MAZDA CAPITAL SERVICES



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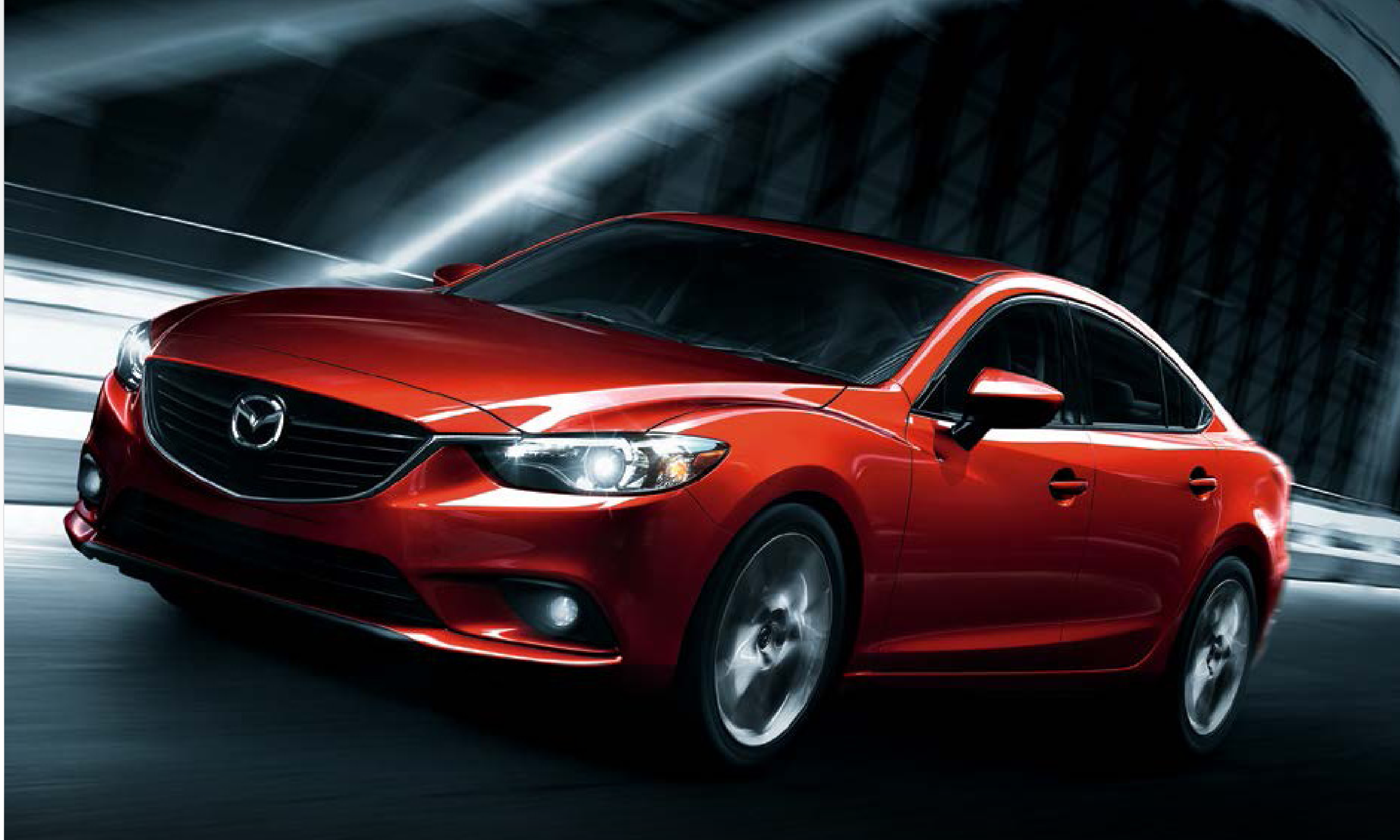
# THE BASICS OF BUYING AND LEASING A CAR

## An interactive guide



Section 1
Preparing Your Finances

Section 2
Determining
Your Car Needs

Section 3
Selecting a Car

Section 4
Applying for Financing

Section 5
Your Credit Report

Section 6
Financing the
Purchase of a Car

Section 7
Leasing a Car

Section 8
Additional Resources

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To learn more about a topic, click one of the sections above. Use the icons below to help guide you through the document.

SECTION 1

# PREPARING YOUR FINANCES

Before you buy or lease a car, there are a number of things you can do to help ensure that you are informed and prepared for your upcoming financial commitment.

## SMART Goals

Shopping for a car is like shopping for any major item. Researching and budgeting upfront, followed by effective money management, will help you be financially prepared. Financing or leasing a car may have a big impact on your monthly budget, so it's important to identify your financial goals. You're not only taking on a monthly car payment, but you'll also have to pay other expenses, such as insurance, gas, registration fees and maintenance. Consider whether you can afford these expenses before committing yourself financially.

Setting financial goals can help you prioritize your spending, and preparing a budget will help you keep your spending on track. Try making your goals "**SMART**." In other words, think of a general goal and then define it by making it **S**pecific, **M**easurable, **A**ttainable, **R**ealistic and **T**ime-bound.

For example, you might decide you want a new car. Turn that general goal into a SMART goal by defining it, similar to this:

## Defining Your SMART Goal

| Goal Attributes | Example |
|---|---|
| **S**pecific: | I would like to purchase a new car one year from now. |
| **M**easurable: | I would like to make a **down payment** of $2,400. |
| **A**ttainable: | I will save $200 a month toward a down payment. |
| **R**ealistic: | I can save $200 a month by signing up for extra hours at work. |
| **T**ime-bound: | In one year, I will have $2,400 for a down payment by saving $200 per month. |

**What's your SMART goal?** Fill out this table to help define it.

| Goal Attributes | Example |
|---|---|
| **S**pecific: | |
| **M**easurable: | |
| **A**ttainable: | |
| **R**ealistic: | |
| **T**ime-bound: | |

RESET FORM

DEFINITIONS

**Down Payment**
An amount paid at the time of purchase that reduces the cash price. It can include any combination of cash, **trade-in allowance**, rebates, and other non-cash credits.

**Trade-In Allowance**
The amount the dealer agrees to pay to purchase a trade-in car. If there is equity in the trade-in vehicle, the **equity** is applied toward the price of the car being purchased or leased. If there is **negative equity**, it may be added to the amount financed (loan) or **capitalized cost (lease)**, increasing the total amount paid.

**Equity**
A car's market value above any amount owed on the loan. For example, a vehicle worth $30,000 with $20,000 remaining on the loan has $10,000 of equity.

**Capitalized Cost (Lease)**
On a lease, the "gross capitalized cost" is the amount agreed upon by the lessor (dealer) and the lessee as the value of the vehicle and any items that are capitalized or amortized during the lease term, such as taxes, insurance, service agreements, and any outstanding prior credit or lease balance. The "capitalized cost reduction" is the total amount of any rebates, cash payment, net trade-in allowance, and noncash credit that reduces the gross capitalized cost. The "adjusted capitalized cost" is the gross capitalized cost less the capitalized cost reduction, and is the amount used by the lessor in calculating the base periodic payment.

## Budgeting

Setting a **budget** is key to helping you reach your financial goals. Understanding how you spend your money will help you recognize opportunities to cut expenses and save. This can help you stay on track and move closer to your goal of purchasing or leasing a car.

**Consider the following questions as you begin to construct a budget:**

1. Who is the budget for? Is it just yourself or for your family? This will determine whether you are tracking your personal income and expenditures or those of your entire family.
2. What is your timeframe? Budgets can cover a short period of time, such as a week, or longer periods of time, such as a year or more.
3. What is your income? Be sure to consider all sources.

**Complete this table to help you determine how much money you have to apply toward your financial goal(s):**

| | | |
|---|---|---|
| Total Monthly Income (Use the dollar amount from step 3 above.) | | $ 0.00 |
| What are your **fixed monthly expenses**? | | $ 0.00 |
| What are your **variable monthly expenses**? | | $ 0.00 |
| What are your **discretionary expenses**? | | $ 0.00 |
| Total Expenses | = | $ 0.00 |
| Amount Available | | $ 0.00 |
| | − | $ 0.00 |
| | = | $ 0.00 |

RESET FORM

**TIP**
Stick to your budget. Determine the car price range you can afford and stay within that range.

DEFINITIONS

**Budget**
A financial tool that measures expenses against **income**. A budget is designed to help people prioritize their spending and manage their money for a set period of time.

**Income**
Income can come from a variety of sources, such as salary and wages, tips, incentives or bonuses, pension, child support, family or spousal support (alimony), disability, housing or military allowance, Social Security, etc. When you apply for financing, however, you are not required to reveal child support, alimony or separate maintenance income if you don't want it to be considered as a basis for repaying the obligation.

**Fixed Monthly Expense**
An expense that stays the same each month. Examples include rent, insurance and car payment.

**Variable Monthly Expense**
An expense that is paid each month, but may vary in amount. Examples include utilities, groceries and credit card payments. Expenses may vary based on use or consumption.

**Discretionary Expense**
Non-essential expenses that may be recurring or non-recurring. Examples include entertainment expenses, such as eating out and vacation.

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SECTION 2

# DETERMINING YOUR CAR NEEDS

Consider the following questions as you shop for a car. They will help you narrow down your choices and determine your needs as well as your wants.

- Are you interested in a new or pre-owned (used) car?
- Should you lease or buy?
- How much do you want to spend?
- Do you already have a car? If so, how much is it worth and will you trade it in?
- Do you currently have an auto loan to pay off?
- Do you owe more on your current car than it is worth, or will you have equity to put towards the new car?
- How will you use the car? Do you commute long distances, or do you simply run errands around town?
- How long will you keep the car?
- What kinds of roads will you drive on?
- What features are important to you?
- Is it important for you to have an energy-efficient or hybrid car?
- Do you want an automatic or manual transmission?

## New Car vs. Pre-Owned (Used)

Ask yourself what kind of car you want – new or used. You want your car to fit your lifestyle and budget. New cars are often customizable, require less maintenance and include a warranty. Used, or pre-owned, cars tend to be less expensive to purchase and insure.

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**Here are several factors to consider about a new car:**

### Current Model Year

New model year cars generally start arriving at dealerships between August and October of the year prior to their model year. Models from the previous year may cost less if they remain in a dealer's inventory after the new model year cars arrive.

### Factory Options

Factory options are equipment installed in cars by the manufacturer before the cars reach the dealerships. When ordering cars, all dealers select manufacturer factory options using the same "options guides."

### Incentives

Ask about available incentives, which can be special low finance rates, lease specials, and/or rebates.

### Depreciation

Cars **depreciate** in value over time. They typically lose the most value within the first few years. However, this varies greatly among models and current market conditions. During this timeframe, the amount of your loan may be more than the value of the car. This is called **negative equity**. Several factors determine depreciation, including a model's popularity, perceived quality, and supply, among others.

### Manufacturer's Warranty

Most new cars come with a manufacturer's limited warranty. This means the manufacturer guarantees that the car and the materials used to make it are free from defects for a certain length of time/number of miles.

Typically, the cost of the manufacturer's warranty is included in the purchase price. Warranties vary by manufacturer and car, as well as periods for coverage based on mileage and years. Make sure you read and understand what's covered and what's excluded from the warranty when you purchase your car. To keep your warranty in effect, you may be required to operate and maintain your car according to instructions in the owner's manual. Keep a record of all maintenance performed on your car.

DEFINITIONS

**Depreciation**
Depreciation is the estimated decrease in a car's value over time. Projected, or expected, depreciation is used when calculating lease terms.

**Negative Equity**
The amount owed on the vehicle loan in excess of the vehicle's current market value or agreed-upon trade-in value. For example, a vehicle worth $6,000, with $8,000 remaining on the loan has $2,000 of negative equity.

### "Here are several factors to consider about a new car:" continued

#### National Highway Traffic Safety Administration (NHTSA) Safety Rating

For more than 30 years, the NHTSA has provided safety ratings to consumers so they can compare vehicles when shopping for a new car. The 5-Star Safety Ratings Program provides consumers with crash protection and rollover safety information for new vehicles, and its new Overall Rating combines expanded crash and safety data in one single score. When shopping for a new car, this safety rating information can be found at **SaferCar.gov**[1] and on the car's window sticker.

### Here are several factors to consider about a Pre-Owned (Used) Car:

No two used cars are alike. They vary in mileage, options and condition.

#### Manufacturer's Warranty

Used cars may or may not be sold with a manufacturer's warranty. However, you may be able to purchase an extended warranty for a used car, and you may be able to add the additional cost to your monthly car payment.

#### Certified Pre-Owned

"Certified" pre-owned cars differ from other used cars in that they must meet certain manufacturer standards. To ensure these cars meet those standards, they are typically inspected, refurbished by a manufacturer-trained technician, and certified by the manufacturer or other certifying authority. They also typically include a limited power train warranty, special financing, and additional benefits. Certified pre-owned programs vary significantly from one manufacturer to the next with respect to inspection standards, length and coverage of warranty, and roadside assistance.

#### Vehicle History

You can access a vehicle history report through a number of online research tools, such as **CARFAX.com**.[2] This report will give you details about the car's history, including type and number of owners and whether the car has been involved in any major accidents. If you are interested in obtaining a report, you will need to know the car's Vehicle Identification Number (VIN). It is stamped on the vehicle in three places: on the dashboard on the driver's side of the car near the base of the windshield; on the front of the engine block; and on the frame's front end. The VIN is recorded in accidents and insurance claims and is used by mechanics to order parts.

[1] Safercar.gov is not affiliated with or endorsed by Chase or Mazda. The Safercar.gov information and link above is for informational purposes only, and neither Chase nor Mazda are responsible for any information, products or services provided by or through National Highway Traffic Safety Administration or Safercar.gov.

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SECTION 3

# SELECTING A CAR

Let's assume you've already done your homework. You've researched manufacturer websites and visited others like Edmunds.com[3] and Cars.com,[4] where you can find helpful links, pricing estimates and even car reviews and photos. Perhaps you have already checked the Internet or your local newspaper to locate particular cars you're interested in. Most importantly, you've considered your budget. If you are financing, online calculators can help you determine what your monthly payments will be. Many websites allow you to experiment with online calculators, entering different interest rates into these calculators to view different financing and payment scenarios.

There are different options available, whether you plan to lease or finance. Your credit rating, along with other factors, will determine how much you can finance or lease, as well as your monthly payment. If you decide to finance your purchase, your credit rating will also determine your **annual percentage rate (APR)**.

## Visiting a Dealership

How do you find a dealership that you'll feel comfortable doing business with now and in the future? Again, research websites, consult the Better Business Bureau,[5] and ask your friends and neighbors. Some factors that might be important to you may include inventory, mechanic services/body shop, shuttle services or service loaner cars if you require repairs, manufacturer rebates, or handicap accessibility, for example.

When you visit a dealership, make sure that the window sticker – which includes the **Manufacturer's Suggested Retail Price (MSRP)** destination fees and any NHTSA 5-Star Safety Rating – is displayed on any new car you're interested in buying or leasing. This sticker shows the MSRP base price of the car and lists standard equipment, installed options, freight charges, fuel economy, and warranty information. Federal law (and state laws in Maine and Wisconsin) require dealers to post a Buyer's Guide for Used Cars on every used car offered for sale at a dealership. Make sure you receive a copy, as it becomes part of your purchase contract. If the guide lists that the car is sold with a warranty, the dealer is required to give you a copy of the written warranty. The guide also will note whether the car is being sold "as is." If the dealer makes any additional promises beyond what is noted on the Buyer's Guide, get the details in writing.

Learn more from the Federal Trade Commission about buying a used car.

[3]Edmunds.com is not affiliated with or endorsed by Chase or Mazda. The Edmunds.com information and link above is for informational purposes only, and neither Chase nor Mazda are responsible for any information, products or services provided by or through Edmunds Automotive Network. or Edmunds.com.

[4]Cars.com is not affiliated with or endorsed by Chase or Mazda. The Cars.com information and link above is for informational purposes only, and neither Chase nor Mazda are responsible for any information, products or services provided by or through Classified Ventures, LLC or Cars.com.

[5]BBB.org is not affiliated with or endorsed by Chase or Mazda. The BBB.org information and link above is for informational purposes only, and neither Chase nor Mazda are responsible for any information, products or services provided by or through the Better Business Bureau or BBB.org.

DEFINITIONS

**Annual Percentage Rate (APR)**
On a loan or other credit transaction, the APR is the cost of credit expressed as a yearly rate. The APR is based on all finance charges known at the time the financing contract is entered into, assuming all payments are made on time over the **contract term**.

**Contract or Lease Term**
The period of time, in months, from the beginning of the financing contract or lease to the scheduled maturity date, as disclosed in the financing contract or lease.

**Manufacturer's Suggested Retail Price (MSRP)**
The base price of a car, including all factory-installed options. It may or may not include destination charges. The MSRP is shown on the car's window sticker when the car arrives from the factory. Also known as the sticker price.

## Test Driving

When you test drive a car, think back to the questions you asked yourself earlier in sections one and two. Does the car you're test driving meet the needs you identified? Try to drive the car in conditions similar to those you usually experience. You might need to drive other cars on the lot or visit a different dealership. Compare cars. Continue your research. Consider how each car you test drive will meet your needs and fit your lifestyle.

When you've decided on a car, sit down and talk with a salesperson. **The salesperson probably will ask you questions like these:**

- What is your name and address?
- How will you pay for the car?
  - Will you apply for financing through a dealership or retailer (available for a retail installment sale or a lease)?
  - Will you obtain a loan directly through your bank or some other institution?
  - Will you pay with cash?
- What would you like your monthly payment to be?

Negotiating the car's price is an important step in the overall car buying process. Remember, the key factors that determine your monthly payment are: selling price, down payment/trade equity, term and interest rate. If you have done your homework in advance, you should know the car price that will get you the monthly payment you can afford. Remember, until you are comfortable that your terms are being met, you are under no obligation to agree to buy.

## Selling Your Current Car

If you currently own a car, you may be interested in selling that vehicle. Selling the car yourself may net you more money than trading it in at a dealer. However, it takes time and effort to sell a car yourself. Plus, you might have to spend money for advertising. To determine how much someone may be willing to pay for your car, see the Additional Resources section at the end of this document for a list of websites that provide values and reviews of new and used cars.

If you find a buyer for your car, you may need to notify your local motor vehicles department (DMV) about the sale and/or transfer the vehicle registration and **title** into the buyer's name. Check your local DMV's website for instructions specific to your location. Remember to cancel your car insurance policy once the car is sold.

DEFINITIONS

**Lien**
A security interest in the vehicle, as agreed to in the financing contract, to secure the borrower's payment and performance of other obligations under of the financing contract. The lien holder, whose name generally appears on the vehicle's title, has the right to **repossess** the car, as permitted by law, if the borrower defaults under the financing contract.

**Lien Holder**
A lender who holds a lien on the car.

**Title**
The certificate of title or other document issued by the state motor vehicle department or other agency that evidences the vehicle's owner(s)/lessor, any lien holder and, in some states, the lessee(s), per the state's records.

**Repossess or Repossession**
A lien holder's or lessor's act of taking possession of the vehicle, according to its security interest or lease, in the event the lessee or borrower defaults under the financing contract or lease. The vehicle is then usually sold through a wholesale auction, and the sales proceeds are applied to the loan or lease. Repossessions are subject to state law and the terms of the financing contract or lease.

## Trading In Your Current Car

If you own your car, trading it in at a car dealership is another option, and it could be quicker and easier for you than selling the vehicle yourself. A dealer may also accept as a trade-in a vehicle owned by a family member or other third party who agrees to sell it to the dealer for your benefit. Finally, if you have a leased vehicle, a dealer may agree to accept it as a trade-in and purchase it directly from the leasing company, if allowed by the leasing company.

Dealers research and consider the car you are trading in the same way you research and consider the new car you're purchasing. Before making the decision to purchase your car, dealers review the car thoroughly and use industry standard publications to assess its value. They often use **Black Book**®[6] pricing to determine the value of cars. Black Book surveys dealerships weekly and collects data on used car values.

## Equity on Trade-ins

Before you go to the dealership, know how much you could get for the car you are trading in. If your car is worth more than the balance of your loan or lease, you may have equity that can be applied towards the down payment of your new car. If you owe more for your car than it is actually worth, then you have what's called negative equity. For example, if the car you want to trade in is worth $6,000, but you still owe $8,000 on your auto loan, then your negative equity is $2,000. This means you owe $2,000 more than your car's trade-in value.

Asking the dealership to pay off the amount you owe and add any negative equity to your new loan or lease will increase the new loan amount or capitalized cost of your lease and your monthly payment.

**If you want to increase the equity on your trade in, you can consider:**

1. Paying off your existing car loan
2. Paying down the balance to increase the equity

**These simple steps can help you determine whether you should sell your car yourself or trade it in:**

1. Decide your current car's value in a private sale and deduct the cost of advertising.
2. Find out your current car's trade-in value, as offered by the dealership.
3. Compare the two numbers to determine if a sale or trade-in is right for you.

**DID YOU KNOW?**
Let's say you own a car with no loan payments, and want to buy a new car. Trading it in at a dealership can help reduce the cost of the new car.

[6]Blackbookusa.com is not affiliated with or endorsed by Chase or Mazda. The Black Book information and link above is for informational purposes only, and neither Chase nor Mazda are responsible for any information, products or services provided by or through Black Book, Hearst Business Media Corporation or Blackbookusa.com.

## Additional Products and Services

There are additional products and services available through your dealership you might be interested in that are separate from the price of the car. The price of these can be added to your loan or lease contract, but will likely increase your monthly payment, impact your budget, and affect your financial goals. Additional products and services you may want to consider could include, among others:

- **Extended Warranty/Service Contracts**: A service contract (sometimes called an "extended warranty") is a promise to perform (or pay for) certain vehicle repairs or service. It should cover more than a standard manufacturer warranty.
- **Prepaid Maintenance:** Covers the manufacturer's recommended maintenance schedule for a specified period of time.
- **GAP**: If your car is stolen or totaled, this covers any difference between your loan balance and the amount of the insurance proceeds. GAP is often included at no extra charge on many leases.
- **Credit Insurance**: Credit insurance generally pays your monthly payments if you become unemployed through no fault of your own (e.g., a layoff) or disabled. In the event of your death, it will pay all or some of your remaining balance.
- **Tire and Wheel Coverage:** Designed to cover unexpected repairs or replacement of wheels and tires if they are damaged by a road hazard.
- **Theft Deterrent Systems:** May help safeguard a vehicle from theft or provide a benefit if the vehicle is stolen.
- **Roadside Assistance/Subscription Service Plan:** Generally provides 24-hour emergency roadside assistance.
- **Key Replacement:** Covers the cost to replace lost or stolen keys.
- **Bi-Weekly Payment Products:** You send your payments every other week to a third-party and the third party, in turn, pays your lender.

DEFINITIONS

**Extended Service Contract**
An extended service contract (sometimes called an "extended warranty") is a promise to perform (or pay for) certain vehicle repairs or service. It should cover more than a standard manufacturer warranty. Coverage varies widely by the provider and exclusions apply.

**GAP**
Optional insurance policy or a debt waiver contract a consumer may buy that generally covers the difference between the insurance proceeds or actual cash value of the car and what is still owed on the financing contract if the car is stolen or destroyed (also called a "total loss"). In some cases, the consumer may be responsible for the insurance deductible. GAP is provided as part of some leases at no additional cost. Coverage varies widely by the provider and exclusions apply.

**Credit Insurance**
There are different types of credit insurance. The purchase of credit insurance is optional. Credit life insurance generally pays the unpaid balance owing in the event of the borrower/lessee's death. Credit disability insurance (sometimes called credit accident and health insurance) generally pays the scheduled monthly payments if the borrower/lessee becomes disabled. The cost of optional credit insurance must be disclosed in writing. If the borrower/lessee wants to purchase it, he or she must sign for it. Coverage varies widely and exclusions apply.

### "Additional Products and Services" continued

Coverage varies widely by the provider of the product or service, and exclusions apply. You are not required to purchase additional products or services. Carefully read the contract for, and consider the price of, any additional products or services offered before deciding whether to purchase them. If you purchase any additional products or services, keep the contract and all related information in a safe place with your car purchase or lease documents. **It's important to understand the value and price of the products and services you purchase and other details, such as:**

- Who is backing the product? Manufacturer, dealer, lender, or a third-party service provider?
- Is the price of the product or service printed on the documentation provided?
- What are the full benefits covered under the terms of the product agreement(s)? What is not covered?
- How do I make a claim? Is there a toll-free number?
- What is the cancellation provision?
- Can I transfer this product when I sell my vehicle?

If you have questions about additional products and services, please contact the service provider or dealer directly.

### TIPS

- Stay within the price range you determined you can afford.
- Negotiate your financing arrangements and terms just as you would negotiate the price of the car.
- Consider costs for registration, insurance and taxes. In many cases, those costs may be financed along with the price of the car and with any additional products or services you purchase from the dealer.
- Understand the value and price of optional products such as **extended warranties/service contracts**, **credit insurance** or **GAP coverage**. If you don't want these products, don't buy them.
- Carefully read the contract and all related documents before you sign.
- Ask questions about anything you don't understand.

SECTION 4

# APPLYING FOR FINANCING

Auto loan or lease financing is credit-based, so a consumer **credit report** is required. The rate and amount the **creditor** is willing to lend are determined by your credit report, **credit score**, and other factors, such as car type and value, the repayment period, and the amount of your down payment.

The application process varies by creditor. Gathering and organizing your documents ahead of time can help make the application and approval process smoother and sometimes quicker.

**When you fill out an application for financing, you most likely will be asked to provide:**

- **Personal identification information:** name, birth date, address, Social Security Number
- **Employment history:** full-time, part-time, and seasonal
- **Pay stubs** for the last two to three months
- **Car information**, such as year, make, model, etc.

**You also may be asked:**

- What is your income?
- How long have you been at your current job?
- How long have you lived at your current residence?
- How much is your monthly rent/mortgage?
- What other debts do you owe?
- Have you ever been denied credit?

DEFINITIONS

**Credit Report**
**(or "Credit Bureau Report")**
A report by a consumer credit reporting agency contains information about a consumer's creditworthiness, including credit standing, credit capacity, and payment history. It generally includes information about current and past credit obligations and data from public records (such as a bankruptcy filing obtained from court documents). For each of the consumer's accounts, the credit report may show the partial account number, account type and terms, credit limit, most recent balance and most recent payment. The comments section may describe the current status of the consumer's account, including a summary of past-due information and any legal steps that may have been taken to collect. A Credit Report also is known as a credit bureau report (CBR).

**Creditor**
A bank, dealer, credit union, financing company, or other financing source that regularly extends credit and receives a **finance charge**.

**Finance Charge**
As disclosed on the financing contract, it is generally the total cost of the credit expressed as a dollar amount.

**Credit Score**
A numerical score assigned to a consumer by each of the credit reporting agencies that reflects the consumer's estimated credit risk based on information contained in his or her credit report. The better the credit history, the higher the score.

SECTION 5

# YOUR CREDIT REPORT

Think of a credit report as a snapshot of your credit history. Creditors examine the information contained in your report to make decisions on whether or not to offer you credit, as well as the amount and terms of any credit extended. That's why it's important that you know what your credit report says before you apply for financing.

Lower rates generally are offered to applicants with the best **creditworthiness**, with higher rates for less creditworthy applicants.

## How to Get a Copy of Your Credit Report

You can get a copy of your credit report from each of the nationwide **credit reporting agencies** (Equifax, Experian and TransUnion) at no charge once every 12 months. Visit **AnnualCreditReport.com**[7] or call 1-877-322-8228 to request a copy of your credit report.

To request your free credit report by mail:

1. **Download the request form**
2. Print and complete the form
3. Mail the completed form to:

   **Annual Credit Report Request Service**
   **PO Box 105281**
   **Atlanta, GA 30348-5281**

DEFINITIONS

**Creditworthiness**
A creditor's assessment of the likelihood that a person will satisfy, or fulfill, his/her credit obligations.

**Credit Reporting Agency**
A firm that collects, sorts, maintains, and sells credit history information, such as Equifax, Experian and TransUnion. Credit reporting agencies collect data about a person's credit habits and history and then use this data to assign its own credit score to indicate the person's creditworthiness. Prospective creditors purchase this information from the agencies and use it to help decide how much credit, if any, to extend to an individual.

[7] AnnualCreditReport.com is not affiliated with or endorsed by Chase or Mazda. The AnnualCreditReport.com information and link above is for informational purposes only, and neither Chase nor Mazda are responsible for any information, products or services provided by or through Central Source LLC or AnnualCreditReport.com.

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SECTION 6

# FINANCING THE PURCHASE OF A CAR

In order to purchase a new or used car, you probably will need financing, unless you have enough money saved to pay cash for the car. When you finance a car, the creditor usually holds a lien on the vehicle's title until you have paid the contract in full. You can shop for different types of financing before you actually start shopping for a car. Here are some of the major differences between direct and dealership financing:

## Direct Financing from a Bank or Credit Union

You may obtain your own loan from a direct lender, such as a bank or credit union, instead of from the dealership. You can then use that money to pay the dealership. Banks may pre-approve you for a car loan. You don't have to wait for the dealer to process your **credit application**, because you are already approved. To get preapproved, you may need to provide the direct lender some information about the car, which you can obtain from the dealer. Also, you may be required to register and complete the car title work at your state's motor vehicle department.

## Dealership Financing

Dealership financing can be convenient. You get your car and financing in one place. In most states, dealership financing means the dealership agrees to sell the car to you, and you agree to repay the **cash price** and any other amounts financed in monthly installments at an agreed-upon Annual Percentage Rate (APR). The dealership then sells your **installment sales contract** to a bank or finance company. Dealerships have relationships with a variety of banks and finance companies and can offer a range of financing options to consumers with varying types of credit histories. Be sure to ask your dealer what rates and terms currently are available, because the dealer may assign the financing contract to one of several banks or finance companies that offer different rates and terms. Rates at the dealership may be negotiable, so you may be able to ask for a better rate than is first quoted to you.

Dealers are sometimes able to offer manufacturer incentives, such as reduced APRs or "cash back" on certain models. Always ask what is available based on your credit history and the vehicle make, model and year.

Compare the details to choose your best financing option. To reduce the amount of finance charges you will pay over the loan term, get the lowest rate and the shortest time to pay back your loan that you can afford.

DEFINITIONS

**Credit Application**
A request for credit (or a lease) submitted to a creditor, which includes information requested by the creditor according to the creditor's procedures, as well as various legally required disclosures. A creditor typically requires the applicant's name, other identifying information (such as date of birth and Social Security number), income, debts and other creditworthiness, and financial information. A credit application may be submitted in writing, verbally (for example, over the phone) or via the internet, depending on the creditor.

**Cash Price**
On a vehicle purchase, the cash price is generally the dollar amount the buyer agrees to pay the dealer for the car. In some states, it includes the sales tax. Definitions vary from state to state.

**Financing Contract**
In the example of auto financing, it is the retail installment sales contract (in the case of Dealer Financing) or the promissory note (in the case of Direct Loan Financing).

**Dealer Financing**
New or used car financing obtained from a dealership, rather than directly from a bank, credit union or other financial institution. In most states, the buyer enters into a retail sales contract with the dealership – agreeing to pay for the vehicle's cash price (less any down payment, rebates or other incentives) and other charges (the amount financed) – at an agreed-upon APR, over the Contract Term. Then, that contract usually is sold by the dealership to an assignee (often a bank or other financial institution).

**Direct Loan Financing**
A loan of money for which a borrowers applies and obtains directly from a bank, credit union or other finance company ("lender"), agreed upon in a promissory note. The lender may give the money to the borrower to pay the dealer, or may disburse the loan funds to dealer.

## Simple Interest Financing

Simple interest is the most common type of financing offered by most lenders. Simple interest is a method of calculating the interest due by multiplying the unpaid principal balance (the amount of money you owe at any time) by the rate of interest. Interest is charged daily and only on the unpaid principal balance that you owe.

**Regularly making early payments has two benefits:**

- You pay less in interest over the life of the loan and
- You may pay off your loan earlier than expected

Plus, at the end of your loan, you would owe a final payment that is smaller than your normal monthly payment.

**Regularly making late payments has three consequences on the cost of credit:**

- You pay more in interest overall and
- Less of your payment goes to pay down the principal balance and
- You may be charged a late fee

Plus, at the end of your loan, you would owe a final payment that is larger than your normal monthly payment.

The date your payment is received by the lender can significantly impact the amount of interest you pay on your loan and how quickly you pay down your principal balance.

### TIPS

When comparing the cost of credit among lenders, refer to the following disclosed terms:

- The amount of your down payment, whether the vehicle is new or used, and the vehicle model
- The APR, **amount financed** and total of payments (the amount you will have paid when you have made all scheduled payments)
- The total number of payments (term), such as 48 months or 60 months

### DEFINITIONS

**Amount Financed**
In a loan or other credit transaction, the “amount financed” disclosed on the financing contract is the amount of credit provided to the borrower or on his/her behalf. For a car loan, it normally includes the vehicle’s cash price, less any down payment, plus any additional products or services purchased, and any applicable taxes, title, registration or other charges that are being financed.

## Other Factors That Affect Your Cost of Credit

In addition, the term, or length, of your loan can make a considerable difference in how much you ultimately pay for a car. For example, consider this table, which shows three fictional people who need a loan for $25,000 (**amount financed**). Each chooses a different loan term. The monthly payment may be higher for Robert, the person with the shorter term, but notice how much less he pays in total interest (finance charge) over the life of the loan.

| | Sarah | Juan | Robert |
|---|---|---|---|
| Amount Financed | $25,000 | $25,000 | $25,000 |
| APR/Interest Rate | 5.0% | 5.0% | 5.0% |
| Loan Term | 72 months | 60 months | 48 months |
| Monthly Loan Payment | $402.62 | $471.78 | $575.73 |
| Total of Payments | $28,998.64 | $28,306.80 | $27,635.04 |
| Finance Charge | $3,988.64 | $3,306.80 | $2,635.04 |

Please note that, in the example above, the interest rate and APR are the same. That happens if the interest is the only finance charge and there are no other up-front finance charges, such as loan origination fees. The APR is a measure of the total cost of credit, expressed as a yearly rate, taking into consideration all finance charges. So, if there are up-front finance charges in addition to interest, the APR will be higher than the interest rate.

**DID YOU KNOW?**
The total amount you will pay over the life of a car loan depends on the amount financed, the APR, the monthly payment, and the length of your loan. Avoid focusing only on the amount of the monthly car payment and be aware of all terms of your financing agreement.

**TIP**
Compare APRs and financing terms from several different finance sources.

SECTION 7

# LEASING A CAR

Some people prefer to lease, rather than purchase, a car. Leases basically are long-term rental agreements where the renter (**lessor**) owns the car, but the customer (**lessee**), has the right to use it for the lease term. Typical lease agreements last anywhere from two to five years. During that period, you make **monthly payments** to the lessor. Although the original lessor may be the dealer, it is common for dealers to sell and "assign" the vehicle and the lease to a bank or other financing source, called an "**assignee**." If that happens, you then would make your monthly payments to the assignee. The assignee would then own the car and be listed as owner/lessor on the car's title. Monthly lease payments reflect rent, depreciation and any other amortized amounts, and any monthly sales/use tax. At the end of the lease agreement, you do not own the car.

Leasing may allow you to drive a better-equipped, more expensive car than that which you could afford to buy. Also, if you prefer to drive a car that is always covered by a manufacturer's warranty, you can arrange successive new car lease terms allowing you to do so.

## Up-front Costs

When you sign a lease agreement, you become responsible for several up-front costs. **These may include:**

- Capitalized cost reduction
- Acquisition fee
- The first month's payment
- A **security deposit**
- Taxes
- Registration and titling
- Any other amount due at lease signing

DEFINITIONS

**Lessor**
The car dealer who owns the car and leases it to the lessee. In some cases, the term is also used to refer to any assignee of the lease.

**Lessee**
The person who leases the car from a car dealer (lessor). The lessee's obligations are specified in the lease agreement. The lessee generally has the right to use and possession of the vehicle, but has no ownership rights in the vehicle.

**Base Monthly Payment (Lease)**
On a lease, the base monthly payment covers depreciation, any other amortized amounts and rent charges. It is calculated by adding the total depreciation and any other **amortized** amounts to the total rent charge, and then dividing the total by the number of months in the lease (the lease term). Monthly sales/use taxes are added to this base monthly payment to determine the "total" monthly payment.

**Amortization**
Amortize or amortization generally means to pay for something in installments over a period of time. This usually includes an interest charge.

**Assignee**
The bank, finance company, credit union or other financing source that purchases the installment sales contract (or lease) from the original creditor (or lessor) named on the contract. The dealer from whom you purchased the car will be the original creditor (or lessor).

**Security Deposit (Lease)**
An amount the lessee may be required to pay at the beginning of the lease, to be used by the lessor or assignee to pay amounts owed under the lease, at termination, as set forth in the lease. At the end of the lease term, any remaining unused security deposit is refunded to the lessee.

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Instructions:
To learn more about a topic, click one of the sections above. Use the icons below to help guide you through the document.

Here's more information about leasing:

- **Monthly Payments:** Monthly lease payments are usually lower than monthly loan payments on the same car. When you lease a car, you generally are paying only for the car's estimated depreciation during the lease term plus a rent charge, any other amortized amounts, taxes and fees. The amount of estimated depreciation is the difference between the adjusted capitalized cost minus the estimated value of the vehicle at leaseend (the "**residual value**").

- **Wear and Use:** You generally are responsible for excess wear or damage to your leased car and are required by the lease agreement to maintain and service the car as recommended in the owner's manual. At the end of your lease term, your lessor will determine if the car has more than normal wear and use, according to the standards in your lease agreement. You may be charged for the estimated cost to repair or replace certain items damaged as a result of excess wear and use.

- **Mileage:** Lease agreements typically include a mileage limit. Most standard leases are calculated based on a specific number of miles you may drive. For example, a typical mileage limit is 12,000 miles per year. You must pay the lessor for each additional mile driven, as stated in your lease contract. Although you can negotiate a higher "mileage limit" the monthly payment will increase as well.

- **Early Lease Termination:** You may choose to end your lease before the scheduled end of the lease term. Please see your lease agreement for more details. There may be certain criteria (for example, not being in default) that need to be met to be able to terminate your lease early. Additionally, there may be a substantial lease termination charge. Your lease agreement must disclose the amount or method of calculating any **early termination liability**.

For more information on vehicle leasing, review the **Federal Reserve's Keys to Vehicle Leasing**.[8]

[8]The Federal Reserve Board of Governors System is not affiliated with or endorsed by Chase or Mazda. The FederalReserve.gov information and link above is for informational purposes only, and neither Chase nor Mazda are responsible for any information, products or services provided by or through the Federal Reserve Board of Governors System or FederalReserve.gov.

**TIP**
Know the difference between buying and leasing a car. Compare the costs and benefits of each before deciding which option is right for you.

DEFINITIONS

**Monthly Payment**
The dollar amount due each month under the financing contract to repay the amount financed and accrued finance charges. Under a lease, the monthly payment pays the monthly rent, depreciation and other amortized amounts, and any monthly sales/use tax, and is generally due in advance each month.

**Residual Value (Lease)**
The estimated value of a leased car at lease end, which is projected at the beginning of the lease. Residual value is used to calculate the base monthly (lease) payment. Since it is only an estimate, it may be higher or lower than the vehicle's actual market value at the scheduled lease end.

**Early Termination (Lease)**
A lease that ends before the scheduled maturity date, regardless of reason.

**Early Termination Liability (Lease)**
The amount owed if a lease ends before its scheduled maturity date. The lease agreement describes how the charge is calculated.

## Returning Your Leased Car

At the end of your lease term, you may choose to return the vehicle or you may purchase it for a price established in any purchase option in your lease agreement.

**If you decide not to purchase the car, you may be responsible for paying certain charges at the end of your lease term which could include:**

- **Disposition or "Turn-in" Fee:** The disposition (or "turn in") fee is a fee commonly charged at lease termination if you do not purchase the vehicle. This fee is disclosed in the lease agreement.
- **Excess Mileage:** You will owe a per-mile charge for each mile driven in excess of the mileage allowance disclosed in your lease.
- **Excess Wear and Use:** The lease agreement will set forth the standards used by the lessor to assess any excess wear and use charges. Please see your lease agreement for a full description of the excess wear and use standards.
- **Other Charges:** Generally, you will owe any other amounts due under your lease, such as past due lease payments, unpaid late charges, sale/use tax on certain charges (per applicable state and local laws), unpaid parking/traffic citations billed to your account, and any personal property taxes due.

## Purchasing Your Leased Car

If your lease agreement contains a purchase option, you can purchase your leased car. Most lease agreements allow you to purchase your vehicle before or at the end of your term. Your agreement will explain the purchase price and terms. Many leases also require you to pay a purchase option fee disclosed on the lease. You can contact the lessor for a payoff quote. Typically, your lessor will contact you in the last few months of your lease to provide you with information about your lease-end options and responsibilities.

DEFINITIONS

**Disposition Fee (Lease)**
On a lease, a disposition or "turn in" fee is often charged at lease termination if the car is not purchased and, instead, is returned to the lessor or assignee.

**Excess Mileage Charge (Lease)**
A per-mile charge for miles driven in excess of the maximum specified in the lease agreement. For example, if a 3-year/36-month lease allows 12,000 per year, or 36,000 total miles over the lease term (3 x 12,000 miles = 36,000) and a charge of $0.15 per mile over the allowance, then a person who returns the vehicle at the end of the term with an odometer reading of 37,000 miles will be charged $150 for excess mileage ($0.15 x 1,000).

**Excess Wear-and-Use Charge (Lease)**
A charge to cover the estimated or actual cost to repair or replace wear and use on a leased car that is beyond what is considered normal. The charge may cover both interior and exterior damage, such as upholstery stains, body dents and scrapes, and tire wear beyond the limits stated in the lease agreement.

SECTION 8

# ADDITIONAL RESOURCES

**AnnualCreditReport.com (Annual Credit Report)** is a central site where you may request a free credit report from each of the nationwide consumer credit reporting companies: Equifax, Experian and TransUnion.

AnnualCreditReport.com is not affiliated with or endorsed by Chase or Mazda. The AnnualCreditReport.com information and link above is for informational purposes only, and neither Chase nor Mazda are responsible for any information, products or services provided by or through Central Source LLC or AnnualCreditReport.com.

**Answers.USA.gov** provides information about a variety of subjects, including cars, and publishes the free annual Consumer Action Handbook featuring general advice on shopping for goods and services.

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**ConsumerReports.org (Consumer Reports)** reviews and compares consumer products, including cars. It also publishes buying guides and reviews consumer services.

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**FTC.gov (Federal Trade Commission, or FTC)** protects America's consumers and has information that can help you understand financing, how to buy or lease a car and ways to get the best price, among other things.

**KBB.com (Kelley Blue Book®)** provides new and used vehicle pricing and other information, such as MSRPs by make and trade-in values.

KBB.com is not affiliated with or endorsed by Chase or Mazda. The KBB.com information and link above is for informational purposes only, and neither Chase nor Mazda are responsible for any information, products or services provided by or through Kelley Blue Book Co., Inc. ("KBB") or KBB.com.

**NADA.org (National Automobile Dealers Association, or NADA)** has information about dealerships and car financing.

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**SaferCar.gov (National Highway Traffic Safety Administration)**

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