How do you get the best deal on a car?

Everybody wants to learn how to do better car deals. I swear, I can't give a talk on any aspect of negotiation without getting at least one question about car deals. It's depressing to deliver a brilliant, witty, and insightful lecture on trade negotiations with Outer Mongolia, only to discover that what everybody really wanted to hear about all along was car deals.

In truth, there is very little I can add to the many excellent books and articles which have been written about car buying. Nevertheless, because this is a negotiating issue of such fervent interest – it touches almost everybody's pocketbook, after all – this book would be incomplete without a discussion of car deals. Let's bow to popular pressure and take a whack at it.

Automobiles are still one of the very few consumer products sold in the United States on which it is customary to bargain over price. And next to our houses, they're the most expensive things we'll ever buy. Some 15 million Americans will negotiate for a new car or truck this year, agreeing to pay, on average, about $20,000. New car prices continue to escalate dramatically. Automakers now routinely increase their prices several times per year.

It doesn't take a genius to see that some big money could be saved through better negotiating. But car salesmen routinely tell me that fewer than one in four buyers have any idea what they're doing. The rest are lunch.

New cars.

We love new cars, but we hate buying them. Survey after survey has confirmed that consumers loathe the rug-bazaar atmosphere of most dealerships. In response, automakers are experimenting with a number of new initiatives – "no-haggle" dealerships, "value-priced" cars, and "warm and fuzzy" sales approaches (giving salespeople sensitivity training; calling them "customer-assistance representatives" or "associates") designed to make new car buying less of an ordeal.

No-dicker car pricing (also known as standardized, one-price, single-price, haggle-free, no-haggle, no-hassle, no-negotiation, and non-negotiable pricing) certainly isn't new. In addition to its standardized parts, Henry Ford's Model T had a standardized price. General Motors reincarnated the practice in 1990 when it introduced its Saturn line with an interesting twist: a discounted, but basically non-negotiable price. GM's no-haggle experiment with Saturn has proven extremely popular, and now each of the Big Three American automakers sells some models with no-haggle prices. Early surveys indicate that the no-dicker sticker increases sales and profits for some dealers. Not surprisingly, customer satisfaction is also higher.

Alas, the comfort of no-dicker pricing is purchased at a considerable cost to the consumer. Customers at haggle-free dealers pay more for their cars than buyers who bargain skillfully. And no-haggle dealers can, and do, boost profits by cutting staff, adding inflated fees, pushing expensive extras, offering costlier financing and leasing, and paying less for trade-ins.

"Value priced" cars are another effort by the major automakers to curtail their dealers' new-car haggling. The manufacturers load these cars with the most popular options, and sticker-price them less than the same models without those options. Customers, naturally, demand the value-priced models and flock to the dealers who have them. The trick is that the manufacturers sell these value-priced cars to their dealers at prices only slightly below their factory window stickers. The dealers have no choice but to demand virtually the full sticker price in order to make a profit.

Is the sun setting on new-car haggling? Don't count on it. Even though automakers have spent millions trying to persuade their 23,000 U.S. dealers to be nicer, it wasn't worked so far. The manufacturers' charm-school reforms are defeated by their own incentive systems which reward volume and turnover – "moving the metal." The most successful dealers know that what really "moves the metal" is the hard sell: creating feelings of excitement, desire, and urgency in their customers. Protected by state laws which greatly restrict manufacturers' ability to dictate sales practices, dealers stand on their right to use every hard-sell trick in the book. Less than 10% of the nation's new car dealerships have experimented with fixed-price selling. Many who have tried it have reverted to more traditional practices. For the foreseeable future, haggling for new cars won't end. The dealers won't let it.

This is very good news for negotiators. Smart bargainers who are willing to forego the comfort of no-haggle dealers for the thrill of matching wits with a car salesperson can pay hundreds – if not thousands – of dollars less for the same vehicle than their not-so-savvy neighbors.

Let's briefly explain how car dealers make money when they sell new cars. There are five main sources of potential profit: markup, trade-in, financing, "packs," and fees. Just like any other business, car dealers buy low (from the factory, at wholesale) and sell high (to consumers, at retail.) Markup is the difference between wholesale and retail. They can do the same thing when they take a car in trade. They buy low (from you, at wholesale) and, after cleaning the car up, spraying Armor-All all over the interior and silicone on the tires to make them shine, they sell high (to other consumers, at retail.) If the dealership arranges financing or leasing for you, it gets a hefty referral fee from the bank actually making the loan or lease. The longer the term and the higher the rate, the bigger the fee. "Packs" are the small but especially profitable items that dealers push late in the negotiation, when customers have that new-car smell deep in their lungs. They include extended warranties, vehicle protection packages (paint sealant, rustproofing, fabric protection, door guards, etc.,) tinted windows, anti-theft systems, and other extras. Finally, a host of mock-official "conveyance," "document preparation," "dealer preparation," and advertising" fees are added and the deal is totaled up.

After all is said and done, getting the best price on your new car boils down to a four-step process:

1. Decide on the car you want.
2. Find out what the dealer paid for it.
3. Commit yourself to paying no more than a few hundred dollars more than that.
4. Avoid the gauntlet of ingenious dealer gimmicks (trade-in, financing, packs, and fees) designed to get you to pay more.

The first step, deciding on the car you want, is not as easy as it sounds. There are currently more than 300 models to choose from, most of which are available in a number of different trim lines. Each trim line, in turn, has a different set of standard and optional equipment. You should visit the showrooms twice: once to shop, and once to buy. For now, you're just shopping. Ask the receptionist at each dealership for the name of the top salesperson, and work only with that person each time you visit. The best salespeople make extra money on the dealer's bonus plans, which reward the largest number of cars sold, irrespective of profit. The prospect of this bonus money will encourage the salesperson to be a little more generous on your deal.

Take lots of test drives, ask lots of questions, eyeball some window stickers (but don't take them seriously) and collect lots of glossy brochures. The more time each dealership invests in you, the more flexible it will tend to be later during the negotiating end-game. Don't answer any questions about when or why you need a car, how much you're willing to pay (monthly or in total,) other models you're looking at, other dealers you're visiting, whether you'll be trading in, or if you'll be needing financing. Don't leave any deposits for any reason, and don't even think about buying at this stage. When you've collected enough information, make a leisurely choice.

When you've selected your car, your next task is to find out how much it cost the dealer. Before we go further, let's define a few terms. The "window sticker" is the suggested retail price sheet that the manufacturer glues to the new car's window. This number is sheer fantasy and should be disregarded for negotiating purposes. The "factory invoice" or "dealer invoice" is the confidential bill sent by the manufacturer to the dealer for each new car. Sometimes a dealer will reveal this invoice to a particularly tenacious customer, explaining that, "I'm not supposed to do this, but lemme show you what I've got in this car." The official dealer invoice is widely assumed to be the dealer's actual wholesale cost for the vehicle. But dealers of most domestic and some foreign cars actually pay 2-3% less than the dealer invoice. This discount is known as "holdback" in the trade. When you deduct the holdback from the dealer invoice, you get the true "dealer cost" for the car.

It is imperative to learn the dealer invoice, or better, the dealer cost, of your target vehicle before you begin to negotiate. There are various sources of this information on the Internet, including consumerreports.com, edmunds.com, and chiltons.com. New ones come out every week. Sometimes for free, sometimes for a fee, these sites will tell you the actual dealer invoice for any make and model of new car, as well as the individual dealer invoices for every option and option package the factory can stick on the car. They'll also tell you about any factory-to-consumer and factory-to-dealer cash rebates available with the vehicle, what low-cost factory financing might be available, and what options are especially desirable. Many include some excellent car-buying tips as well, not that you'll need them.

On a separate worksheet, add up the individual dealer invoice prices for the basic car, the options, and delivery. Subtract any factory-to-dealer rebates in effect. The total is the dealer invoice for the car. Your goal is to pay from $0 to $500 above this figure, inclusive of everything except sales tax and vehicle registration fees. $300 over invoice is a good target. The only exceptions to this "$300 over" goal are the top-end luxury vehicles ($50,000 and above) on which you can expect to pay as much as $1,000 over, and the high-demand "hot" models which are considered separately below.

How, you may wonder, can a dealership survive selling cars at $300 over? One, they get the holdback, and two, they work the averages. Your $300 over deal will be balanced by another deal at $2,700 over, for an average of $1,500 over. The trick is to be the $300 person, not the $2,700 person.

If you're considering selling or trading in your current car, this is an excellent time to find out what it's worth. Used prices fluctuate constantly and even vary from region to region. Local classifieds are helpful and used car price guides can be found all over the Internet.

Visit the banks or credit unions offering the best rates on new car financing (or leasing, if that's your plan,) find out how much they will let you borrow for the car you want, and if possible get pre-approved for the loan or lease. Don't sign any legally binding documents yet. If you're financing, try not to borrow for more than 36 months. With longer loans, there's a real possibility that the car's value will depreciate faster than the loan is paid down, resulting in you being "upside down" – owing more than the car is worth – until the last year or two of the loan. Until then you'd have to come up with extra cash just to sell or trade the car. Leases are considered separately at the end of this section.

It's now time to return to the showrooms to buy. Try to purchase as close to the last day of the month as possible. You'll benefit from the dealers' month-end sales quota and inventory financing ("floor plan") pressures. Work with the same salesperson you did on your "shopping" visit, thereby adding to the time already invested in you. Since you have little negotiating leverage on cars which must be ordered from the factory, try to select a car from the dealer's on-the-lot inventory. If the car you select has any options which differ from those on your worksheet, refigure the total dealer invoice.

It's time for the games to begin. Your immediate goal is to get a firm but "shoppable" offer from this dealer. Show the salesperson your dealer cost calculations, and tell him, 1) you're prepared to buy the car immediately from the dealer who gives you the best price, and 2) you want his best price, now. Make it clear that you will be taking bids from other dealers.

Be prepared for some aggressive "you can't be serious"-type krunches when you reveal your number. Here are some other standard responses from the salesperson, to which you should reply as indicated:

1) "Your numbers are way out of line." Ask the salesperson to show you the dealer invoice and point out your errors. It won't happen.

2) "What would be a fair profit for me to make on this car?", "What would you be willing to pay for this car?", or "What sort of monthly payment do you think you could afford?" Each of these questions asks you to make an offer. You're there to receive offers, not make them. Reiterate your request for a firm quote. Never discuss monthly payments with a salesperson. Only the cash price matters.

3) "If I could get it for you at $500 over cost, would you buy today?" Notice he isn't making an offer; he's trying to get you to make one. Once again, making offers is not what you're there to do. Ask him if $500 over is a firm offer. If it isn't, continue to insist on a firm offer. If it is, tell him that if none of his competitors can beat it, you'll buy at that price before the end of the month.

4) "I'll sell to you at $500 over cost, but only if you buy it right now." You need an offer you can shop. "Right now" isn't shoppable, so this isn't a valid offer. The "today only," "tonight only," "one-time only," "right now," and "this car probably won't be here tomorrow" deadline business is a time-honored sales technique to create urgency and keep you from shopping the deal. Car salespeople know that if you leave without buying, you'll shop, and if you shop, they'll lose. In spite of what the salesperson says, at a minimum the price will be good until the end of the month.

5) "Shop the competition, get your best price, and I guarantee I'll beat it." You're not going to give anybody "last look." You need to compare everybody's best number on equal terms.

If the salesperson still refuses to give you a firm offer, tell him that if you leave without one he'll be out of the running. Stick to your guns and you'll get your quote. Move on to the next dealer and repeat the process. As you move from dealer to dealer, check your answering machine frequently for calls "improving" earlier quotes.

Note how many dealerships seem to be designed to be intimidating, with the sales managers holding court on an elevated platform overlooking the sales floor, or in a glass-walled room. Remember that dealers have been known to eavesdrop on customer conversations when the salesperson is out of the room. The walls may have ears. Keep alive the prospects of your trading in, financing through the dealership, and loading the car with packs. There's no need to close those doors yet, and they're powerful inducements to the dealership to give you an especially attractive price. If you're asked about whether you'll be financing or trading, say "maybe" and leave it at that. There's no need to disclose that you've already shopped for financing. Better to play dumb. If the salesperson wants to appraise your potential trade, let him, but make it clear that you want separate offers for the new car and the trade. If you're so inclined, you may express your admiration for extended warranties and protective coatings. Watch the salesperson's eyes light up. Refundable or not, don't leave any deposits – for "good faith," "earnest money," to "lock in the quoted price," or for any other reason. Salespeople ask for such deposits because they subtly entangle the customer with the dealership.

When the lowest-price dealer emerges from your auction, krunch the next-lowest. Tell him that he's close but that you have a better quote. Don't say what the lower number is or who it's from. If he drops his price below the other dealer, krunch the former leader. Tell him that he was the lowest but you now have a better quote. Continue krunching until there are no further concessions.

If the best quote is within your Envelope – no more than $500 above dealer invoice – it's time to close the deal. If it's not, and the car you're after is neither an exceptionally high-demand nor luxury model, a mistake's been made somewhere. Abandon your efforts for this month, refigure your numbers, and start again next month.

Revisit the lowest-price dealer. If the salesperson makes any attempt to renege on his earlier quote and raise his price because a) a math or clerical error was made in the quote; b) a higher offer was received for the car, which you must match; c) unknown to the salesperson, the car you wanted was already sold, and now only more expensive models are available; or d) the sales manager wouldn't approve the deal as quoted, you have been "lowballed." Any questions about whether you're dealing with a shyster have been answered. Your choices are two: ignore the attempted increase and negotiate against the dealer's earlier lowball quote, or leave immediately and try to close a deal with your second-place dealer. If the Number Two dealer's quote is within your Envelope, leaving is probably your best bet. You may still have time to close a deal before the end of the month. If it's not, you may wish to stick around and work on the Number One dealer a little longer.

Offer to buy the car at dealer invoice. This is not as crazy as it sounds. Since domestic and some foreign car dealers get a 2-3% holdback from manufacturers, they can actually make a profit selling at invoice or even a little below. Your first offer will be rejected; car salespeople are trained to always reject the customer's first offer. Move toward your "$300 over" target in steadily decreasing increments. Only if absolutely necessary should you move past your target toward your bottom line. As you move toward closure you'll be treated to a special private performance of the time-honored ritual of good guy-bad guy. Pay close attention, as you will rarely see good guy-bad guy demonstrated with such consummate skill. The salesperson will disappear each time you make an offer, ostensibly to carry it to the lair of the hard-hearted sales manager and beseech his acceptance. Sadly, each of these valiant efforts will fail and the salesperson will return, defeated and apologetic, with the sales manager's counteroffer. "I couldn't get him to go for it," he'll say. "He was really upset with me for even bringing it to him. Here's what he says he'll do." Written in large red letters with lots of exclamation points, these counteroffers from the sales manager will often display some thinly-disguised indignation.

If the salesperson has not yet had your potential trade-in appraised, he will do so now. Remind him that you want the purchase price of the new car calculated independently of the allowance for your trade. Dealers will sometimes "overallow" on trade-ins to tranquilize customers being hosed on new car purchases. You are not in this group. When your appraisal comes back, the news will not be good. "Woo-eee, it's got some miles on it, doesn't it? And that looks like a pretty bad wreck you were in a while back. Hope nobody was hurt. The car's a little dirty, and it's got a few rust spots. We're going to have to wholesale it. But we want to be completely fair with you. Let's look it up in the Blue Book and see what it's worth." The “Blue Book” is the National Automobile Dealers Association's official Used Car Guide, and while it's got tremendous legitimacy, it's a work of fiction. The acronym – “NADA” – is what they want you to think your car is worth. The numbers in the Blue Book are ridiculously low, and the principal users of the Blue Book – banks, insurance companies, and car dealers – want low numbers. Your salesperson will find the Blue Book's average wholesale number for the year, make, and model of your trade, and write that number on the worksheet. The number is probably much less than the car's actual worth, but that doesn't matter for now. Tell him you're interested, but remind him that you don't want to talk about the trade until you've settled on a price for the new car.

The salesperson will also introduce the idea of financing or leasing through the dealership. Ask for his rates and terms. While dealers sometimes have below-market loans and leases, they often make them available only on slow-moving cars or to customers who are overspending. Don't be surprised if the quote is far less attractive than the ones you've already gotten from other lenders. Handle your financing the same way you handled your trade: express interest, but defer further discussion until after the price for the new car has been settled.

It's also time for the salesperson to try to "pack" the deal. Salespeople are trained to work each deal for maximum profit, and since it's now apparent that you'll be doing well on the new car purchase, the salesperson will try particularly hard to "get well" with high-profit packs. Be careful. Many customers, suffused with new car aroma and already resigned to spending tens of thousands of dollars, become inattentive free-spenders in the waning moments of the negotiation. You don't want the extended warranty (most buyers get it, even though it offers little more than the manufacturer's standard new-car warranty.) Pass on the rustproofing, undercoating, paint and fabric protection. The factory already applied them, and refills are available at most drug stores. If you genuinely want pinstripes, door guards, side molding, mud flaps, tinted windows, an alarm system, or an upgraded radio, buy it later from a specialist. You'll get more and pay less. No matter how much the salesperson may discount their prices, say "no" to the packs. If the dealer has already installed an item, treat it as a freebie. Ignore it in figuring your deal. Try to close the deal on a nibble or two – free floor mats, touch-up paint, shop manuals, a full tank of gas, oil changes, a full-sized spare tire, etc.

Once the price is agreed to, you have just one more challenge to overcome: the finance manager. While he may resemble an accounting clerk, the "finance guy" is in reality another salesperson. He sells loans, extended warranties, and extra fees to customers who you are "in the box" with him.

The finance manager will inquire how you'll be paying for the car. Ask him to review the trade-in allowance the dealership is offering. While it almost certainly won't be your trade's full retail value, if it's good enough to offset the hassle of selling the car privately, take it. If not, withdraw the trade from the deal.

Next, the finance manager will ask about financing or leasing. (We examine leasing in a separate section, below.) Have him re-quote his best available financing options. Don't discuss monthly payments; concentrate strictly on rate and term. If his loan is better than the quotes you received earlier, krunch it a few times, then take it. Decline the credit life insurance and be sure there are no hidden charges, especially in the event the loan is paid off early. If his quote isn't competitive, tell him you'll be using your own pre-arranged financing. This may trigger a new, better offer. If so, keep krunching him until he stops moving, then finance with the lowest offeror.

The finance manager will also give the extended warranty another try, perhaps cutting the price even further than the salesperson did. You may be honored with the famous and very effective, "If you only use it once, it's paid for itself" line. As before, pass. He will then prepare the sales contract. Read it very carefully before signing. Make sure that everything that's supposed to be in or out, is. Eliminate or sharply reduce any "conveyancing," "document preparation," or "dealer preparation" fees. All of this work is supposed to be included in the basic price of the car. Any "advertising" fee should be supported by an invoice to the dealer. Even if it can be documented, negotiate it aggressively. Advertising is a cost of doing business, and it should come out of the dealer's markup. He doesn't charge you a "rent" fee or an "electricity" fee, does he? Besides, you hate his ads. He should pay you to watch them.

When the sales contract is finished and checked, go ahead and sign. Make sure the finance or sales manager signs also; the salesperson's signature usually doesn't bind the dealership. Even though you probably won't have a check from your bank at this point, after the paperwork is signed the dealership will usually let you take the car home. Sometimes they'll request a personal check or a promissory note, which will be returned or destroyed after your bank settles up. It's over. Pat yourself on the back; you did it!

By the way, let me assure you that the dreaded "revenge of the service department" is one of the biggest myths in the business. A surprising number of consumers are intimidated from negotiating assertively – and may even deliberately spend extra – because they believe that somehow their behavior on the sales floor will be reciprocated later by the service department. "If I'm good to them, they'll be good to me," the reasoning goes, "and if I'm not, they won't."

Nothing could be further from the truth. They're going to hose you anyway on service, whether your deal was generous or not. Not to mention that the service guys hate the sales guys, have as little to do with them as possible, and would do nothing to help them out. I'll bet that when the service guys find out that you're the person who hosed down that sales guy a few weeks back, you'll be a hero in the service department. "Hey, here's the guy!" they'll say. "Tell us how you did that! They're still talking about that inside. Give him a free tune up. He's one of us!"

If you're still worried, remember that you never have to go back to the original dealership for service. Warranty work can be performed at any authorized dealer.

"Hot" car models.

Every year there are a handful of new models which are so popular that the manufacturers can't keep up with demand. Other cars, including limited-production and some luxury models, are manufactured in such small quantities that they're always scarce. You'll know almost immediately if the car you're after is one of these "hot" models: nobody will have any in inventory. Or they'll have one – in purple – and they're going to auction it off to the highest bidder.

Market forces can wreak havoc on the best-laid negotiating plans. High demand and/or low supply naturally make dealers less willing to bargain. If a dealer can sell his entire inventory of a model at full list, he'd be crazy to negotiate with you. When the same car enjoys both high demand and low supply, its dealers can actually command a premium – selling it for more than list. This isn't price-gouging, it's free enterprise. Supply and demand.

If your heart is set on a hot car, you'll probably have to abandon the "$300 over" target suggested above. Depending on the car, the date and the region, prices from $500 or $1,000 over dealer invoice to full list and beyond may be commanded.

The local "auto row" may be fine for buying most cars, but your best hope of getting some kind of a deal on a hot car is to get way out of town. Urban and suburban dealers of these vehicles, swamped with orders from affluent and impatient customers, are the least inclined to be flexible. Washington, D.C. is an excellent example. Here, the hot car market has been thoroughly warped the legions of hurried fat-cats who buy cars, on their lunch hours, at window-sticker. Not long ago, if you walked into a Washington, D.C. area Acura dealer and said, "Let's talk deal," the salesperson would wordlessly dismiss you, snap his fingers and yell, "Next!"

About three hours from the city ought to do it. In Washington, we send hot car buyers to Scranton, Pennsylvania. Or Morgantown, West Virginia. Or Elizabeth City, North Carolina. Because in those places, they need money. In Washington, the dealers don't care if you live or die. In Scranton, they care. They're happy to see you in Morgantown. You go to Morgantown to buy a car, you're a hero. They send a police escort to guide you to the dealership. They have a parade for you. They give you the key to the city. In Elizabeth City, they declare a local holiday. The salespeople meet you in the parking lot, open your door, shake your hand, and put their arm around you.

The dealerships have video games for the kids, and VCRs and cafeterias. You can live in these places. You'll get a deal on a hot model in Elizabeth City that you can't touch in Washington.

Used cars.

In three short years, the typical new car will have lost half its value. But much of its useful life will remain. Escalating new car prices and better quality standards have created an exceptionally strong used car market. Smart consumers looking for transportation value are turning in record numbers to the used car market – a market that is the epitome of pricing-by-haggle.

If you're buying, a good starting point is the April issue of Consumer Reports. It lists the frequency of repair experience of many recent models and suggests, by price range, especially desirable and undesirable models. It also gives excellent advice on picking winners and avoiding dogs when you get down to shopping. Once you have a particular model in mind, figure out its current market – "retail" – price. This process is described in the New Cars section about valuing a potential trade-in. Next, try to figure out the car's "wholesale" price – what a dealer would pay for it. Call the managers of a few used-car dealerships and ask what they'd give for a car of the model and vintage you have in mind. If you know somebody in the business, ask them. Make the wholesale price your target, and the retail price your bottom line. (If you're selling, these numbers are reversed.)

Now it's time to actually find the car. You've got two main choices of sellers: dealers selling new and used cars, and individuals. I'd stay away from independent used car dealers, banks, finance companies, rental car companies, and service stations. The new-and-used dealers generally offer decent-quality cars, service, and maybe even a warranty (typically limited and brief, but better than nothing.) Governmental oversight and concerns about reputation generally restrain them from the more flagrant used-car rip-offs. The bad news: you'll pay more. You'll probably get a better price from a private seller, but you'll also run a higher risk of being swindled.

Whoever you buy from, be guided by your head – not your heart. Before a final price is negotiated, insist on seeing receipts documenting the car's complete maintenance and repair history. And, have the car inspected by a mechanic. Use this information, along with the car's mileage, options, and overall cosmetics, as bargaining leverage. If the seller hasn't got the service history or won't let you have the car checked over, don't buy it.

Leasing a car.

Either leasing or financing a vehicle will almost always be more expensive than simply paying cash for it, and in the long run, leasing usually costs more than financing. But the steadily increasing cost of new cars has made the principal advantage of leasing – low monthly payments – more attractive than ever. While you won't actually own it, you can usually lease a nicer car than you can buy for the same monthly payment.

Shop for a lease like you would for a loan: before you buy the car. Get various quotes and, ideally, pre-approval. Next, negotiate the price of the car as explained above. Once the price is set, have the finance manager quote you his "best" lease. Take your time and read the lease document carefully. While the rate is all-important in financing, in leasing the rate and the terms (the legal provisions) are equally important. The lease rate is called the "factor" and it's a small number like .0035. Multiply the factor by 2400 and you have the effective "interest rate" of the lease.

The lease should be "closed-end" (you neither have to buy the car nor guarantee its value at the end of the lease) and no more than four years in duration. Three-year terms are standard. Under no circumstances should the lease be longer than the manufacturer's new-car warranty.

Look carefully at the yearly mileage allowance and the charge for extra miles. Be certain the allowance will cover your expected use. Note the definition of "ordinary wear and tear" because you'll be responsible for any damage beyond this. "Gap insurance" – to cover you for any deficiencies if the car is stolen or totaled – is a must. It should be included at no extra charge; if not, pay up to $200 for it. If you have to terminate the lease early, you should be responsible only for the difference between what you've already paid and the car's then-current value. Remember that early in the lease, this is likely to be a pretty large number.

The finance manager usually has various lease packages he can make available, depending on how hard you negotiate. Rarely will he lead off with his most attractive offering. Individual lease provisions – including the factor, security deposit, set-up fees, and mileage allowance – are also negotiable.

Good luck and happy haggling!