

Terms Explained – Speaking the Language

Table of Contents

Terms Explained – Speaking the Language	1
Car Terms	1
Loan Terms.....	12
Leasing Terms.....	14
Insurance terms	22
Warranty terms.....	31
Dealership terms	36
Contract terms	41
Pricing & rebate terms.....	42
Credit score terms	46
Car sales terms	49

Car Terms

All Wheel Drive (AWD)

All four wheels are driven by the engine. AWD systems are superior to 4WD because they can be used under any road conditions. AWD systems use a center differential to allow the front and rear wheels to rotate at different speeds. AWD provides better traction than front or rear-wheel drive.

Alloy wheels

Wheels usually made of aluminum alloy; installed to improve appearance. Alloy wheels are less prone to corrosion and can be significantly lighter than the equivalent steel wheels.

Alternator

A device that converts rotational energy to AC current. Alternators provide energy for the vehicle electrical system. The alternator also recharges the battery.

Anti-roll bar (stabilizer bar)

A steel rod or tube that connects the right and left suspension members together to resist roll or swaying of the vehicle. An anti-roll

bar improves the handling of a vehicle by increasing stability during cornering or evasive maneuvers. Most vehicles have front anti-roll bars. Anti-roll bars at both the front and rear wheels can reduce roll further.

Axle, Live or Rigid

A "solid" or "straight" axle that allows the movement of one wheel to affect the opposite wheel. A live axle is inexpensive to manufacture and is useful for heavy duty applications.

Ball Joint

Usually refers to the outboard (wheel) end of a CV joint (halfshaft). The ball joint allows the wheel to steer and move with the suspension and still receive power from the engine. The term ball joint can also be used to refer to how suspension components are attached.

Belts

Belts are used to drive many engine accessories. Most overhead cam (OHC) engines use cogged (toothed) belts to drive the camshaft(s). Belts drive the power steering pump, water pump, air-conditioning compressors, etc.

Brakes, Antilock (ABS)

An acronym for Antilock Braking System. ABS eliminates wheel lockup during braking and loss of steering control on slippery surfaces. Speed sensors monitor each wheel and reduce brake pressure on any wheel rotating significantly slower than the others. ABS systems are 2, 3, or 4-channel systems. 2-channel systems combine 2 wheels, such as the left front and right rear into one channel. The right front and left rear wheel form the other channel. Any wheel lockup causes brake pressure reduction on both wheels of each channel. 3-channel ABS systems combine the rear wheels into one channel. The front wheels have individual channels. The most sophisticated ABS systems use 4-channels, one for each wheel, for maximum control and braking power.

Brakes, Disc

A brake that uses a disc shaped rotor and calipers that hold friction pads. The rotor is attached to the wheel hub and spins with it. The calipers are stationary. When the brake pedal is depressed, the calipers press on the side of the side of the rotor. The friction pads slow the rotor as needed. Most vehicles use disc brakes on the front

wheels. Disc brakes can shed heat and retain their braking power better than drum brakes.

Brakes, Drum

A brake that uses an enclosed rotating drum or "can" and stationary pads (shoes). When the brake pedal is depressed, the brake shoes contact the sides of the "can" and slow the wheel. Drum brakes are usually mounted on rear wheels. Drum brakes are prone to "fade," or heat buildup, which reduces their effectiveness.

Brakes, Calipers

Brake pads are mounted to calipers, which "float" next to the brake disc. The caliper ensures that the brake pads exert even pressure on the disc.

Camshaft

A machined shaft with lobes that opens and closes engine cylinder valves. The crankshaft drives the camshaft through gears, belts, or chains.

Carburetor

A device that mixes fuel and air to provide a combustible mixture. Air blowing over the fuel nozzles (jets) results in an air-fuel mixture burned in the cylinders. Carburetors were common on most vehicles before 1985. Currently, most vehicles use some form of fuel injection instead.

Clutch

A mechanism that uses plates coated with a high-friction material to transfer power. Clutches are also used to isolate rotating and non-rotating components. Clutches can allow slip between components to reduce "shock" loads between rotating and stationary components. Manual transmission vehicles use a clutch to transfer power from the gearbox to the wheels. Air conditioning compressors use clutches as well.

Coil Spring

A spring composed of hardened steel spiral wound used to isolate a vehicle from the road. Coil springs are preferred over leaf springs for their superior ride and control.

Crankshaft

The shaft that converts the linear motion of the pistons into rotation. The crankshaft is connected to the transmission.

Constant Velocity (CV) Joint or Halfshaft

A shaft that transmits engine power from the transmission to the wheel. CV joints allow the wheel to steer and follow suspension motion while receiving power. CV joints are used in front-wheel drive, rear-wheel drive, and all-wheel drive vehicles.

Differential

A mechanical gearbox or fluid coupling that allows wheels to rotate at different speeds.

Distributor

A device that transfers voltage to the spark plug. A rotor in the distributor spins and touches contacts that are connected to spark plug wires. The wires then conduct the voltage to the spark plug.

DOHC

Acronym for dual/double overhead cam (see Overhead Cam)

Driveshaft

A rotating shaft that transfers power from the transmission to the rear wheels.

Engine, Boxer or Flat

A designation for an engine where the cylinders are arranged opposite (180 degrees apart) from each other. Boxer engines are relatively flat compared to inline or "V" engines. Common examples of boxer engines are the Porsche 911 flat-6 and the Subaru flat-4.

Engine, Diesel

An internal combustion engine that compresses fuel until it ignites. A gasoline engine, in contrast, uses a spark plug to start combustion. Diesel engines use kerosene as fuel. Diesel engines usually provide better fuel economy than a comparable displacement gasoline engine; at the cost of lower power.

Engine, Inline

An engine configuration where all cylinders are in one plane. Most 4-cylinder and some 6-cylinder engines are inline. An inline engine is

cheaper to manufacture than a "V" type of engine because the engine block can be a simpler casting.

Engine, V

(e.g. V-8): A "V" engine has two banks of cylinders arranged like a "V". "V" engines have an included angle of around 30-90 degrees that separates the individual banks. "V" engines are more compact than comparable inline engines. A V-8 is significantly shorter, and wider, than an inline-8.

Four Wheel Drive (4WD)

A part time system that transfers engine power to all four wheels. 4WD systems usually lack a center differential that allows use in dry conditions. 4WD provides superior traction compared with front or rear-wheel drive.

Four Wheel Steering (4WS)

A mechanism that allows the rear wheels to steer. The steering angle is usually limited to 2-3 degrees. 4WS improves handling by allowing more stable cornering.

Front Wheel Drive (FWD)

The front wheels receive engine power. FWD provides more traction than rear-wheel drive (RWD) in poor road conditions because more weight is over the drive wheels. FWD also allows better use of interior space than RWD because all drivetrain components are concentrated in the front of the car.

Fuel Injection

A device (injector) that sprays fuel into air to provide a combustible mixture. Fuel injection provides better metering of fuel and air than carburetors. This results in more power, improved fuel economy, and lower emissions. The simplest systems use single or dual injectors in a central chamber to supply all cylinders. More sophisticated systems use an injector at each cylinder to precisely meter fuel.

Generator

A device that converts rotational energy to DC current. Generators were used in older cars to provide electrical energy for the vehicle.

Horsepower (bhp)

The power produced by an engine. Net horsepower or bhp (brake horsepower) and Kw (kilowatts) are the standard units. Higher horsepower increases vehicle top speed. Equal displacement (size) engines that rev higher often produce more power than lower revving engines, because more air and fuel is burned in a given time. A typical 3.0L 24V V-6 produces 190 bhp @ 6400 RPM. A lower revving 3.0L 12V V-6 produces 160 bhp @ 5000 RPM. The 24-valve V-6 makes 190 bhp because it can rev higher (and breathe better) than the similar 12-valve V-6.

Independent Suspension

A suspension where the motion of one wheel does not affect the opposite wheel. Independent suspension allows a vehicle to provide a more level and stable ride.

Leaf Spring

A type of spring made up of several thin, curved, hardened steel plates. The plates are attached at the ends to the underbody. The curved shape of the plates allows them to flex and absorb bumps.

Lights, Driving

Auxiliary lights that extend the reach of standard headlights. Driving lights have a narrower beam than headlights.

Lights, Foglights

Auxiliary lights that provide a wider beam pattern than standard headlights. Foglights are usually mounted lower than headlights to illuminate below fog and reduce reflected glare.

Lights, Halogen

Lights that provide brighter, longer lasting illumination than standard incandescent lights. Halogen bulbs are filled with a gas such as iodine. This gas reduces the gradual evaporation of the tungsten filament and increases its life.

Lights, Projector Beam

A special type of headlight that uses a spherical reflector to tightly control the light beam. Projector beams are relatively expensive compared to standard headlights.

Limited Slip Differential (LSD)

A differential that reduces speed differences between wheels. An LSD improves traction by preventing a slipping wheel from receiving all the engine power.

Lockup Converter

A automatic transmission with a mechanical clutch that bypasses the fluid coupling of the torque converter. A lockup converter is more efficient because there is no wasted energy in the transmission fluid of the torque converter. Most automatic transmissions have a lockup converter for the highest ratio (usually 4th or 5th gear).

MacPherson strut

A combined damper (shock absorber) and spring unit. MacPherson struts are used in most front-wheel drive vehicles for compact packaging. MacPherson struts also allow relatively long springs that can increase suspension travel and increase bump absorption capability.

Multi-link suspension

A general term for independent suspensions that are controlled with several link arms. These links restrict undesired motion of the suspension. Multi-link suspensions provide better handling and ride control than simpler types. They are also more expensive to manufacture.

Octane

A numeric rating of gasoline's resistance to detonation (premature ignition). The higher the octane number, the less chance of detonation. High octane (above 91) is usually worthwhile only if the manufacturer specifically recommends it. Octane is actually a hydrocarbon(C₈H₁₈).

Oil

(e.g. 10W-30): Engine oil comes in various ratings: SAE 5W-30, 10W-30, 10W-40, etc. For example, a 10W-30 rated oil will flow like a light SAE 10-weight oil at low temperatures. The "W" signifies that it is a "winter" rated oil. The "30" designation means that at engine operating temperatures, the oil will behave like a heavier SAE 30-weight oil. Low viscosity at colder temperature allows the oil to circulate more quickly and protect vital engine parts. Higher oil viscosity at elevated temperatures prevents direct metal-to-metal contact.

Oil, Synthetic

Oil that is not derived from raw petroleum. Synthetic oil has superior engine protection properties compared to conventional mineral oil. Synthetic oil costs 3-5 times more than mineral oil.

Overdrive

A transmission ratio below 1:1. For instance, a manual transmission fifth gear ratio could be 0.70:1. Overdrive ratios improve fuel economy by reducing engine RPM at highway speeds.

Overhead Cam (OHC)

OHC means overhead cam. The cam is above the cylinder head. SOHC engines have a single cam over the cylinder head. DOHC engines have two cams above the cylinder head. All OHC, SOHC, and DOHC engines are also OHV.

Overhead Valve (OHV)

An acronym for overhead valve. This simply means that the intake and exhaust valves are above the cylinder head. OHC means overhead cam. The cam is above the cylinder head. SOHC engines have a single cam over the cylinder head. DOHC engines have two cams above the cylinder head. All OHC, SOHC, and DOHC engines are also OHV.

Oversteer

A situation that occurs when the rear wheels contribute to steering the vehicle more in a given direction. This often occurs under hard braking while turning. The rear of the vehicle loses adhesion and starts to rotate in the direction of steering. Oversteer can be used to better place the vehicle coming out of a corner. Usually, oversteer is undesirable because it is difficult to control and can result in a disastrous spin. Most cars are designed not to oversteer under normal conditions.

Pushrod

A metal rod that transmits the motion of the camshaft to the valve actuators. Pushrods are used by non-overhead cam engines to open and close valves.

PS

Pferdestärke is a measurement of metric horsepower.

Rear Wheel Drive (RWD)

The rear wheels receive all the engine power. RWD is preferred over front-wheel drive (FWD) for its superior handling and acceleration capabilities. RWD provides less traction than FWD in poor road conditions because less weight is available over the drive wheels.

RPM

Revolutions per minute. RPM indicates how many times the engine crankshaft rotates per minute.

SOHC

Acronym for single overhead cam (see Overhead Cam)

Spark Plug

The spark plug converts high voltage energy into an arc that passes between its electrodes. The arc causes the gasoline-air mixture in the cylinder to ignite and expand, providing power by pushing down the piston.

Starter

A motor powered by the battery that rotates the crankshaft before the engine is started.

Steering, Power

Assist provided by the engine to reduce steering effort. Power steering is essential to make large, heavy vehicles manageable. Small vehicles often do not require power steering.

Steering, Rack and Pinion

A common steering type. The steering wheel is connected to a pinion gear that meshes with a rack, or linear gear. As the pinion rotates, the rack moves side to side, this moves the steering linkage, causing the wheels to pivot left or right.

Supercharger

A device that compresses air before the engine receives it. The denser air allows the engine to produce more power. For automotive applications, a supercharger usually refers to an engine driven air pump.

Tappet

A pivoting actuator than opens and closes cylinder valves.

Tires, All Season

Tires that provide acceptable traction for winter snow and slush driving conditions, without excessively compromising dry and wet traction.

Tires, Aspect Ratio

(e.g. "60-series tires"): Tire aspect ratio refers to the ratio between the tread (section) width and the sidewall. For example, a 205/50-15 tire would have a sidewall height of 0.50×205 or 102.5 mm. Lower aspect ratios (e.g. 40-series) provide superior handling at the cost of increased ride harshness.

Tires, M+S rating

Tires especially designed to perform well in mud and snow. M+S tires are usually superior to all-season tires under these conditions. The tradeoff is often higher noise and reduced tread life.

Tires, Ratings

(e.g. 300AB): The tire treadwear rating gives an approximate idea of the expected usable life of the tire. A tire rated 300 will probably last 50% longer than a tire rated 200 under identical conditions. Note that since each manufacturer rates tires by its own standards, 300 rated tires from two manufacturers may not provide identical tread life. The traction rating (the first letter) is the manufacturer's rating of wet traction. "A" is best, "C" is worst. The letter gives some indication of the tire's resistance to hydroplaning (losing contact with the road at speed). The temperature rating (the second letter) is the manufacturer's rating of the tire's resistance to heat build-up. "A" is best, "C" is worst. Heat is the enemy of tires. The cooler the tire temperature, the longer it will last.

Torque

A measure of the twisting force. Torque is measured in lb.-ft. (pound-foot) or N-m (Newton-meters). The RPM at which the engine produces maximum torque is important. For instance, if Engine A produces 200 lb.-ft. @ 3000 RPM, and Engine B supplies 200 lb.-ft. @ 5000 RPM, then Engine A will accelerate better at low speeds. Engine B will accelerate better at high speeds.

Torque Converter

A fluid coupling used in automatic transmissions to transmit power from the engine to the wheels. The torque converter allows the

transmission to be engaged while the vehicle is stopped. The transmission fluid absorbs power and prevents engine stalling.

Torsion Bar

A type of spring that twists as it is compressed or stretched. Torsion bar springs are simple and rugged

Traction Control

A general term for limiting wheel slip under acceleration. Traction control systems usually apply brakes and reduce throttle when wheel slip is detected.

Turbocharger

A type of supercharger that uses a turbine to drive a compressor. The turbine, driven by hot gases in the exhaust manifold spins the compressor. The compressor increases the intake air density, and combined with additional fuel, produces more power.

Twist Beam Axle

A semi-independent axle often used on rear suspensions of front-wheel drive vehicles. A horizontal beam connects the two rear wheels together. The beam can twist to reduce the effect of one wheel's motion on the other wheel. A twist-beam axle is less expensive than a fully independent suspension. It is also more compact.

Understeer

Understeer occurs when the front wheels provide less steering than desired in a given direction. Usually the front wheels have lost adhesion and cannot steer effectively. This results in the vehicle "pushing" ahead and responding sluggishly to the steering wheel. Reducing speed can allow the front wheels to regain traction. Most vehicles are designed to exhibit understeer in normal conditions, because it is easier to control than oversteer.

Valves

(e.g. 24 valves) Signifies the total intake and exhaust valves in an engine. For example, a 24-valve V-6 would have 4 valves per cylinder: $24/6=4$. A 16-valve V-8 would have 2 valves per cylinder: $16/8=2$. More valves allow the engine to breathe better at high RPM and produce more power.

Water Pump

A pump that circulates coolant within the engine block and cylinder head. The water pump is driven by the engine crankshaft.

Wheel Size

(e.g. "15 X 7"): Wheel size is defined by the diameter and width of the wheel. A "15 X 7" wheel has a 15-inch diameter and a 7-inch width.

Loan Terms

Acceleration Clause

An agreement that takes place after signing your auto loan papers (not all car loans have this) that says that if you don't make even one payment that the entire balance of your loan is due immediately. Yikes!

Amortize

Also known as Loan Amortization: A loan that is paid off in regular and usually equal monthly payments over the term (length) of the loan.

Appreciation

The process where something's value will rise or "appreciate". Pretty rare with cars, which is why you always want to buy at the lowest price possible!

Annual Percentage Rate

Also known as "APR", "Interest Rate" or "Loan Rate". The rate charged on a loan over a year. A 10% APR would cost you \$100 per year. The APR tells the buyer how much the loan really costs per year.

Assets

The things you own like a house, cars, etc. If those "things" are financed then what you owe on the loan is a liability and the amount you've paid off are assets.

Collateral

These are assets that you will use as collateral to secure a loan. If you don't pay the loan then the finance company can take the assets you put up as collateral.

Credit Line

Also known as "A Line Of Credit". This is a type of loan where you draw money on it as you need it.

Depreciation

This is the amount that an asset loses over time. Once again: Cars depreciate. This is fact – so always buy low, unless you like to burn your money!

Interest

This is the amount that a finance company charges you for letting you use their money.

Late Payment Charge

Also known as the "Overdue Payment Charge" or "Delayed Payment Charge". If you're late on your car loan payment then you may be charged a late fee in addition to your regular monthly payment.

Liabilities

Everything you owe money on is considered a liability.

Lien

If you finance a car, the finance company will hold the title (certificate of ownership) on the car and won't release it to you until you've paid off the debt.

Loan Term

The length of a loan. Car loans are usually measured in months instead of years.

Monthly Payment

The principal and interest combined that is owed on a loan. This is paid off with regular monthly payments over the length (the "term") of the loan.

Negative Equity

This is when you owe more on a vehicle than its worth. Its also referred to as being "Upside Down".

Net Worth

Add up all your assets and then deduct all your liabilities and you end up with your "Net Worth".

Principal

This is the amount you borrow on a car loan. You also need to add the interest on to the principal.

Term Loan

This is a loan that's paid back in a lump sum at the end of the length of the loan.

Upside Down

Also referred to as "Negative Equity". This is when you owe more on a vehicle than its worth.

Vehicle Equity

Also known as "Equity". This is the amount your vehicle is worth when you subtract what you've paid on the vehicle. Usually your cars equity is valued at the wholesale price level.

Leasing Terms

Leasing is a world unto itself with a complex language all its own. Here is a quick guide to common terms.

Acquisition Fees

An acquisition fee is a charge for processing the lease and is probably not negotiable. On a shorter term lease, the acquisition fee can have a larger impact on the cost of the lease.

Acquisition Fee Rate Penalty

This is the impact on the net interest rate of any acquisition fee.

Bank Loan Rate

Based on published rates for new car loans with 20 percent down and 48 month terms, this is calculated as the average loan interest rate for the month. Rates available in any market may differ substantially from this average and this average is only intended as a guide.

Base Interest Rate

Represents the interest paid on the usage of the vehicle in a lease. It is the 'cost' of a lease before factoring in discounts, fees, and penalties. Subsidized leases are often less costly because manufacturers lower the base interest rate. The phrase 'money factor' measures the same cost, but expresses it in a less understandable fashion.

Buy at end-of-term interest rate

This is the effective interest rate for the lease if, at the end of the lease, the car is purchased at the end-of-lease purchase price.

Capitalized (Cap) Cost

This is the total price of the vehicle-in effect, its purchase price. In theory, the cap cost should equal the amount you would pay for the vehicle if you were purchasing the vehicle. When a lease is made, the dealer sells that vehicle to the leasing company, which then leases the vehicle to you. The capitalized cost is the price the dealer actually receives for the vehicle.

Capitalized (Cap) Cost Reduction

This is a fancy name for a cash down payment, money you pay up front that is applied to the final purchase price. A large cap cost reduction will, of course, reduce the monthly payments, but it will also negate one of the big advantages of leasing. However, if you own your present car, you may be able to use it, as a trade-in, to satisfy the cap cost reduction to start the lease.

Another source of capital cost reduction may be dealer or manufacturer participation. Dealers and manufacturers will sometimes simply lower the cap cost or offer a rebate that reduces the cap cost. A dealer or manufacturer cap cost reduction does lower your total out-of-pocket dollars, unlike a cap cost reduction that you must pay.

Closed and Open End Leases

Most leases offered today are closed-end leases, meaning that the residual value is fixed and stated in the lease contract (the stated residual value). The lessee's financial obligations are unaffected by what the vehicle is actually worth when the lease ends. In other

words, the lessee assumes no risk for the depreciation of the vehicle.

With an open-end lease, there is still a residual value set at the beginning of the lease. However, if the car is worth less than the residual value at the lease's end, the lessee must pay the difference. In other words, the lessee assumes the risk for depreciation with an open-end lease.

Credit Union Loan Rate

Based on published rates for new car loans with 20 percent down and 48 month terms, this is calculated as the average loan rate for the month. Rates available in any market may differ substantially from this average and this average is only intended as a guide.

Dealer Participation

This is the amount contributed by the dealer to reduce the final purchase price in the lease contract. Dealer participation can take the form of a rebate or simply a discount. The dealer participation is reflected in the lease contract as a *capital cost reduction* .

Deposit Rate Penalty

This measures the impact on the interest rate of any cash deposit that is usually made at lease inception. Even though you get the deposit back, you lose any interest that your deposit could earn for the duration of the lease.

Depreciation

The amount by which property loses its value. In automobile leasing, depreciation is the difference between the new car cost and the value of the car at the end of the lease.

Disposition Fee

This is a fee you pay at the end of the lease, to the lessor, which covers the lessor's cost of getting the vehicle ready for sale after you have returned the vehicle. It is often applied against any deposit you made at lease inception.

Disposition Rate Penalty

This measures the impact on the net interest rate of any disposition fee that must be made at lease termination.

"Down" Payment

See Capital Cost Reduction

Early Termination

A vehicle's depreciation is highest in the first few months after it leaves the dealer's lot. Since a lessee pays for depreciation in equal monthly payments, lessees who end a lease early have almost always used up more of a car's value than they've paid for.

Therefore, lease contracts generally include penalties for early termination. Be aware of these penalties before you sign the lease contract and consider your ability to fulfill the contract.

End of Lease Purchase Price

If there is a purchase option in the lease contract or agreement, this will be the agreed upon price for the purchase of the vehicle at the end of the lease-the stated residual value. This price may also include additional fees.

Final Purchase Price

This price is equivalent to the amount you would pay for the vehicle if you were buying or financing rather than leasing. The final purchase price does not include any 'down' payment by the lessee.

Gap Insurance

Gap insurance covers you against additional losses not covered by your auto insurance in the case of an accident in which the vehicle is totaled. Most auto insurance will cover the actual cash value of the car at the time of its loss. Gap insurance covers the difference (gap) between the actual cash value of the vehicle and what is owed on the lease contract, including early termination fees. Gap insurance is most important in the early years of a lease when the difference between the value of the car and what is owed are greatest. Some manufacturers now include Gap insurance in their leases.

Lease Term

This is the duration of the lease. 24 and 36 month leases are the most common but you can lease a car for 12, 48, or even 60 months if you choose. Remember that your monthly payment will change depending on the length of the lease.

Lessee

The individual or party signing the lease contract and taking responsibility for the vehicle and lease payments.

Lessor

The individual, dealer, business, manufacturer, or financial institution that owns the vehicle.

Independent Lessor

Independent Lessors are usually individual businesses that can provide for the lease of virtually any make or model of vehicle. Independent lessors, like dealers, can write custom leases including those with different conditions and special mileage considerations.

MSRP

Manufacturer suggested retail price.

Manufacturer Discounts

In some leases, particularly subvented leases, the manufacturer reduces the MSRP which lowers the purchase price of the vehicle, which the lease is based on. This is a form of capitalized cost reduction.

Mileage Allowance

Lease agreements usually establish the average miles per year that the car may be driven during the lease. This is often between 12,000 and 15,000 miles. The lease contract also establishes the amount you'll have to pay for every mile driven over the allowance. This mileage fee is usually 15 cents per mile.

Miscellaneous Fees

There are usually an number of assorted fees associated with a lease. These fees may include an acquisition fee-a sort of processing fee and/or a disposition fee for getting the car ready for sale at the end of the lease.

Money Factor

The most common way to express the base interest rate of a lease is as a money factor. If you multiply a money factor by 24 (or 2400, depending on how the money factor is expressed), the result will be equivalent to the base interest rate. The money factor of most leases

is known by a dealer's sales staff.

The money factor is the cost of money, just as the interest rate. However, money factors are used almost exclusively in leases, whereas interest rates are used everywhere else.

Monthly Payment

The amount that must be paid each month to satisfy the lease contract. It is common for the monthly payment shown in lease advertisements to exclude any applicable taxes which will add to the amount paid each month.

Net Capitalized Cost

This is the price of the vehicle after deducting any dealer participation, manufacturer discounts, and cap cost reduction ('down' payment) from MSRP.

Net Interest Rate

This is the total interest rate for the lease. It represents the true cost of the lease offer. Because it considers all factors that influence the cost of the lease, it is directly comparable to bank and credit union loan rates. The lower the net interest rate, the lower the cost of the lease.

Opportunity Cost

The cost of what you didn't do. For instance, if you have the cash to buy a car, the opportunity cost of the purchase is the interest lost on the cash you used for the car. One of the often-cited advantages of leasing is that it frees up your money to invest elsewhere.

Purchase Option

Most closed-end leases grant the lessee an option to purchase the vehicle at the end of the lease. The end-of-lease purchase price is often referred to as the residual value. Check the lease contract before signing to ensure that there is a purchase option. The lessor must disclose the purchase option price prior to your signing the lease contract.

Purchase Price

This is the price you would expect to pay for the vehicle if you were financing or buying the vehicle. To determine the purchase price,

start with MSRP and subtract any manufacturer discount, and dealer discount that you negotiate. Purchase price is a key determinant of the true cost of a lease. Purchase price less your down payment is the net capitalized cost.

Purchase Price Discount

If the final purchase price of the vehicle is less than the target purchase price, then there is a benefit to you as the lessee because you will have to pay for less of the vehicle's value over the lease term resulting in a reduction of the net interest rate.

Purchase Price Penalty

If the final purchase price of the vehicle is more than the target purchase price, then the amount of the car you'll be paying for is increased which results in an increase to the net interest rate.

Refundable Deposit

This is a refundable deposit required at lease inception. In some cases it may be used to satisfy the final monthly payment. It is sometimes called a security deposit.

Residual Discount

If the end-of-lease purchase price is greater than the expected end-of-lease value (expected residual value) then the dollar difference represents the value of the vehicle that you will not pay for during the lease.

Residual Penalty

If the end-of-lease purchase price is less than the expected end-of-lease value (expected residual value) then the dollar difference represents the additional value of the vehicle you'll pay for during the lease.

Residual Rate Discount

This measures the positive impact on the net interest rate of a residual value that is set too high. It is shown as a negative number to reflect the decrease in the net interest rate that results.

Residual Rate Penalty

This measures the negative impact on the net interest rate of a residual value that is set too low. It is shown as a positive number to

reflect the increase in the net interest rate that results.

Residual Value, Expected

This is the projected expected value of the vehicle at the end of the lease. Residual value is a measure of the vehicle's expected depreciation.

Residual Value Stated

The stated residual value is the same as the end-of-lease purchase price. The higher the stated residual value of the car, the lower your monthly payments. Stated residual value may be higher or lower than the expected residual value.

Stated residual value also determines whether you should buy the vehicle at the end of the lease. If at the end of a lease, the vehicle's market value is less than the stated residual value, the lessee would be prudent not to purchase the car. On the other hand, if the actual market value were greater than the predetermined residual, then the lessee should buy the car, sell it, and pocket the difference.

Subvented (Subsidized) Lease

A subvented lease is a special lease offered by manufacturers with special incentives to make it more attractive. These special incentives often take the form of a lower base interest rate, higher residual values, and manufacturer discounts. In many cases, a subvented lease will have a lower net interest rate than other leases. Subvented leases are usually available for a limited time and the terms are not negotiable. Any negotiated change in the terms will result in a different net interest rate.

Target Purchase Price

This is the price that you can reasonably expect to negotiate for the vehicle as configured; however, it is not necessarily the lowest price. It includes an average acceptable markup for the dealer and reflects recent market conditions.

Total Out of Pocket Cost

This is the total of all monthly payments, any lease fees and deposits, and any capital cost reduction (except tax, license, and registration) from lease inception to closure.

Wear and Tear

It's your responsibility to keep the car in good condition. Return the car with a dented fender, bald tires, or a ruined engine because of lack of routine maintenance and you'll be charged for the repairs. Some wear and tear is allowed, of course. But if you aren't inclined to take reasonable care of your car, then a leased car may not be for you.

Insurance terms

Car insurance terminology can get confusing at the best of times. When you're shopping for quotes, you need translation help and here it is:

Accident

What auto insurance is designed to cover. Accidents may be considered either at fault or not at fault. If you have at fault accidents on your driving record, your rates will be higher.

Additional Insured or Additional Interest

A person or entity, other than the named insured or covered person, who is protected under the named insured's auto policy. If an auto is leased, the leasing company may want to be listed as an Additional Insured as well as a lien holder or loss payee. This protects the leasing company if it's named in a lawsuit for an accident caused by a policyholder.

Anti-Theft Device

Devices intended to prevent theft or vandalism, or to assist in the recovery of a stolen vehicle. Some examples include etched VIN numbers, car alarms, the "Club" and other such devices, etc.

Assigned Risk

A poor risk that an insurance company is compelled to cover under state laws.

Automobile Insurance

Insurance designed to protect against losses involving automobiles. All types of policies, including basic liability, collision and comprehensive,

etc. come together to constitute automobile insurance.

Basic Limits of Liability

These vary locally, they are the lowest amounts of liability coverage that you can legally buy in your state.

Bodily Injury Liability

The legal definition for causing physical harm to another person.

Classic Car Insurance

A special type of coverage, which applies to collector cars, that could not be otherwise insured through regular channels.

Collision Insurance

A policy that covers the damage to your own vehicle in the event of an accident.

Combined Single Limit

Bodily Injury and Property Damage coverage *combined* into one single amount of coverage.

Comprehensive Coverage

A policy that covers the damage to your own vehicle in caused by an event other than an auto accident. For example, theft, vandalism, etc would be covered by such a policy.

Continuous Coverage or Continuous Liability Insurance

The length of time you have had your vehicle insured without a break in coverage (some insurers require at least six months.)

Covered Person

The person(s) insured under a policy contract.

Deductible

The minimum amount you will have to pay before your own insurance policy begins to reimburse you for your loss. Normally, policies with a higher deductible will have lower premiums (they'll be cheaper.)

Defensive Driver Course

Courses offered by your own state's DMV or by an approved entity that promote safe driving. Upon completion of such a course, you may become eligible for lower insurance rates. A good deal if you can get it.

Discount Auto Insurance

A policy is eligible for premium discounts if something about the driver or car that makes the policy a better-than-average risk.

Drive-Other-Car Endorsement

A part of your policy that extends coverage to any other car you might be driving (for example, a rental car.)

Driver Education

A course accredited by your state's DMV, consisting of at least **30** hours of professional classroom instruction. Often required for teen car insurance.

Driver Training

A course accredited by your state's DMV, consisting of at least **6** hours of behind-the-wheel training.

Earned Premium

The part of your premium used up by any given point in the life of your policy. After six of coverage on a twelve-month policy, one half of your premium will have been "earned".

Effective Date/Inception Date

The actually date on which your policy begins to cover you against losses (not necessarily the day you pay, or sign, etc.)

Expiration Date

The date your coverage ends. There is also usually a time involved, for example Midnight of such and such day.

Financial Ratings

Ratings, similar to credit ratings, of insurance providers meant to accurately represent a carrier's ability to meet claims. Often mentioned ratings are by agencies such as Standard and Poor's and AM Best.

Financial Responsibility Filing (SR22)

A requirement by a state regulatory entity (usually the state Motor Vehicle Department) for an insurance company to certify on a driver's behalf that the driver has the ability to pay future claims up to the state required limit. The certification is done by means of a form called

an SR-22.

Financial Responsibility Laws

State laws requiring drivers to maintain enough insurance to cover accidental losses to others. Law and limits vary state-by-state.

First Party Benefits

Often also know as Personal Injury Protection (PIP) or Medical Coverage, this policy pays for physical injuries sustained by the occupants of your car in the event of *any* accident, regardless of who was at fault. This is generally not a good deal, as a good health insurance policy would cover these injuries anyway.

Gap Auto Insurance

A gap car insurance policy insures you for the difference between what you owe on your car and what your insurance company says it's worth. Often required when buying or leasing a new car.

Garage Address

Where you park your car at night.

Good Driver Discount

Better insurance companies offer discounts to customers with good driving records. If you have a good driving record, get a quick quote from Electric Insurance or find the car insurance providers in your state.

Good Student Discount

A discount which sometimes applies to teen car insurance when the driver maintains at least a "B" average at school.

ID (Identification) Card

A document identifying you as having liability coverage for the vehicle that you are driving. Liability insurance is required in most states.

Installment Fee

A fee often required if you prefer to spread your payments over time.

Insured Person

The person(s) insured under a policy contract. (Same as a *covered* person.)

Lapse in Coverage

Also known as *policy lapse*. The point in time when a policy is canceled for any reason, including failure to pay, change of provider, etc.

Lender

The lender is the entity (usually a bank) which lends you the money to purchase a car. They are usually the loss payees, until you pay off the balance of the loan.

Lessor

Similar to the lender, the lessor is the entity which *leases* your vehicle to you. This is quite often the financial arm of the car company itself.

Note: both lenders and lessors may require that you purchase gap auto insurance to fully protect the value of your car.

Liability Insurance

Insurance coverage to protect against claims alleging that one's negligence or inappropriate action resulted in bodily injury or property damage.

Loss Payee/Lien holder

Usually your *lender* or *lessor*, this is the person or entity to whom loss payments are made, in addition to you. [Liability Coverage](#)

Insurance that provides compensation for a harm or wrong to a third party for which an insured is legally obligated to pay.

Longevity

Insurance companies often reward their long-time customers with premium discounts. An insurer may provide a discount after an insured has been with the company for a specified amount of time.

Medical Payments Coverage

Medical payments coverage, also called personal injury protection, or PIP, covers the cost of injuries to you, your family, and your passengers.

Minimum Liability Limits

These vary locally, they are the lowest amounts of liability coverage that you can legally buy in your state.

Multi-car discount

Discount often given when insuring multiple vehicles under the same policy. By choosing this option, you will almost always save over having separate policies for each car.

Named Driver Exclusion

An individual specifically identified on the policy as an excluded driver. This often applies to teen-aged family members, whose inclusion in a policy would raise the premium considerably.

Named Insured

Entities or individuals named on the policy as insured by that policy. Most commonly this refers to spouses and other relatives living in the household.

No Fault Insurance

An auto insurance policy that insures the holder for injury-related benefits caused by an auto accident, regardless of fault in the accident. Covered benefits may include medical costs, loss of wages, loss of services, and funeral expenses. In return for these guaranteed benefits, the right to sue for damages caused by an auto accident is limited. Thirteen states currently use some form of *no fault insurance*.

Number of Drivers

Somewhat self-explanatory: the number of drivers who covered under your policy. This usually includes you, your spouse, and any relatives living in your household (unless otherwise excluded.)

Number of Vehicles

The number of cars covered under your policy. If you want to insure more than *four* vehicles, you may have to purchase an additional policy.

Occupation

Insurance companies often use your occupation, and the distance that you drive to work every day, to calculate risk. Certain professions incur higher premiums, though this is not common.

Odometer Reading

The total number of miles that a car has been driven in its "lifetime". Certain insurers will not even offer a quote for vehicles with more than a set amount of miles on its odometer.

Per Occurrence Limit

This refers to the cap amount an insurance company will pay for all claims arising from a single incident. In an automobile accident, it comprises bodily injuries sustained by all parties. When Bodily Injury coverage is purchased in split limits, the second limit is the "per occurrence" limit: e.g. \$100,000(per person)/\$300,000(per occurrence.)

Per Person Limit

This refers to the cap amount an insurance company will pay for any one person's injuries arising from a single incident. In an automobile accident, it comprises bodily injuries sustained by each person. When Bodily Injury is purchased in split limits, the first limit is the "per person" limit: e.g. \$100,000(per person)/\$300,000(per occurrence.)

Personal Auto Policy

Also known as "PAP", personal auto policies are the most common type of auto insurance policies sold. They include coverage for liability, medical payments, uninsured/underinsured motorist coverage, and physical damage protection.

Personal Injury Protection

Also known as "PIP", this is the name given to no fault benefits in those states that have some sort of no fault auto insurance laws. This type of coverage usually includes benefits for medical expenses, loss of income, essential services, accidental death, funeral expenses, and survivor benefits.

Physical Damage

The physical damage to the covered vehicle caused by (though often not limited to) collision with another vehicle, vandalism, theft, etc.

Policy

The actual contract between you and the insurance company which spells out your coverage levels, rights, and obligations. Learn more about the contents of insurance policy documents.

Policy Period

The period of time during which you are covered by your policy.

Premium

The cost of your insurance policy and all the included coverage.

Pro Rata Cancellation

What happens when you cancel your policy before it expires. *Pro Rata* refers to the amount of money that may be refunded to you based on the amount of time left on your policy that you have already paid for.

Property Damage Liability

Coverage for physical damage caused to property when the insured person is liable.

Rated Annual Mileage

This is the annual mileage that is used to determine the mileage rating classification that is applied to a vehicle.

Rental Reimbursement

This optional coverage will pay for the use of a rental car while damage to your car is being fixed or while the claim for a totaled vehicle is processed.

Safety Equipment

Enhancements in your car, such as automatic seat belts and driver-side and passenger-side airbags, which reduce your risk of being injured in a collision. Vehicles with safety equipment often qualify for discount car insurance.

Split Limit

Limits set on the types of coverages that are part of one group of benefits. Most often applied to liability insurance.

SR-22 (Financial Responsibility Filing)

A requirement by a state regulatory entity (usually the state Motor Vehicle Department) for an insurance company to certify on a driver's behalf that the driver has the ability to pay future claims up to the state required limit. The certification is done by means of a form called an SR-22.

Suspended or Revoked License

Drivers with a license suspension on their driving record face higher premiums, and are often barred from getting insurance coverage from mainstream companies.

Term

The period of time during which the policy is in effect.

Threshold Level

In the case of some no fault insurance laws, the point at which the insured may bring tort action for non-economic (pain and suffering) damages under a No Fault Auto Plan. Many of these plans prohibit tort action for pain and suffering unless medical bills exceed a set figure, or disfigurement or death occur.

Tort

A private wrong or harm (other than a breach of contract) committed against another, resulting in legal liability. A tort is either intentional or accidental (negligent). Auto liability insurance is purchased to protect one from suits arising from unintentional torts.

Towing and Labor Costs

An endorsement, which pays for the costs associated with certain repairs and towing in the event of an accident. You're better off with an auto club.

Uninsured Motorists Bodily Injury

Uninsured motorists bodily injury coverage (which must be offered in most states) pays for a covered person's bodily injuries for which an uninsured or hit-and-run motorist is legally liable, but unable to pay.

Underinsured Motorists Bodily Injury

Underinsured motorists bodily injury coverage (which must be offered in most states) pays for a covered person's bodily injuries for which a person with not enough insurance is legally liable.

Uninsured/Underinsured Motorists Coverage

This coverage provides protection for the insured, resident relatives, and occupants of a covered vehicle in an accident in which the owner or operator of a motor vehicle who is legally liable and either does not have sufficient coverage or does not have any insurance to cover the loss.

Unearned Premium

The part of your policy term remaining before expiration. If your six-month policy is in effect a months, the unearned premium is 5/6.

Usage

The primary function of your vehicle, can be categorized as either "business", "commute", or "pleasure".

VIN (Vehicle Identification Number)

The Vehicle Identification Number is a 17 digit number (which includes both numbers and letters) unique to your car. The VIN tells the company the make, model, body type and year of the insured vehicle. You can find your VIN in several places including the title to your vehicle, your vehicle registration, your insurance card, your insurance policy, the dashboard of your vehicle, the driver side door or engine of your vehicle.

Waiver of Collision Deductible

If you have collision coverage on your car, this option pays your deductible for damage caused by an uninsured or hit-and-run driver, if you can identify the driver and car that caused the damage.

Whole Dollar Premium

Simply stated, premiums are rounded to nearest dollar, up for amounts over 51 cents, and down for fifty cents and lower.

Warranty terms

Administrator

The company that authorizes and pays the repair facility for repair work to your vehicle. The administrator works with the repair facility to make sure your claim is handled properly. As they are the company that pays your claim, their financial strength is the most important factor in choosing a warranty company.

A.M. Best & Co

A.M. Best Company is the leading source for insurance company ratings, analysis and information. A sound warranty administrator will have a rated insurance company backing them. A.M. Best can provide a rating for that company. You can visit their web site at www.ambest.com.

Auto Warranty

See Extended warranty.

Basic Warranty

The specific terms established by each manufacturer to repair vehicles through a specified mileage and/or time period. All factory installed and many dealer installed parts are covered under this warranty.

Bumper-to-Bumper Warranty

The most comprehensive warranty you can buy. It will cover all parts of your vehicle and will only exclude a small list. Because the coverage is so comprehensive, it will only list the few parts not covered. Most similar to the manufacturer's warranty.

Car Warranty

See Extended warranty

Certified Car

Many cars sold used or off lease are certified by the manufacturer. This means they have undergone a quality inspection process prior to sale. Often, a limited powertrain warranty is attached to them. They do not have extended or bumper-to-bumper warranties. There is no industry standard for certification.

Claims Reserve Accounts

An insured account that the administrator will maintain to pay future claims.

Consumable Items

Parts such as tires, batteries, clutch plates and wiper blades that are not covered under any warranty.

Corrosion Warranty

Covers rust through perforation on sheet metal. Offered as original warranty on new vehicles. Extended warranties do not cover corrosion.

Deductible

The amount that you must pay the repair facility for work when vehicle is being repaired. Many plans are offered with a zero deductible option.

Drivetrain warranty

See powertrain warranty.

Emissions Warranties

The Federal Emissions Warranty guidelines are based on federal regulations and apply to vehicles in all 50 states. Vehicles are covered by two types of emissions control system warranty, "Emission Defect Warranty" and "Emissions Performance Warranty".

Depending on the state you live in, the Performance Warranty is for 3 years/50,000 miles.

The Defect Warranty is generally consistent with the manufacturer's bumper-to-bumper warranty with certain parts (catalytic converter and electronic emissions controls (PCM) for up to 8 years/80,000 miles. Please refer to your owner's manual for your exact coverage.

Extended Warranty

A policy which protects the car owner against mechanical failures and breakdowns. Extended warranties are often referred to as Vehicle Service Contracts. The warranty will pay for covered repairs after the manufacturer's warranty has expired.

Exclusionary Policy

The most comprehensive extended warranty available. It is typically referred to as a "bumper to bumper" policy. This particular policy lists components of your vehicle that are not covered under the warranty. If a part or component is not listed, then it is covered under an exclusionary policy. Most similar to new car warranty.

Gray Market Vehicle

A vehicle not manufactured for sale in the U.S. They often do not meet U.S. standards and carry no manufacturer warranty. These vehicles are typically ineligible for extended warranties.

Inclusionary Policy

A policy that lists the components and parts that are covered by the extended warranty. If the component or part is not listed, then it is not covered.

In-Service Date

The date the Vehicle was purchased by the original owner and driven or the date the Vehicle was placed in use for rental, demonstration or other purposes.

Insurance Company

The insurance company that issues an insurance policy and guarantees the obligations of the administrator. (See also A.M. Best)

Lemon Law

The general definition of a Lemon Law vehicle: A vehicle with (a) major, repeated problem(s) that has been repurchased by, or had its purchase price renegotiated with, the manufacturer. The state then earmarks these as Lemon Law or Buyback vehicles. These vehicles are ineligible for coverage.

Maintenance Guidelines

This is the normal, routine maintenance that is recommended by the manufacturer of your vehicle to keep the vehicle in optimum condition. These include such things as oil changes, tune-ups, checking fluid levels, tire rotations, wheel alignments, belts, hoses and others as described in your owner's manual.

Manufacturer's Warranty

This is the standard warranty that every new vehicle sold comes with. All factory-installed parts are covered against defects. Typical manufacturer warranties are 3 years or 36,000 miles or 4 years or 50,000 miles. Check your manufacturer's warranty manual for warranty information or visit our Manufacturer's Warranty page.

Mechanical Breakdown Insurance (MBI)

A policy, contract, or agreement that undertakes to perform or provide repair or replacement service, or indemnification for that service, for the operational failure of a motor vehicle due to a defect in materials or skill of work or normal wear and tear, and that is issued by an insurance company authorized to do business in California.

A mechanical breakdown insurance policy (MBI) is a true insurance product. Like personal auto or homeowners insurance, the MBI creates a direct relationship between the vehicle owner and the insurance company. MBI coverages and premiums are regulated by the California Department of Insurance, assuring a fair price for the coverage is provided. Likewise, administrative, underwriting, and claim handling functions are subject to the review and control of the California Department of Insurance. They would also be covered by the California State Insurance Guarantee Fund providing a higher level of consumer

protection over other types of contracts, including those that may be issued at the dealership or from a third party company.

Power Train Warranty

A very limited warranty from the manufacturer that covers certain parts of your vehicle's engine, transmission and drive train assembly. If any of these components fail while the vehicle is covered under the powertrain warranty, the manufacturer is responsible for the repair. These warranties cover only about 25% of the vehicle.

Rebuilt Title

See salvage title.

Repair Facility

An authorized licensed repair facility located in the United States or Canada. This includes your dealership, local mechanic or national repair facilities.

Rental Benefit

The amount you will be reimbursed for actual expenses incurred for substitute transportation while your vehicle is being repaired.

Roadside Assistance

A program that provides you with a toll-free telephone number to call 24 hours a day 365 days a year. This is for assistance when your vehicle breaks down or when there is a vehicle emergency (towing, battery assistance, flat tire assistance, emergency lock out, or fuel, oil, fluid and water delivery) All Warranty Direct plans include free roadside assistance for the full term of the warranty.

Salvage Title

A title issued on a vehicle where an insurance company has declared the vehicle a total loss. These vehicles were typically involved in a flood or severe accident. These vehicles are not eligible for extended warranties.

Transferability

A vehicle having an extended warranty can have the warranty transferred to the new owner of the vehicle if the vehicle is sold privately for a modest fee. An extended warranty can not be transferred to a dealer.

Travel Interruption Benefit

In the event of your vehicle not being operable and caused a delay en route and you are more than 100 miles from your home, this is the amount you will be reimbursed per day for restaurants and lodging.

Vehicle Identification Number (VIN)

Your VIN is located in several areas and is a unique 17-digit identifier of your vehicle. The most common are:

- On the driver's side dashboard of your car
- On your insurance card
- On the title to your vehicle
- On the vehicle's registration card
- On a sticker inside the driver's side door

Wear-and-tear

Wear and tear warranties provide a broader contractual definition of what will be covered. Under all our programs, you are covered for parts that break as well as those that have worn beyond the manufacturer's tolerances.

Dealership terms

Allowance Buyer

These are buyers who's primary concern is getting as much as they can for their trade-in. Understand that whatever the car dealer gives beyond what they can "flip" it for (sell it) at a wholesale auction, they will tack on to other areas of your car deal, like paying full MSRP for the car, extra points on the car loan, bogus "fee's" like the car paint sealant scam, etc.

Back End

Also known as "Back End Gross" or "Backroom". Any money the dealer makes that is not part of the actual sale of a car. This includes outrageously exorbitant fees for fabric scotch guard, paint sealant, window etching, extended warranties, loans and car accessories.

Bait and Switch

Also known as "Switch" or "Switched". Up-selling a potential car buyer to a more expensive car than what they were considering.

Bargaining Cubicle

Also known as the "Negotiating Room", "Cube" or "Vertical Coffin". This is the little room where the sales people will work you. Stay out of this place!

Bump

Also known as "Bump and Grind". A common sales technique used to incrementally raise the price of the vehicle. When you make an offer on a car, the sales person will inevitably tell you some bogus line like: "Gee, I know my boss will freak out if I take this offer to him so how about if we raise it ("Bump") by \$150.00 (or whatever) and then he will at least listen to me?" So that's the first "bump" and on it will go. The sooner you succumb to the "Bump" the more bumps in the price you can expect. This series of bumps is known as the "Grind".

Closer

It's the bottom of the ninth. Your team is ahead by one point and out comes a very specialized pitcher known as the "Closer". This guy's whole job is to pitch so well that he preserves your lead – thus you win! On a car lot this is usually the most experienced seller. This person's job is to close the sale. I suggest when you first start out with a salesperson that you ask them immediately if they have the authority to finalize the sale of a car. If they say "no", then find someone who can. Doing so will save you a lot of time and aggravation.

Corporate Cities

This is a situation where the car manufacturers actually own part of a car dealership and assist in the management of it. It's a fairly recent thing. The downside for the car buyer is that if the manufacturers own part of a number of dealers in your area then there won't be much room for negotiating a lower price than the other dealership that is co-owned.

Dealer Option

Also known as "Dealer Add Ons", "Dealer Installed Options", "Add Ons". These are options added by the car dealership and not the manufacturer. These include things like pin striping, body flare moldings, paint sealant, special wheels, fabric Scotch guard protection, rust proofing, window VIN etching, extended car warranties, paint sealant, etc. My suggestion is to bail on these "Add Ons" from the

dealer because you can buy them for a fraction of the cost from aftermarket sources.

Dealership Principal

Also known as "The Dealer", "Dealer" or "Franchisee". This is the person or persons that owns the car dealership.

Dealership

Also known as "Dealer Franchise" or "Dealer". For the owner of a car lot to get a dealership to sell cars under the manufacturers name they must have a franchise agreement with the car manufacture.

Finance & Insurance Manager

Also known as the "Business Manager" or "F & I". This is the last person you will see during the car buying process. This person is known as the "F & I Monster", and for good reason. They are usually very good closers and are responsible for completing your loan and selling you an expensive extended car warranty and all that other stuff I describe in the "Dealer Option" category above. This person will use every smoke and mirrors type of trick available. You can end up so confused within minutes after entering his office that you won't know your head from your arse! But now that you've been warned then it shouldn't be an issue for you, right?

Fleet Manager

Lets say your business needs to buy ten cargo vans (or whatever) then this is the person that handles fleet sales for the car dealership.

Front End Gross

Also known as "Front End" or "Front End Gross". This is the profit a car dealer makes on the sale of a new or used car.

General Manager

This is the person below the dealer's owner. They are in charge of handling all the day-to-day tasks involved in running a car dealership.

Haggle Free

Also known as "No Dicker Sticker" or "No Hagglng". This is one of those car dealerships like Saturn where there is no negotiating (or hagglng) for the price of the car and you pay what they tell you. This type of car buying is for the timid. Expect to pay more for any vehicle sold at a place like this.

House Sale

A sale that has no commission. Some cars are offered as loss leaders in order to draw customers to the dealership and hopefully sell them something more expensive. These are usually "House Sales".

Leaser

A "Leaser" is a buyer who leases (rents) a car instead of buying. Car sales people are trained to watch for this type of buyer. Know what you're getting into before you lease a car because it's a totally different animal than buying.

Low Ball Offer

Also known as "LB" or "Low Balled". This is a really low offer that the salesperson will offer you to keep you at their car lot or to get you to come in if you ask them over the phone. My experience is that the phone low-ball offers are almost always bogus. When you get there that person that made the offer will have "gone home for the day" or "Gee, there must be some misunderstanding", etc.

Mega Dealer

This is a car dealership owner that owns more than one car dealership in a given area.

Pack

Also known as "Payment Packing". One of the first things the salesperson will ask you as you are walking across the car lot is "How much do you want your monthly payments to be?" Tell them you are concerned more about the out the door price on the car and not the monthly payment. This is a method where the car buyer is quoted a monthly payment that falls within their budget because this is their biggest concern. If you buy a car like this then you can expect to pay dearly for it because there are many other costs to consider, like the interest on the loan, the length of the loan, the down payment and the actual purchase price.

Payment Buyer

Do not reveal to the salesperson that you will be making payments on the car until you have a firm out the door total price on the vehicle. Car salespeople love uneducated payment buyers because they will up-sell you to a much more expensive car that still falls within your

monthly budget. The only problem is that your loan will go on for years longer!

Qualify

Also known as "Qualifying". Part of the process the salesperson uses to find out if you're a real buyer and what type of real buyer you are. This manifests in a series of innocent questions that if not prepared will peg you as a "Looky-Lou", payment buyer, etc. Be prepared for this because your answers will determine the attack the sales people will take with you.

Sales Manager

This is the individual that manages the sales department.

Salesperson

The person who sells cars! Some are as sleazy as any human can possibly be and some are really honest wonderful people.

Service Manager

The person in charge of all repairs and maintenance of the vehicles.

Spot Delivery

The paperwork is signed and a car is immediately given or delivered to the buyer from the dealerships inventory.

Switch to Spiff

When a dealer has a problem selling a particular car the sales manager will offer some super-duper cash incentives to the sales force to the first one to unload this dog.

Tent Sale

Just a big heavily advertised car sale where the dealer will put up a big tent on their car lot advertising the "lowest prices in the Universe!!!" I wouldn't bother with these things because its usually just a bunch of hype.

Tower

The sales managers office is sometimes referred to as the "Tower".

Turn Over

Also known as "T.O." This is where you are handed off to a different salesperson. Sometimes this is used to confuse you and wear you

down in order to make you more pliable for the kill. If it happens at the very beginning of the process then it might not be an issue, but if it happens in the middle then you need to let them know that you are aware of their games and that you aren't going to take this crap and that you will walk – and mean it too!

Used Car Manager

This is the Sales Manager for a used car lot.

Contract terms

Insurance Card

Some states, like California and Hawaii, require you to have documentation in your car proving that you carry car insurance. If you ever get stopped by the Police then they will ask for this along with your registration and drivers license. If you don't have one then you could be liable for a very stiff fine plus they will impound your car on the spot.

Registration

This is usually an annual fee (a tax) that is paid to the State for the use of your car. You're supposed to keep this in your car at all times. It shows all the particulars of your car like make, model, year, VIN, weight and the registered owners name and address.

Safety Check

Some states require you to take your vehicle to a state certified Safety Check outlet (usually a service station) once a year and have it inspected to make sure that all the things that supposedly make a vehicle safe to drive are functioning correctly. These include things like: Condition of your tires, brakes, all lights, horn, intact body panels, etc. It's not a bad idea for places like Hawaii where a relatively new car can literally fall apart in front of your eyes due to the rust. The challenge is finding a place that doesn't impose their arbitrary standards because they like you that day or not.

Service Documentation

The paperwork for your car showing repair descriptions, parts and costs, and all maintenance done for your vehicle. You should always

keep these papers so you will have a history of your vehicle and know what's been done and when you need to do it next. This is also great for re-sale value because you can show your potential buyers of your car its history and that goes a lot farther than just telling them since they don't know who the heck you are.

Smog Certificate

Some states like California require you to have your car go through a smog check every two years for the purpose of making sure that your car isn't belching out too much filthy exhaust. This Smog Certificate is also required every time you sell a vehicle. The burden is usually on the seller to provide this to the buyer, but that's negotiable. I would be very careful about buying any car where the seller does not provide a Smog Certificate because in California your car can be considered a "Gross Polluter" by the state if it doesn't pass. Plus, the repairs to bring it up to state standards could cost you more than the car is worth. Certain commercial vehicles, diesels and cars over 25 years old are exempt. You need to check with your states DMV department before buying a used car to see if it's required.

Title

Can also be known as "Certificate Of Ownership" or "Pink Slip", etc. This is a paper document given by the state government (in the U.S.) that has all the identifying numbers like: Make, Model, Year, VIN (Vehicle Identification Number), odometer reading, owners name and address. If you financed your car then the Title will be held by the Lien Holder. A Lien Holder is the bank or whoever gave you the loan until you've paid off the loan.

Vehicle Identification Number

Also known as the "VIN" or "VIN Number" or "VIN #". It's a unique number given by the cars manufacturer that is stamped on the vehicle on the top of the dashboard on the drivers side. You need to read it from the outside of the car looking through the windshield.

Pricing & rebate terms

Ad Units

Also known as "Advertising Units". You'll see these cars advertised in your newspapers and they will say something like: "Only 3 available at this price". These are for real and they are there to draw you into the dealership so they can up-sell you to something more expensive and profitable for the dealer. They are loss leaders.

Allotment

Also referred to as "Dealer Allocation". This is a system the manufacturers use to allot cars and trucks to their car dealerships.

Asking Price

If you're looking in the classified ads for a used car and you see the term "asking \$5000.00" then you can assume that \$5000.00 is a starting point to be used when negotiating a final selling price. Their final selling price could end up being much lower than the "asking price". If they specifically say "\$5000.00 firm" then you can expect that they aren't going to want to negotiate at all.

Book

This is a term given to determine the value of a used car as seen in the Kelley Blue Book, NADA guide and others. Its usually broken into categories of retail, trade-in and wholesale value. Also known as "Book Value".

Carryover Allowance

Near the end of the year when the car dealers get the next years models, they will usually discount last years inventory of new vehicles. This is known as a "Carryover Allowance". This can be a good way to buy a new vehicle at a decent price. The downside is that your vehicle will be last years model, which may not matter as far as value, unless the new car has gone through a major design change.

Churn & Earn

When new car dealers buy a number of in-demand vehicles from the manufacturer they usually must also order a couple low-demand vehicles too. If this is the type of vehicle that you want then you can get it at a good price because the dealers will be eager to just "flip" this vehicle or "churn & earn". Maybe even selling it without a profit. These vehicles are sometimes used as loss leaders in their advertising to draw potential buyers in.

Commission

This is the money that the salesperson gets for selling a vehicle. The more vehicles ("units") they sell in a month, the higher that their commission rises too.

Customer Incentive

Also known as "Rebate". These are incentives offered by the manufacturers. They are usually used on low-demand vehicles, high supply vehicles or they are offered when car sales in general are low. Its worth watching and waiting for deals like this.

Dealer Holdback

Also known as "Holdback" or "Giveback". Invoice Price is the price the car manufacturers sell their cars to the dealer for. Even if a dealer sells their car to you for \$1.00 over Invoice Price, they will still make from 2% to 5% on the car because of the billing system the manufacturers use. Incorporated into that billing system is a fee that is given back to the dealers known as Holdback or Dealer Holdback. Obviously dealers don't like to reveal the fact that Holdback even exists so you will need to find that out for yourself.

Dealer Invoice Price

Also known as "Invoice" or "Tissue". This is the price the dealer pays the manufacturer for a car.

Destination Charge

Also known as "Delivery Charge". This is the charge dealers get hit with for having their cars shipped from the factory to the dealership. All dealers get charged the same whether their car order is shipped ten mile from the factory or two thousand miles.

Incentives

This is any price reduction offered to car buyers from the car manufacturer to get them to buy a new car. These Incentives are also used to motivate the sales force to sell more cars.

Manufacturer's Cost

Also known as the "Auto Maker Costs". Many things need to be factored into the manufacturers cost of a vehicle. You've got the cost of the property, building, machinery, maintenance and repairs of the machinery, payroll, insurance, etc, etc. So its pretty difficult to determine the exact cost of a particular car.

Manufacturer to Dealer Incentive

Also known as "Dealer Incentive" or "Factory to Dealer Incentive". These are incentives the manufacturers offer the dealers when they build too many of a certain vehicle. The dealers are supposed to pass on these incentives to the buyers but they like to keep these for themselves instead. It's up to you to find out when these are happening. It's worth it to find out about these because they can often amount to thousands of dollars in savings.

Market Prices

This represents the prices for a specific model and/or geographic area based on supply and demand. An over simplified example might be: A certain four wheel drive vehicle sells for \$20,000 in area 'A' but it might sell for a premium of \$2000.00 (or whatever) in area 'B', again, based upon supply and demand. These Market Prices change over time too.

Minimum Deal

This is a sale where the profit is so small that the dealer will pay a flat fee to the salesperson instead. "Ad Unit" sales are usually like this because they are loss leaders for the dealers.

MSRP

Also known as "Sticker Price", "Munroney", "List Price", "Sticker" or "Retail Price". "Manufacturers Suggested Retail Price" is the price the manufacturer is suggesting the vehicle be sold for. You can see it on a mandatory sticker on the side window. "Munroney" was the Senator that introduced this law. The point is that you don't want to negotiate from the MSRP because it's just a starting point and only a moron would pay full retail for anything!

Non-Commissioned Sales

Personally I would avoid these types of "no haggle" places. These sales people are getting paid some type of extra compensation beyond their salary. The point is that you go in there thinking that you won't be "sold" which is great for the sales person because you will also be more receptive and open. Be aware.

Option Packages

These are merely a package of options that the manufacturers will put together at a reduced price. For example: A "Sport Package" might include special wheels, pin striping, special gauges, etc. If you ordered

all those options separately then you would pay significantly more. These Option Packages also streamline the manufacturing process too.

Retail

May also be known as the "List Price". This is the price you might pay if you didn't know anything about how to negotiate when buying a car.

Special Circumstances Dealer Incentives

These are incentives offered to a new car dealership to get started and establish a base of new customers.

Wholesale

Also known as "Wholesale Value" or "Actual Cash Value". This is what a used car can sell for at a used car auction. When you trade in your used car you must know that the dealers already know what they can dump it for at an auction. If they offer you substantially more than wholesale then you also need to be aware that they will get that money from you some other way.

Credit score terms

As you learn about credit scoring, you may hear some new terms. This glossary covers commonly used words and phrases related to the credit industry.

Algorithm

A complex mathematical model. In credit scoring, it is used to compare data in millions of credit reports and predict a person's likelihood to repay debts.

Bankruptcy

A legal proceeding designed to help people in financial difficulty get a fresh start by relieving them from having to pay their current debts. Bankruptcies usually stay on a person's credit report for 10 years.

Charge-off

An unpaid portion of a bill that a lender has accepted will never be paid and has recorded on the books as a bad debt. It is a serious negative item on a credit report.

Collection

A creditor's attempt to recover a past-due payment by turning the account over to a collection department or company. Having a debt in collection is a serious negative item on a credit report.

Credit bureau

There are three main credit bureaus in the U.S.: [Equifax](#), [Trans Union](#) and [Experian](#).

Credit history

A record of a person's use of credit over time.

Credit limit

The most that can be charged on a credit card or to a credit line.

Credit report

A document containing financial information about a person, focusing on his or her history of paying obligations, such as a mortgage, car payment, utilities, and credit cards. Also includes current balances on outstanding debts, the individual's amount of available credit, public records such as bankruptcies, and inquiries about credit from various companies.

Credit risk

The measure of a person's creditworthiness. People who are more likely to repay their debts on time are considered a better risk by lenders, and will be charged lower interest rates for borrowing money.

Debt-to-available-credit ratio

The amount of money a person has in outstanding debt, compared to the amount of credit available on all of the individual's credit cards and credit lines. The higher a person's debt to available credit, the more risky the individual appears to potential lenders.

Default

A designation on a credit report that indicates a person has not paid a debt that was owed. Accounts usually are listed as being in default after several reports of delinquency. Defaults are a serious negative item on a credit report.

Delinquent

A designation on a credit report that a person hasn't made the

minimum payment on a loan or a credit card on time. On credit reports, delinquencies are usually shown as being 30, 60, 90 or 120 days delinquent. Delinquencies are a serious negative item on a credit report.

Equifax

One of the three major credit-reporting agencies.

Experian

One of the three major credit-reporting agencies.

FICO scores

The most commonly used credit score. The name comes from the Fair Isaac Corporation, which developed the scoring model. They are used to predict the likelihood that a person will pay his or her debts. The scores use only information from credit reports.

Hard inquiry

An item on a person's credit report that indicates that someone has asked for a copy of the individual's report. Hard inquiries are requests that result from a person applying for credit, such as a mortgage, a car loan, a credit card or a rental application. They are included in the formula for determining a person's credit score.

Installment credit

A type of credit in which the monthly payment is the same every month and the loan has a set time period. The most common forms of installment credit are mortgages and car loans.

Judgment

A decision from a judge on a civil action or lawsuit; usually an amount of money a person is required to pay to satisfy a debt or as a penalty.

Lien

A legal claim placed on a person's property, such as a car or a house, as security for a debt. A lien may be placed by a contractor who did work on your house or a mechanic who repaired your car and didn't get paid. The property cannot be sold without paying the lien.

Public record

Information on your credit report that has been obtained from court

records, such as bankruptcies, judgments, and liens. These are never good.

Rate shopping

Applying for credit with several lenders to find the best interest rate, usually for a mortgage or a car loan. If done within a short period of time, such as two weeks, it should have little impact on a person's credit score.

Revolving credit

An account that requires a minimum payment each month plus service charges on the remaining balance. As the balance declines, so does the service charge.

Soft inquiry

An item on a person's credit report that indicates that someone has asked for a copy of his or her report. Soft inquiries can be from current creditors reviewing the file, prospective creditors who want to send out an offer such as a pre-approved credit card, or a person's own review of their file. They are not included in the formula for determining a person's credit score.

Trade line

An account listed on a credit report. Each separate account is a different trade line.

Trans Union

One of the three major credit-reporting agencies.

Car sales terms

Be Back

Also known as a "BB". If you go to a car lot and then bail without buying something, well, this is what the salespeople will call you because they figure (hope!) that you will "be back". Get it? A "be back" in the car repair business is someone that has to bring their vehicle back because it wasn't fixed the first time.

Bird Dogs

These are people that get paid when they refer car buyers to a new or used car salesperson. Obviously they have something arranged beforehand and receive a flat fee or some type of commission based on a percentage of the sale.

Buried

This means you're in debt for a vehicle that has little or no equity.

Buyers Remorse

This is the feeling some uneducated buyers get when the euphoria of buying a new car wears off and they realize that they have made a huge mistake! If you do what I say on this website, then you won't be dealing with any buyer's remorse.

Chained

This is when the car dealer gives you a super low offer. An offer you can't refuse. Car dealers aren't in business to be giving out free cars so the reason you're getting this "low ball" offer is because they will make up their money some other way. Its just a way to keep you at the dealership. They can do this in the finance department, or adding tons of accessories at inflated prices, or giving you nothing for your trade in.

Clocked

Also known as "clocking" or "clocker". This is where someone has set the cars odometer back thereby reflecting lower mileage. Odometer tampering is very illegal. You need to be aware of this when buying a used car. Let's say the odometer says 25,000 miles, but the rubber pad is worn out on the brake, gas and/or clutch pedals. Chances are this car actually has 125,000 miles on it. You can verify mileage by seeing receipts for repairs and maintenance and also by getting a CARFAX vehicle history report.

Cream puff

This is a trade-in car that is especially clean where the dealer will make a huge profit on. Of course they won't tell you that your trade-in is a "cream puff".

Curbing

Also known as "Curbstoning". This is where someone (a "curbstoner") is selling used cars out of their front yard. The term "curbing" or

“curbstoning” refers to the curb in the front of their house where the car for sale is inevitably parked. Get it?

Demonstrator

Also known as “Demo”, “Loaner” or “Loaner Vehicle”. These are vehicles that the dealership uses for customers to go on test drives. They are also driven by some of the personnel at the car dealership and also used as loaner vehicles while a customer's car is in getting repaired. If you buy one of these then make sure it's at a deep discount because they are usually driven the same way people drive rental cars....hard!

Down Dip

Also known as “Dipping”. This is where the customer is “loaned” the down payment for a vehicle by the car dealership just until the loan goes through. If you feel tempted to do this then just know and accept that you cannot afford this vehicle at this time. Just turn around and go home and save your money for a down payment. If you do this then know that you will pay dearly for this car.

Down Stroke

Also known as “Down Dump”, “Lump” or “Put Down”. This is how much cash (or trade in value) a buyer can put down on a car deal.

Hard Dollars

This is the money that the car dealership is investing in your trade in.

Lemon

A lemon is just a bad car. Maybe it was built on a Monday morning when everyone was hung over or maybe on a Friday when everyone wanted to bail for the weekend. Who knows? Some cars just end up being bad from the beginning. Most states have Lemon Laws where you can deal with vehicles like this.

Looky-Lou

A potential car buyer that cannot be immediately sold a new or used car. Sales people hate Looky-Lou's. Well too bad!

Off Lease Vehicle

These are vehicles which were originally leased and are now on the used car market.

Repossession Vehicle

Also known as a "Repo". These are vehicles that the finance company had to take back because the "owner" stopped making the loan payment. Many people think that you can get good deals buying repo's but the reality is that there is no equity in them so the finance company doesn't have any room for negotiation plus they don't like spending time dealing with retail customers and will usually just sell them to wholesale dealers and be done with it.

Soft Dollars

This is an inflated price that the car dealer will give on your trade-in. They aren't doing this to be your buddy. They are just doing it because it looks good, which is why it is sometimes referred to as "Show Dollars". The reality is that whatever they appear to give you on your trade-in, they will make up for it somewhere else on the car deal. The replacement money can be made up in a number of areas like: extra points on your car loan, added or inflated "fee's", etc. The bottom line is that if you're willing to go to the trouble that you will ALWAYS get more money if you sell your car yourself.

Spiff

This is the name for a little sales contest that the car dealer management offers to its sales people as an incentive to sell more cars. Salespeople will often try to get you involved in this by offering you the "deal of the century" on that car you're interested in. Don't fall for it.

Unit

This is the name that the sales people give to the car they sold to you.

Up

Most car sales people work on a commission basis. So there is an order amongst the sales people as to which one of them gets the next customer. If you end up being salesman Joe's customer then you are referred to as being Joe's "Up". Get it?

Upside Down

Also known as "Negative Equity". This term describes a situation where you owe more money on your vehicle than what its worth on a wholesale basis. You have zero equity. If you trade-in a vehicle that is "Upside Down" then just know that whatever "deal" you're given on your trade-in will be made up for somewhere else in the car deal. For

Terms - How to save a trunkload full of cash when buying your new car

example: if the car dealership has to pay off your loan on the trade-in then they will merely add that amount to your new loan.

Remember: "Their ain't no such thing as a free lunch!"