ranges for cars and trucks. Reviews can only tell you about a make and model. If you want to know about the specific vehicle you are looking at, it's a good idea to:

- Ask the seller or dealer for any service records
- Take the car to a mechanic for a pre-purchase inspection.
- Run a title history report.

The title history report shows who has owned the vehicle. It will also tell you if the vehicle has ever been totaled, meaning that it would cost more to repair than it's worth. You will have to pay a small fee for a title history report and you will need the Vehicle Identification Number (VIN) of the vehicle you are looking at. You can use the National Motor Vehicle Title Information System to run a title history report.

## Making a Deal

Your experience making a deal on a used car might change depending on if you're buying from a private dealer or a car lot. In both cases, it's helpful to:

- Stay calm.
- Don't be afraid to walk away
- Ask questions. If you have **any** doubts or don't understand something, ask.
- Get the car checked out by an independent mechanic, if you can.

**The most important thing is to stick to your budget.**

## Private deal

Private dealers are usually just ordinary people trying to get rid of their old car. They've got bills to pay, and want to get a fair price for their car. If you're having a hard time coming to an agreement, it might be helpful to just ask, "How much do you need to sell this car for you to feel good about it?" That respects the seller's need to get enough money back, and also asks how low they can go.

It is likely that you'll need to work with a bank or credit union for a car loan when buying a car from a private dealer.

## Car dealers

Car salespeople make most of their money on commissions from selling cars. It's how they pay their bills. The higher price they sell a car for, the more money they make. As a result, a car salesperson might feel pressured to sell you something that you may not actually need or be able to afford.

A car salesperson's first job is **not** to sell you a car. Their first job is to get you to **look** at a car. Then, **sit** in the car. After that, they might want you to **grab** the steering wheel. Then you're ready to **drive** the car. At that point, they want you **asking** about its features. Then you can **go** to their office and **talk** about finance options. Car salespeople are experts at what they do, and they know that there is a lot they need to get you to do before they can even start talking about price and payment options. Just remember that when you're buying a car off a lot.

Car dealers also make money off the interest on loans, and will often have their own

lending options. Sometimes you might be able to get a better interest rate from your own bank or credit union. But, sometimes car dealers will offer you a lower price if you go with their financing options. Be up front with the salesperson if you'd like to use your own credit union or bank.

## Used Car Rule

The Used Car Rule requires car dealers to stick a "Buyer's Guide" on the window of the car. The Buyer's Guide must say:

- If the vehicle is being sold with a warranty or "as is"
- What percent of repair costs the dealer will pay under the warranty
- The major mechanical and electric systems in the car, as well as some of the major problems that consumers should be on the lookout for
- That oral promises are difficult to enforce in court, and it's best to get everything in writing
- And, if the sale is done in Spanish, the Buyer's Guide must also be in Spanish.

The Buyer's Guide has more protections, and you can learn about them from the Federal Trade Commission.

## Reading the contract

When you and the seller work out a deal, it's time to read your contract. Contracts often have a lot of big words and legalese. One thing that you should look for is the box labeled "**Truth in Lending disclosures.**" The law requires that contracts for a car loan include:

- The **Annual Percentage Rate (APR)** is what it costs you to get a loan. The higher the percentage, the more you are paying to buy a car.
- The **Finance Charge** is how much you are paying on top of the actual price of the car just to get a loan.
- **Total sale price** is the total of the payments with the rebates and down payment added in.
- **Amount Financed** is the amount of money you are borrowing. This can include document fees and other costs that are listed on the contract.
- **Total of Payments** shows the actual cost of the car, without including your down payment or manufacturer's refunds.

There should be a schedule of payments after this section that clearly states how many payments you will make and how much they will be.

Make sure to go over the “**itemization of the amount financed**” with a fine-toothed comb. If any number isn’t explained, ask what it is. You have a right to know what you are paying for. If you document fees are over \$100, negotiate to lower them.

## **Montana’s lemon laws and buyer’s remorse laws**

### **Lemon Law**

Montana’s New Motor Vehicle Warranty Act is the state’s “lemon law.” After you have tried several times to repair a defect, the lemon law may require the manufacturer to replace or repair the defective vehicle. To qualify for the Montana lemon law a car must:

- Be less than 2 years old and have less than 18,000 miles on it;
- Have substantial defects that impair its use, market value, or safety; And,
- You must have made repeated attempts to repair the defect.

There are other restrictions. The lemon law does not cover:

- Used or pre-owned vehicles
- Vehicles purchased for business use
- Non-motorized and off-road vehicles
- The “residential” part of motor homes
- Any problems from an accident, abuse, neglect, modification or alteration by anyone other than the manufacturer or authorized dealer.

You’ll need specific documentation as well to qualify for the lemon law. To learn more, check out the Montana Department of Justice’s Office of Consumer Protection page.

### **Buyer’s Remorse Law**

The Buyer’s Remorse Law is sometimes known as a Right of Rescission. Unlike some other states, Montana does **not** have a buyer’s remorse or right of recession law for cars. Once you buy the car, you’re usually stuck with it.

That’s why it’s important to do your research, stick to your budget, and read the contract carefully. When you’re making a deal remember to:



Stay calm.

Don't be afraid to walk away

Ask questions. If you have **any** doubts or don't understand something, ask.

Get the car checked out by an independent mechanic, if you can.

If you have questions about what the law in Montana says, you may be able to find free legal help.

## **Take Action**

### **Budget**

For help with understanding your budget and credit worthiness:

- Contact a local non-profit offering financial counseling, like Homeward
- Learn more about budgets from [consumer.gov](http://consumer.gov) or [Smartaboutmoney.org](http://Smartaboutmoney.org)
- Go to [annualcreditreport.com](http://annualcreditreport.com)
- Calculate an estimate of the total loan amount you can make monthly payments on.

### **Research**

Find a car make and model that likely fits your budget using:

- [Consumerreports.com](http://Consumerreports.com)
- [Edmunds.com](http://Edmunds.com)
- [KellyBlueBook.com](http://KellyBlueBook.com)
- National Automobile Dealers Association

### **Title History Report:**

- National Motor Vehicle Title Information System Approved Data Providers

## **How do I get more help?**

Montana Legal Services Association (MLSA) provides free civil legal help to low-income people. Contact us to see if you qualify:

- Apply anytime online at [mtlsa.org](http://mtlsa.org);
- Call our Helpline at 1-800-666-6899 (Helpline hours are limited).

## **What help can I find at MLSA?**

- Legal advice and representation;
- Referrals to volunteer attorneys and other providers;
- Self-help clinics and materials.

## **[www.MontanaLawHelp.org](http://www.MontanaLawHelp.org)**

Need legal information or forms? Visit [www.MontanaLawHelp.org](http://www.MontanaLawHelp.org).

Can't find what you want? Use LiveHelp. Click on the LiveHelp icon and get help finding the information you need.

## **[www.MTLSA.org](http://www.MTLSA.org)**

Find copies of all our brochures online.

They are all available for free download!

<p>This pamphlet is meant to give basic legal information, not legal advice about your problem. The law changes often and each case is different. We recommend you talk to an attorney about your legal problem.</p>
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