



Take a Hard Look at Extended Warranties

When you're itching to drive away in that new car, it may be hard to resist dealership arguments to just wrap that extended warranty cost into your monthly payments. But since some auto makers now give you an automatic new-car warranty longer than the traditional three years or 36,000 miles, an extended warranty isn't always necessary.

A typical buyer of an extended warranty (also known as a service contract) pays about \$1,000 but only collects on some \$250 in repairs over the life of the contract, according to *Checkbook* magazine, a consumer publication that also operates Car Bargains car-buying service.

Extended warranties should be especially easy to resist if you are buying a car with a long new-car warranty.

But you may be among those who find the reassurance of an extended warranty worth the price. Not everyone is readily able to pay for repairs. And many of the biggest-volume car makers still give you only the long-time indus-

try standard warranty of three years or 36,000 miles for all components on all but a few of their cars.

If you are a buy-and-hold car owner and expect to have a shorter-warranty vehicle in the driveway for six or seven years, you may be a better candidate for an extended service contract. If that's your profile, here's some advice on getting the best possible deal:

You don't have to buy right away—Despite pressure to buy now from the dealer, you usually have up to 12 months to buy an extended warranty on a new car. And because the extended warranty coverage begins when you buy the contract—not when you buy the car—you get, in effect, an extra year of coverage that way.

Other extended warranties are available for used cars. However, if you are buying a used car through a dealer, consider instead “certified” models that carry a new factory warranty—usually for one year and 12,000 miles. (See “Find Peace Of Mind: Certified Used Vehicles,” p. 24.)

Consider mechanical breakdown insurance (MBI)—Sold by insurance agents and some credit unions, these

contracts—often \$500 or less for new-car coverage up to six years or 100,000 miles—cost about half what a dealer will charge you for a typical extended warranty. And MBI usually lets you go to the repair shop of your choice; dealersold warranties limit repairs to dealers of that brand and sometimes even the specific dealership where you bought it.

See who is behind the contract—

Wherever you buy it, see what financial company backs your extended warranty. Though you may be overpaying for it, you can feel secure about a manufacturer's contract from, say, Ford Motor Credit or Toyota Motor Credit. If the contract is backed by an insurance company, look for at least an AA rating from Standard & Poor's (www.standardandpoors.com).

Know what is NOT covered in your contract—Like regular new-car warranties, most extended service contracts exclude recurring maintenance items such as brake parts and oil and air filters. Additionally, some potentially expensive repairs like power windows and seats sometimes are excluded. Make sure you know in advance what is covered.

Check the deductible—Policies often require a deductible of \$100 before coverage starts. This seems reasonable because you are trying to protect yourself against big bills. But higher deductibles should make you think twice.

Make sure you can transfer the contract—If you want to sell your vehicle later as a used car, an extended warranty that goes with it will enhance its value. Avoid nontransferable contracts.

Find out how repairs are paid for—Some insurance or financial companies will pay repair shops directly. With others, you pay up front and then collect

from the service-contract company—often a slow process. A factory-sponsored warranty that lets you go to any dealer of that brand is likeliest to pay the bill directly.

Remember, you can negotiate the price—You negotiated hard to get the best price on your new car. You can do the same on the extended warranty. The “closer”—the dealership financing specialist—will make it sound like a fixed price, but there is always room to haggle.

But best of all, just say no—If you think you can handle repairs financially, play the odds that you never will recoup

The best protection is
to buy a car with a strong
record of reliability.

what you spend on that extended warranty.

It's hard to disagree with Consumers Union, publisher of *Consumer Reports* magazine, when it advises that the best protection is to buy a car with a strong record of reliability. Look for a reliability rating for most cars annually in the April issue of *Consumer Reports*, consumerreports.org.

Then prepare for repairs by building up your credit union savings account.