

Car Buyer's Glossary of Terms

The terminology you need to know when buying a car

Terms

Acquisition Fee: An acquisition fee, also commonly referred to as a bank fee, only comes into play when you lease a car. This fee is charged by the leasing company to initiate the customers lease and is required on all leases. The lease acquisition fee usually includes GAP insurance to protect both the lessor and the lessee in case of vehicle damage resulting in a total loss. The acquisition fee can range from a few hundred dollars, to more than a thousand dollars. This depends on the leasing company and the car being leased.

Additional Dealer Markup: Additional dealer markup, or market adjusted pricing, is a tool that dealerships use to increase the asking price for a particular vehicle. This is typically listed on the addendum sticker that is placed next to the Monroney sticker to reflect any dealer installed items and adjustments. This usually occurs on vehicles that are in high demand and short supply.

Annual Percentage Rate: Annual percentage rate is as common a term in a car dealership as it is at your local bank. Commonly referred to as APR, the annual percentage rate represents the annualized interest rate on a loan (or credit) of any sort. Instead of getting an auto loan at 0.0000110 per day interest, you get a loan at 4% APR. The annualized interest rate is simply easier to understand and reference.

Auctions: Car auctions represent the underpinnings of the retail car market. Registered car dealers can sell and buy cars at used car auctions across the world. Manheim is the largest used car auctioneer. Dealers have access to manufacturer sponsored auctions where dealers franchised to sell those brands can buy retired company cars and captive lender lease returns.

Blue Book Value: Blue book value refers to the often referenced price sourced by Kelley Blue Book (kbb.com). Kelley Blue Book is well regarded in the automotive industry, having their used-car pricing guide in publication since 1926.

Closed-End Lease: Most car leases are of the "closed-end" variety. A closed end lease means that the customer is not obligated to purchase the vehicle, or guarantee the lease end residual value of the vehicle at the end of the term. This means the customer does not have to buy out the car at the end of the lease. With an open end lease the customer is obligated to guarantee the lease end residual value of the vehicle.

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Dealer Incentives: Dealer incentives and factory incentives are one and the same. They are the incentives that the manufacturer pays to the dealership, and dealership personnel in order to encourage the sale of certain vehicles. These incentives can also take the form of monthly and quarterly sales goals as determined by the manufacturer.

Customer incentives, such as rebates, special financing options, and discounted lease rates are what the manufacturer will advertise and underwrite. These are put in place to encourage the sale of certain cars.

Dealer Addendum Sticker: A car's Monroney sticker provides an overview of relevant information about a new vehicle. Not included on this window sticker are any dealer added accessories. For example, dealers may add aftermarket wheels, undercoating and other features that can raise the asking price above the MSRP. These modifications will appear on a secondary window sticker known as the dealer addendum sticker. This ensures that you, the buyer, have full clarity into what the car includes, and what came from the manufacturer as well as what the dealer added.

Destination Charge: The destination charge is part and parcel of a car's MSRP, and is listed on the window sticker as a separate line item that makes up the total manufacturer's suggested retail price. The destination charge is not something that dealers pass on to the customer. It is a charge that the manufacturer imposes.

Disposition Fee: The disposition fee is non-negotiable, and only charged to a customer when they return their lease car and do not lease or finance another car through that lender or leasing company. This fee is charged in addition to any excess wear and tear items that might be discovered at lease end. The disposition fee helps to mitigate the lenders cost to recondition, transport and register the car for sale at the auction.

Document Fee: This is a fee that the dealerships charge to help offset the costs of non-revenue producing dealership personnel such as accounting staff, title clerks etc. Most states cap the dealers as to how much they can charge for the documentation fee, and this amount varies from state to state.

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Down Payment: As with any loan, the down payment represents the cash paid upfront to reduce the total size of a loan.

Early-Termination Fee: Another charge only applicable to leases, an early-termination fee is exactly what it sounds like, it is an additional charge for cancelling your lease before the term is over.

Excess Wear Charge: Yet another lease specific charge, excess wear charges are incurred on leased vehicles that (upon their return) contain dings, dents, scratches, tears, etc. At the lease-end inspection ([click here to jump to lease-end inspection](#)), you will be notified if there are any excess wear charges. This also includes if you exceed your allotted mileage for the term.

Extended Warranty: An additional product sold by the dealership, that is sometimes referred to as a service contract. It covers service and repair costs that may be incurred beyond the vehicle's factory warranty.

Finance & Insurance: One of three revenue generating sections of a car dealership, the finance and insurance department is where you'll sign your paperwork for your new car. The F&I manager will walk you through all of the documentation of your purchase, as well as give you the opportunity to purchase additional products (extended warranties, tire and wheel protection, etc).

Floorplanning: The cost incurred by a dealer to purchase inventory in their dealership. More on [dealership floorplanning](#) can be found here, on the NADA website.

Gap Insurance: Exactly as it sounds, gap insurance provides supplemental coverage for the difference between the cash value of your car and the amount you owe your lender or leasing company at the time of a claim. For vehicles with steep depreciation, gap insurance can be an attractive option.

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Interest Rate: The proportion of a loan that you are charged for the privilege of being lent money.

Invoice Price: The price a dealership pays the manufacturer for a vehicle they have purchased.

Lay down: This is dealer slang for a customer who accepts the first offer during negotiations, or chooses to not negotiate at all.

Limited Warranty: Manufacturers offer limited (in terms of scope and term) warranties on their new cars. Terms can be as few as a year or two, and scope frequently does not include general wear and tear items like tires and wiper blades.

Lease-end Inspection: The lease end inspection is mandated by the leasing company. The inspection includes recording the miles on the odometer, inspecting the vehicle for excess wear and tear, including such items as tire wear, scratches, dents, dings and windshield damage, and confirming that no aftermarket accessories were added to the vehicle. Oftentimes the lease end inspection is done by dealership personnel on the lender's behalf, or if a customer prefers, a third party inspection can be requested.

Money factor: The money factor is utilized by the leasing company to establish the interest portion of a lease payment.

Monroney Sticker: Also commonly referred to as a window sticker, the Monroney sticker is a federally mandated label on all new cars in the United States. Named for Almer Stillwell "Mike" Monroney, a U.S. senator from Oklahoma who sponsored the legislation in 1958, the Monroney sticker contains information on the MSRP, fuel mileage, country of origin and more. Ray wrote [this guide to understand how to read a Monroney sticker.](#)

MSRP: The Manufacturer's Suggested Retail Price is the factory's recommended selling price for a vehicle. Nine times out of ten, a dealership does not sell a car for its MSRP. Most are negotiated below that amount, since the dealer can still make money.

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Out-the-Door Price: The total cost to purchase a vehicle. Also sometimes referred to as the “on-the-road” price. This includes all taxes, fees, and the selling price of the vehicle.

Rebate: A rebate is cash that is advanced to the customer by the manufacturer as an inducement for the customer to buy the car. In the vast majority of cases the customer opts to use the rebate amount as additional cash down on the purchase. The other option for the customer is to request that the manufacturer actually mail them a check for the rebate amount after the sale. This probably happens less than one percent of the time.

Residual Value: The residual value represents the expected value of a vehicle at the end of a lease term. Cars depreciate, and lease rates are determined based off of the expected residual value of a vehicle at the end of a term. Residual values differ for every car.

Service Contract

Generally synonymous with extended warranty ([click here to go to extended warranty](#)), a service contract is a dealer sold product that covers repairs or service beyond the manufacturer's warranty.

Subprime Loan: Loans granted to individuals who have less than stellar credit scores. Typical subprime credit scores fall below 600. More on the credit scores car dealers use can be found [here](#).

Term: The duration of a loan or lease as agreed to in your contract. Typically anywhere from 24 to 84 months.

Title: Issued by the Department of Motor Vehicle in each state, a title represents a vehicles proof of ownership. Note that if you finance your car the bank will hold the title (known as a lien) until the loan is paid off. Similarly, if you lease a vehicle, the leasing company will hold the title.

Trade-In: When you sell your vehicle to a dealership during the process of purchasing another car. The “traded-in” car's value is put towards the sale price of the next vehicle.

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Trim Level: Cars, trucks, and SUVs come with a dizzying array of options. Trim levels are manufacturer created tiers of standard equipment and options. For example a BMW 3 series comes in four trim levels; 330i, 330i xDrive, M340i, and M340i xDrive. The model is a 3 series, the manufacturer is BMW, and the trim level is the 330i, 330i xDrive, M340i, and M340i xDrive.

Upside Down: Also referred to as “being under water,” or “negative equity,” this term refers to when you owe the bank more money than the vehicle’s current value. A high percentage of people find themselves in this position when they go to trade their existing car in towards a new one, especially if they took out a lengthy loan.

Vehicle Identification Number Or VIN: A 17 digit identification number that is unique to each vehicle. A vehicle’s identification number will include codes for year, make, body style and engine. VINs are typically found under the windshield or along the door jambs of a vehicle.

