

Auto Loan Lingo

By Credit.com

MSRP? Dealer invoice? Monroney sticker? Car dealers often use complicated jargon while selling you a car. Take control of the auto buying process by reviewing these common terms and their definitions before you visit the dealership.

Add-ons: Optional features added on to a car, usually by the dealer. Common add-ons include undercoating, CD Stereo, alarm system, window tinting, chrome wheels, pin-striping, and leather seats. These features are often overpriced and are used as a way to increase the sale price of the car. Also known as “dealer charges” and “options.”

Amount due at lease signing: The total sum of security deposits, fees, and other costs that are due when a consumer leases a car. Also known as “up-front costs.”

Annual percentage rate (APR): The interest rate charged on a loan, expressed as a yearly rate.

Acquisition fee: A fee charged by a dealer to a consumer leasing a car for the costs of a lease application. This includes the costs of credit reports, insurance verification, and document processing.

Asking price: The amount a dealer or seller has posted as the price of the vehicle.

Base price: The cost of a vehicle before a dealer adds on options. This price includes the standard equipment and the manufacturer's warranty.

Blue book: A pricing guide used to research the fair value of a vehicle. Short for “Kelly Blue Book” and also used to refer to similar guides.

CARFAX report: A detailed report of a car’s history based upon the VIN number. This report includes information about the car’s ownership, accident history, repairs, and mileage.

Certificate of title: A statement provided by a title company or law office that indicates legal ownership of a vehicle.

Closed-end lease: A common type of vehicle lease program where the borrower can return the car and pay certain fees at the end of the lease term. This type of lease is more expensive than an open-end lease because the lender assumes more risk. Also known as a “walk-away” lease.

Dealer: A business that buys and sells vehicles to the public. Dealers can be franchised with a specific manufacturer or they can sell a variety of vehicle brands.

Dealer hold-back: An allowance given to a dealer by the manufacturer of the car. This amount usually equals 2-3% of the car’s MSRP and is used so that a dealer can make a profit, even if the car is sold below the invoice price.

Dealer incentives: Special programs offered by manufacturers to help dealers sell cars or reduce inventory. These savings are sometimes passed on to buyers.

Dealer invoice: The amount a manufacturer charges a dealer for a car, delivery, and add-on features. This can be the amount the dealership pays for the vehicle, but the dealer often reduces its costs with rebates, hold-backs, and other incentives.

Dealer prep: Charges that a dealer tries to apply to the buyer for its efforts to prepare the car for sale. However, manufacturers already pay dealers for preparation costs, so these fees are unnecessary.

Dealer sticker price: The price of a car posted on the window, as required by law. This summary includes the base price, standard features, add-ons with their retail prices, fuel economy, delivery charges, and the manufacturer's suggested retail price (MSRP).

Destination charge: Also known as "delivery charges" or "transportation charges." This is the amount a dealer charges you for the car's delivery from the manufacturer.

Disposition Fee: A fee charged by a dealer to cover the cost of returning and selling a car after it has been returned from a lease. This fee is disclosed on the lease agreement.

Excess wear charge: Fees charged by a dealer when a leased car is returned in poor condition. Damages must exceed set wear-and-tear limits.

Extended warranty: A special warranty covering specific services and repairs beyond the basic warranty on a vehicle. These warranties are also known as "service contracts."

Finance rate: The annual percentage rate (APR) charged for an auto loan.

Lease: An agreement where a dealer allows a consumer to use a car for a specific period in exchange for monthly payments. The car can either be returned or purchased at the end of the lease term.

Lease extension: An agreement to extend the term of the initial lease with the same monthly payments.

Lease-like loan: Usually offered by credit unions, this loan acts much like an auto lease. The loan has reduced monthly payments, but does not include traditional due-on-signing lease fees. At the end of the loan term the car must be sold, refinanced, or returned to the lender in order to pay off the remaining loan balance.

Manufacturer: A company that designs, produces, and markets vehicles. A manufacturer works with dealers to offer rebates, marketing support, incentives, and financing programs to help sell its cars.

Mileage charge: A fee charged by a dealer if a leased car exceeds its annual mileage limits.

Monroney sticker: Named after the Oklahoma senator who wrote the Automobile Information Disclosure Act, this is the official name for the sticker required to be placed on a car's window when it is being sold by a dealer. The sticker shows the base price, standard features, add-ons with their retail prices, fuel economy, delivery charges, and the manufacturer's suggested retail price (MSRP).

Mop and Glow: A dealer term for add-ons such as paint sealant that add to the price (and not really to the value) of a car posted for sale.

MSRP: Acronym for Manufacturers Suggested Retail Price. This amount includes the price of the vehicle and add-ons.

Open-end lease: A type of vehicle lease program where the borrower must pay the difference between the residual value and the market value of the car at the end of the lease term. This type of lease is less expensive than an open-end lease because the borrower assumes more risk.

Rebate: A reduction in the price of a car set by the manufacturer in order to boost sales. Rebates are commonly used as a down payment when financing the vehicle.

Repossession: When a loan is significantly overdue, a lender can claim ownership of the financed vehicle.

Residual value: The estimated value of a car when it is returned from a lease. The actual market value is subtracted from this amount to calculate fees at the end of a lease term.

Rule of 78's: An obscure and outdated formula that is still sometimes used by dealers to calculate a refund of finance charges when a borrower pays back his or her loan early.

Title: Legal ownership of a specific car or property. Titles are documented with "deeds" stored in record offices.

Trade in value: The amount a dealer will pay you for an old car when you purchase a newer vehicle through its dealership. This amount is usually lower than the wholesale value of the car.

Upside down: When the balance of a borrower's loan exceeds the value of the car. This is common during the first year of an auto loan/lease because the car depreciates rapidly. A borrower can also be "upside down" in situations where a financed car has been damaged.

Vehicle identification number: Also known as the "VIN number." This is the unique identification number of a vehicle that appears on the registration, title, and VIN plate on the car's dashboard. You can use this number to look up a used car's records.

Warranty: A dealer or manufacturer's guarantee about a car's performance. A warranty usually covers services and repairs for a certain amount of time or mileage.