



# BILL OF SALE (AUTOMOBILE), PROMISSORY NOTE (AUTOMOBILE) & GUIDES

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Sample Bill of Sale (Automobile)

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## 1. Overview

You've listed your car and you've found your buyer - it's time to finish your deal. In the modern marketplace, your transaction can't be completed with a simple handshake and a wave goodbye. Your vehicle transfer also requires you to file with your state's motor vehicle department and other local agencies. This process calls for a complete, well-drafted bill of sale. With the enclosed documents and instructions, you can firm up the terms of your arrangement and prepare for your car's new titling and registration.

A bill of sale is like a receipt. It proves that ownership of a particular piece of property has changed hands. It also details the terms of the sale, including information about price, delivery, and condition. Bills of sale can help to prove the identity of a vehicle's true legal owner. Moreover, many states and counties use these documents to determine the amount of sales tax owed on the transaction, if any. A promissory note is also included in this package, which allows the buyer to make vehicle payments over time and provides security for those payments.

If you follow the enclosed samples and guidelines, you will have a written acknowledgment of the rights and responsibilities being transferred as part of your sale. This will provide essential documentation of your ownership and liability obligations and you will be well on your way to establishing a clear record of title for your property.

## 2. Dos & Don'ts Checklist

### BILL OF SALE

- Getting the correct name and physical address of the other party to your deal is essential. If a question emerges about property title, you'll need to get in immediate contact with that person or company.
- If you are selling the vehicle, give the buyer a completed bill of sale only after you have received your money and the transaction is complete. Since the bill of sale states that you have already been paid, it may be difficult to collect any outstanding amounts if the buyer has written evidence that its payment obligations are complete.
- The enclosed bill of sale assumes that payment of the car's purchase price will be made over time. If buyer intends to complete the sale with one lump sum, the parties should use a bill of sale that contemplates such immediate payment.
- Sign two copies of the bill of sale, one for you and one for the other party.
- Although not strictly required, consider bringing a third party with you when the bill of sale is signed. If questions arise about the sale, that person can serve as a reporter of the transaction. Alternatively, you and the other party can notarize your signatures on the document.
- Once your bill of sale is complete and signed, visit your local county clerk or tax office to record the bill. They will use the bill of sale to estimate your sales (or use) tax and record the transaction.

- The seller should contact its state Department of Motor Vehicles immediately after completion of the sale and let them know the vehicle has been sold and to whom. This will protect the seller if a ticket is issued or an accident occurs in the period between the sale and the re-titling of the car.
- To complete the transfer of title, both the seller and the buyer should send a copy of the bill of sale to their state's Department of Motor Vehicles (DMV). Some states require that the seller report the title transfer within five (5) days of the sale, and the buyer report the title transfer within ten (10).
- Additional steps may be required for your vehicle transfer. For example, the car's "pink slip" must be signed over to the purchasing party. Check with your local motor vehicle agency and tax authority to see what documents may be needed.
- Remove the vehicle's license plate before physically transferring it to the buyer. In many states, this is required by law.

#### PROMISSORY NOTE

- Before sitting down to sign, decide exactly what your goals are for the note. How long is the loan for? How much will be paid each month (or other period)? What interest rates will be applicable? A good agreement is one that captures the intentions of the parties accurately. Take a moment to clarify the terms and conditions of your loan before memorializing them in written form.
- The promissory note should only be used if the buyer intends to make a down payment at the time of purchase and pay the remainder over time. If payment of the car's purchase price will be complete on the sale date, the parties should use a bill of sale that contemplates such immediate payment and do not need to sign a promissory note.
- Allow each party to spend some time reviewing the promissory note. This will reduce the likelihood, or at least the efficacy, of claims that a party did not understand any terms or know what their obligations were under the document.
- Both parties should review the note carefully to ensure that all relevant deal points have been included. Do not assume that certain expectations or terms are agreed to if they are not stated expressly on the document.
- The following form is a secured promissory note. This means that the lender takes a secured interest in the borrower's vehicle. If the borrower defaults on the loan, the lender can seize that car almost immediately. By contrast, with an unsecured note, the lender would have to go to court to demand payment if a default occurred.
- In general, secured promissory notes are supplemented with and supported by security agreements. Those security agreements are what allow lenders to take property if a default occurs. This package does not include a security agreement.

- A security interest in a vehicle can (and should) be memorialized with a financing statement (more specifically, a document called a UCC financing statement). Once a financing statement is completed and filed with the correct governmental authority, the lender's interest in the property is considered "perfected." This means that if future lenders also seek a security interest in the same asset (in this case, the car), the lender with the perfected interest would have top priority and could take the property for itself after a default.
- The enclosed note has a specific term, during which the borrower must make regular, equal payments. At the end of that term, the borrower must pay any outstanding amounts due under the document. This last payment is sometimes called a "lump-sum" or a "balloon" payment.
- Choose a fair interest rate. Although the enclosed note will "rewrite" any illegal interest rate to make it legal, it's a good idea to select a more reasonable number. This will decrease the chances of default and make for a less strained relationship between the parties.
- The parties should sign only the one original document, and that original should be given to the lender. Make at least one photocopy, make sure that the document says "COPY" in bold letters, and give the copy to the borrower. After the note has been paid in full, the lender should return the original document to the borrower.
- Depending on the nature of its terms, you may decide to have your note witnessed or notarized. This will limit later challenges to the validity of a party's signature.
- If your agreement is complicated, do not use the enclosed form. Contact an attorney to help you draft a document that will meet your specific needs.

### 3. Bill of Sale and Promissory Note (Automobile) Instructions

The following provision-by-provision instructions will help you understand the terms of your bill of sale and promissory note.

The numbers below (e.g., Section 1, Section 2, etc.) correspond to the provisions in the forms. Please review both documents in their entirety before starting your step-by-step process.

#### BILL OF SALE

- **Location of Sale.** Write in the name of the state and county where the sale will take place. If the parties are from different counties, use the state and county in which the car is located.
- **Purchase Price.** Enter the purchase price in the first blank provided. Be sure to include the full price that will be paid, including previous down-payments and future payments.
- **Names and Addresses of Parties.** Identifies the parties and their street addresses (not P.O. Boxes). One party to this bill is called the "Seller" and the other is called the "Buyer." As you probably guessed, the Seller is the party that will sell the car and the Buyer is the party that will purchase it. Note that only the individual whose name is on the title of a vehicle is permitted to sell it. This means that if a married couple is selling the car but it is in the wife's name only, only the wife should sign the bill of sale.

- **Vehicle Location and Description.** These spaces allow you to describe fully the vehicle you are buying or selling. Be as specific as possible, making sure that the item being sold can be identified clearly from the description. You must include the location, make, model, body type, year, and VIN, examples of which are listed below:

- » **Location:** Include the county and state where the vehicle is currently situated.

- » **Make:** Ford, Chevrolet, Lincoln, BMW, etc.

- » **Model:** Corvette, M5, Mustang, etc.

- » **Body Type:** Sedan, Coupe, Convertible, SUV, etc.

- » **VIN:** The Vehicle Identification Number (or “VIN”) is your car’s 17-character unique identifier. Generally, the VIN is located in one of the following places: the dashboard; the steering column; the vehicle’s firewall; driver side door; or passenger side post. Review your user manual if you can not locate the VIN.

- **Section 1: Payment Method.** The enclosed bill of sale assumes that the buyer will make a series of monthly payments, rather than paying all at once. Fill in the amount of the promissory note and the amount of any down payment. Although the promissory note is separate from the bill of sale, the documents should be kept together in your records.
- **Section 2: Seller’s Representations and Warranties of Title.** The Seller’s promise that it owns the car and that no other party holds an interest in the car.
- **Section 3: Buyer’s Representations and Warranties.** The Buyer’s promise that the person signing the bill of sale has the authority to do so.
- **Section 4: No Other Warranties.** Disclaims any warranty other than the warranty of title described in Section 2 and the manufacturer’s warranty (if any). This vehicle is being offered “as is.” The buyer should note this provision: if the car has problems in the future, the seller is disclaiming responsibility.
- **Section 5: Inspection.** A summary of recent mechanical inspections. If the vehicle has been inspected within the last month, delete the bracketed “not” and attach a report of such inspection. If not, delete the second sentence.

If the seller knows of any defects in the car, those problems must be disclosed in the space provided. Any known defects that are not reported could invalidate the sale, and may bring later charges of fraud. If there are no known defects, the blank space can be deleted.

- **Section 6: Delivery of Vehicle.** Explains where and when the vehicle should be picked up by the Buyer. Write in the date on which you want this to happen.
- **Section 7: Conveyance of Title.** Indicates that title to the vehicle will be given to the Buyer on the day on which it receives that vehicle. This section also includes the Seller’s promise that it will sign every document needed to effectuate the title transfer.
- **Section 8: Cancellation of Insurance and Tags.** The Seller’s agreement to cancel any remaining insurance or tags that it was maintaining on the vehicle.

- **Section 9: Additional Terms of Sale.** If there are additional terms you'd like to add to the form, enter those in the space provided. For example, the parties may wish to include a requirement that the car be cleaned thoroughly before sale completion.
- **Signatures.** Each party must sign and print their name. Several states require that each party provide a phone number as well. Although this may not be a requirement in your state, it's a good idea for both parties to provide as much contact information as possible. Be sure to date this document as well, as a number of deadlines start to run on the sale date (e.g. transfer of title and registration).

If a third party witnessed the signing, have that person sign and date the space provided. If there is no such witness, you can delete this segment.

- **Odometer Disclosure Statement.** Federal and state laws require an accurate report of a vehicle's mileage on a bill of sale. Some states require this disclosure statement to be on a page separate from the bill of sale itself. The enclosed form has made this separation.

Write in the seller's name and the number of miles on the car. Do not include tenths of a mile in your report of the current odometer reading. Do not check any of the blank lines if the odometer reading is, to the seller's knowledge, correct. Check the first line if the odometer goes to five digits, and the reported mileage is incorrect because the odometer has rolled over after passing 99,999 miles. For example, if the reading is "10,000," but the actual mileage is 110,000, the seller should record the number "10,000" and check this line.

If the seller knows the odometer number is incorrect or the odometer itself is broken, it should check the second line.

#### PROMISSORY NOTE

- **Introduction.** Identifies the document as a note. Write in the date on which the note becomes effective. Note that one party is called the "Seller" and the other the "Buyer." Identify the parties and, if applicable, what type of organization(s) they are. Note that one party is called the "Payee" and the other the "Borrower." As you may have guessed, the Borrower is the party that is borrowing money (and is the buyer under the bill of sale) and will pay it to the "Payee" (usually, the seller under the bill of sale) over time. The payee may or may not be the same entity as the lender. Since the promissory note and bill of sale are separate documents, there will be some information repeated in this document. Fill in the names of the parties and the vehicle's identifying characteristics.
- **Section 1: Transfer of Title.** This second part of the paragraph explains that the Buyer will receive title as provided under the bill of sale. However, the lender under the bill of sale will have a secured lien on that title until the note is completely paid off. The parties should consider also completing and signing a security agreement to provide complete security to the lender.
- **Section 2: Promise of Payment.** This is the "meat" of the note, where the total principal amount of the note and interest rate are stated. This is also where the Payee designates where exactly it will be paid (usually the Payee's business address). The other language ensures that the interest rates set by the parties aren't illegal. In other words, if an agreed-to interest rate is above what the law allows, this section "rewrites" that provision to make it legal.

- **Section 3: Monthly Installment Payments.** Write the monthly amount that the Borrower will pay, and indicate the day of the month this amount is due. The remainder of this section explains that payments will go first to interest payments and second to paying down the principal. If you and the other party decide to set a different payment schedule (for example, yearly or quarterly installment payments), revise the language to reflect your agreement.
- **Section 4: Initial Date.** Provides the date on which installment payments will start, and reiterates that those payments will continue to be due monthly after that date. Again, if you and the other party have decided to set a different payment schedule (for example, yearly or quarterly installment payments), revise the language to reflect that agreement.
- **Section 5: Prepayment.** Explains that the Borrower can pay money to the Payee before it is due under the note, and it won't be penalized for doing that.
- **Section 6: Lump-Sum Final Payment.** The parties' agreement about the due date of the loan. All payments on the note must be complete on or before that due date.
- **Section 7: Security.** Reiterates that the lender's continuing interest in the vehicle secures payment under the note.
- **Section 8: Events of Default.** Lists the situations in which the Payee can demand immediate payment of all unpaid amounts. Specifically, these events are defaults in payment, bankruptcy filings, or entries into receivership. If you and the other party want to include additional events of default, you can do that in this section.
- **Section 9: Acceleration; Remedies on Default.** A description of the actions the Payee can take if an event of default (listed in Section 8) occurs. Most importantly, this section explains that the Payee can move up the due date of the loan if a default occurs.
- **Section 10: Waiver of Presentment.** Indicates that if an event of default occurs, the Payee doesn't have to explain to the Borrower that it is going to take action (for example, requiring the entire note to be paid at once). The Payee can simply take that action without notice.
- **Section 11: Time of Essence (Optional).** This is an optional provision that is included to allow you and the other party to determine how strictly you want to enforce the time limits in your note. Generally, by including this provision, the Payee is allowing the Borrower no leeway – if payment isn't within the exact time agreed, the Borrower is in default. By deleting this provision, you are usually allowing the Borrower some reasonable breathing room. If you remove this section, correct the section numbers and references in the note.
- **Section 12: Successors and Assigns.** States that the parties' rights and obligations will be passed on to heirs or, in the case of companies, to successor organizations.
- **Section 13: Notice.** Lists the addresses to which all official or legal correspondence should be delivered. Write in a mailing address for both the Borrower and the Payee.
- **Section 14: Governing Law.** Allows the parties to choose the state and county laws that will be used to interpret the note. This is not a venue provision: the included language will not impact where a potential claim can be brought. Please write the applicable state and county in the blanks provided.

- **Section 15: Entire Agreement.** The parties' agreement that the note (together with the bill of sale) they're signing is "the agreement" about the issues involved. Unfortunately, the inclusion of this provision will not prevent a party from arguing that other enforceable promises exist, but it will provide you some protection from these claims.
- **Section 16: No Implied Waiver.** Explains that even if the Payee allows the Borrower to break or ignore an obligation, the Payee does not waive any future right to require those (or any other) obligations to be fulfilled.
- **Section 17: Collection Costs and Attorney's Fees.** Places the responsibility for paying any costs of collecting money under the note on the Borrower's shoulders. If the Payee has to hire a third party to get its money, the Borrower will pay all of that third party's fees and costs.
- **Section 18: Severability.** Protects the terms of the note as a whole, even if one part is later invalidated.
- **Section 19: Headings.** Notes that the headings at the beginning of each section are meant to organize the document, and should not be considered operational parts of the note.

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Form Sample

**BILL OF SALE  
(AUTOMOBILE)**

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

**BE IT KNOWN**, that for good and valuable consideration, and in payment of the sum of \_\_\_\_\_ (\$ \_\_\_\_\_) dollars (the "Purchase Price"), the receipt and sufficiency of which is hereby acknowledged, \_\_\_\_\_ [Name of Seller] (the "Seller"), of \_\_\_\_\_ [Seller's Street Address], county of \_\_\_\_\_, state of \_\_\_\_\_ hereby sells and transfers to \_\_\_\_\_ [Name of Buyer], (the "Buyer"), of \_\_\_\_\_ [Buyer's Street Address], county of \_\_\_\_\_, state of \_\_\_\_\_, and its heirs, executors, administrators, successors, and assigns forever, the following-described motor vehicle (the "Vehicle"):

Location (county, state):

Make:

Model:

Body Type:

Year:

Vehicle I.D. No. (VIN):

**PROMISSORY NOTE**  
**(INSTALLMENT WITH BALLOON FINAL PAYMENT)**

\$ \_\_\_\_\_ [Amount of Note]

This promissory note (the "Note") is made and effective \_\_\_\_\_ [Date], by and between \_\_\_\_\_ (the "Payee") and \_\_\_\_\_ (the "Borrower"). This Note is given to secure payment of the purchase price of the following-described motor vehicle (the "Vehicle"):

Location (county, state):	
Make:	
Model:	
Body Type:	
Year:	
Vehicle I.D. No. (VIN):	

**1. TRANSFER OF TITLE**

The Seller transfers title to the Vehicle on delivery of that Vehicle to \_\_\_\_\_ under the terms of that certain bill of sale of even date herewith (the "Bill of Sale"). Notwithstanding however, that the Seller shall retain a security interest in the Vehicle until the amount of the Note is paid in full. The Vehicle shall be listed as a security interest in the Vehicle on the Seller's balance sheet and shall be listed as a security interest in the Vehicle on the Seller's balance sheet under \_\_\_\_\_.