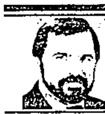
Buyback guarantees pinching auto makers

By Dan McCosh
special writer



auto talk
Dan McCosh

I was a bit early to take advantage of the huge runup in prices of collectible classic cars when I bought a slightly used, bilious green AMC Concord with a Gucci interior for $250 from one happy seller, who stood next to the car, patting it on its fender, which moved slightly, causing a slight dusting of rust to roll out in an ominous cloud from the wheel well.

"This car's going to be worth a lot of money some day," he said, then adding. "But not today."

WHICH ALSO turns out to be the plight of the makers of certain luxury cars today, according to a recent article in Automotive News. Cadillac's Allante, Ford's Scorpio and some Audi's were sold a couple of years ago under a deal that guaranteed a fixed value when the car was traded in on new car of the same make, sort of like a pop bottle. Mercedes likewise has been propping up used-car prices through a buyback program in its dealerships to encourage customers to trade in on brand-new cars.

The effect is that most of these companies are starting to pay out sizeable sums of money to owners attempting to unload luxury cars in a market glutted with aging status symbols.

GUARANTEED BUYBACK prices were one of those things that seemed like a good idea at the time, since the notion of certain luxury brands being "good investments" has been a selling point for decades.

Actually, high resale prices for certain luxury cars, notably Mercedes and BMW, stemmed mainly from the rapid escalation in price of a new replacement for the same model. With BMW five-series sedans selling for roughly triple what they fetched 10 years ago, an old model that runs still is worth something. The catch is that the difference between a used BMW and a new model today exceeds the price of the car bought new six years or so ago.

IN A strange sort of way, this scenario means that capping the runup in luxury car prices, or worse yet, introducing actual cuts as Porsche has done recently, affects the secondary used-car market far more strongly that it used to.

It's worse for some brands than others, as the current crop of recognizable status cars is diluted by yet more brands coming into the market this fall. Yet others fall from grace due to a spate of bad publicity or a change in the public's taste.

ONE OF the ironies of rapidly depreciating used-car prices is that it tends to create tremendous bargains for two- to three-year-old cars, particularly for oddball models that never quite took off. A used Renault Fuego, for example, or a top line Mitsubishi.

Also, while luxury cars struggle to hold some value in the classifieds, more mundane hardware, particularly used trucks and minivans, have become the Cadillacs of the transportation special sections. It's tough to find any minivan today selling for much less than half its original price, while any pickup with enough metal remaining so that you can stand in the bed costs a couple of thousand.

SOMETHING LIKE Hollywood, I suppose, where the character actors have a long and lasting career, while the hot starlets and glamour actors play out when their looks wear out.

On the other hand, there's still something about a big, old Caddy, parked on the back of the lot with a few rust flecks on the side, and a beat-up pair of horns added by a country western star you never heard of.

It's going to be worth a lot of money some day.

It's worth your time to check the return on savings

finances and you
Sid Mittra

Part II

Last week we discussed several criteria for savings media solution. This week we will concentrate on the important criterion of return on savings.

Savings Accounts

The most traditional of all bank savings accounts, which were previously called passbook accounts, form the backbone of bank savings. Until the interest rate ceiling was removed in April 1986, the maximum legally allowable rate on regular savings in federally insured institutions was 5.5 percent on savings accounts.

Checking Accounts

Contrary to the commonly held belief, interest can be earned on checking accounts, but only if certain stated criteria are met. Generally, regular checking pays no interest and usually costs about $5 per month. This cost is waived by the bank if a minimum balance of $400 to $500 is maintained. In contrast, NOW (Negotiated Order of Withdrawal) accounts pay interest and also allow check withdrawals.

For those with $5,000 to $20,000 in cash and securities, the AIOAs (All-In-One Accounts) provide the best alternative. These accounts consist of a package of automated cash management, preferential personal treatment and certain investment services provided by the bank.

On the cash management side, the bank covers the check written by the depositor by transferring exactly the right amount from the money-market balance to the checking account. On the investment side, the depositor can use the bank facilities not only for trading securities but also for financial planning, managing real estate investments and trust and estate planning.

Even more important, dividends, interest, and proceeds from the sale of securities are deposited directly into the interest-bearing money market account.

Simple vs. Compound Interest

A common practice among financial institutions is to advertise a high rate on multi-year account, but it is simple interest, not compounded. This practice can be utterly misleading to the neophyte and the unsuspecting saver.

For instance, if ABC bank pays a 10¼ percent simple interest on its five-year CD, and XYZ bank pays just 9 percent interest on its CD compounded annually over the same period, to the uninitated ABC bank looks more attractive, but in reality XYZ bank offers a better deal.

Delayed Deposit Credit

The real yield on a deposit also depends upon the number of days the money is allowed to earn interest. Some banks wait several days before crediting the account with the new deposit. This practice could significantly cut the yield on the new deposit.

Minimum Monthly Balance Requirement

Basically, there are six methods for paying interest:

- *low quarterly balance,*
- *low monthly balance,*
- *pro-rata balance — FIFO,*
- *pro-rata balance — LIFO,*
- *day-of deposit to day-of withdrawal balance, and*
- *60 average daily balance.*

If a $10,000 deposit is made on Jan. 1 at 5¼ percent, compounded and paid quarterly, under each of the preceding six methods the annual interest would be $535.42. The differences result from the deposit or withdrawal during the interest period and their effect on the final amount of the interest paid, depending on which method of calculation is used.

Grace Period Allowance

Grace days are also important in determining how much interest an account will earn. A grace period for deposits allows savings institutions to pay the interest from the first calendar day of the month and also on deposits withdrawn during the last three business days of a month (called dead days). When a bank allows a grace period, it automatically boosts the real yield.

Other Factors

Other factors that affect real yield include charges for excess withdrawals, penalties for premature closing of accounts and other assorted charges. The effect of these charges and penalties on the real yield can vary greatly depending upon individual policies adopted by various financial institutions.

SEMINAR: *"Lump Sum Distribution — Five Choices," "Medicare Tax — Myth vs. Facts," "Mutual Funds — Taxable vs. Tax-deferred" and "High Returns — Must You Sacrifice Safety?"*

The seminar, sponsored by the Observer & Eccentric Newspapers and Coordinated Financial Planning, will be 7-9 p.m. Tuesday, June 13, in the offices of Coordinated Financial Planning, Sheffield Office Park, 3250 W. Big Beaver, Suite 540, Troy.

For reservations, call 643-8888.

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