



Lesson Eight

Cars and Loans



websites for cars and loans

The following websites can provide students and others with current information, assistance, and data related to this lesson. Web addresses ending in “com” are commercial; “.org” are nonprofit; and “.gov” are government.

Consumer Reports Online	consumerreports.org
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Consumer.gov: Consumer Information from the Federal Government	consumer.gov
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Current Loan & Credit Card Rates	bankrate.com
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Prices of New and Used Cars	edmunds.com
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cars and loans lesson outline

overview

“Should I buy a new car or a used car?”

“Where can I find the best car loan to finance my purchase?”

These are typical questions asked by people in the market for a new car. Lesson 8 begins by helping students identify the costs associated with owning and operating a motor vehicle. Students will research car-buying and car maintenance expenses.

The lesson then moves to the question, “What actions should a person take when buying a car?” Students explore decisions related to quality, cost, and where to shop for a car. They also consider factors related to the purchase of used and new cars, as well as warranties and service contracts.

The lesson then moves to a discussion of how to finance a car. Financing a car is an important consideration for teenagers. Students learn how to shop for a loan and how to calculate the cost of various loans. Aspects of auto insurance also are covered. Students learn about types of coverage and factors affecting insurance costs.

Lastly, students apply information from this lesson to two different scenarios. They will incorporate the costs of owning and operating a car to create a budget for two fictitious car buyers.

In this lesson, the word “car,” which is part of most students’ everyday vocabulary, refers to motor vehicles of all types, including trucks, vans and SUVs.

Suggested teaching strategies, teaching notes, activities, slides, and short quizzes are linked to student objectives. Additional ideas to help students practice and generalize skills related to understanding credit in real-life situations are included at the end of the lesson.

student performance goal:

- The student will investigate the financial responsibilities of buying, maintaining, insuring, and operating a car, and translate those responsibilities into a monthly budget.

lesson objectives: the student will...

- 8-1** identify costs of owning and operating a car.
- 8-2** identify factors to consider when shopping for a car.
- 8-3** identify factors to consider when shopping for a car loan and car insurance.
- 8-4** determine how much money can safely be spent each month to own, operate, and maintain a car within a given budget.

cars and loans teaching notes

8-1 The student will identify costs of owning and operating a car.

what does it cost to own a car?

- Discuss questions that students should ask themselves when making the decision whether or not to buy a car: (e.g. Do I really need a car? Is it worth the time I spend making the money to buy it? Is there a better use for my money right now?)
- Ask students to select the make, model, and model year of a car they would reasonably like to own.
- In advance of the lesson, collect service maintenance price lists and advertisements. Help students use these advertisements and the Internet to obtain information on the cost of (a) an oil change, (b) a tune-up, (c) new brakes, (d) tires. Have students complete the worksheet that lists annual costs and the cost per mile of owning and operating the car they selected. (activity 8-1)



discussion



student activity 8-1

cost of a car

costs of owning a car:

- Purchase price
- Sales tax
- Registration fee, title, and license
- Financing costs
- Insurance

costs of operating a car:

- Gasoline
- Oil and other fluids
- Tires
- Maintenance and repairs (Keep a maintenance record of these expenses.)
- Parking and tolls



slide 8-1

lesson 8 quiz: the costs of a car



quiz 8-1

cars and loans teaching notes

8-2 The student will identify factors to consider when shopping for a car.

what should you know before buying a car?

- Have students look through copies of recent used car buying guides or Consumer Reports Buying Guide to consider the cost and type of car that interests them. Explain that buying a car involves decision-making based upon an individual's needs, finances, and preferences.
- Discuss the questions that should be considered when shopping for a car. (slide 8-2a)
- Help students brainstorm the advantages and disadvantages of buying a new car. Repeat the process and brainstorm advantages and disadvantages of buying a used car.
- Discuss various considerations a buyer should investigate and questions that should be asked before purchasing a new car. (slide 8-2b)
- Discuss the considerations a buyer should investigate and questions that should be asked before purchasing a used car. (slide 8-2c)
- Talk to students about various sources for buying a used car. (slide 8-2d) Discuss the comparative reliability of different sources.
- Introduce students to the Kelley Blue Book. Explain that this is a reliable source for determining a fair price for a used car, dependent upon the car's condition. Students can obtain the value of a used car at kbb.com
- Tell students not to be confused by the many "prices" associated with buying a car. Familiarize them with car pricing terms on slide 8-2e.
- Define "warranty" and "service contract." Collect examples of automobile warranties and service contracts for students to examine.
- Discuss how various warranties and service contracts differ. Buying through a dealer rather than a private party offers the advantage of dealer warranties and service contracts. Discuss what kind of questions to ask before purchasing a service contract.



discussion



slide 8-2a



slide 8-2b



slide 8-2c



slide 8-2d



slide 8-2e

cars and loans teaching notes

shopping for a car

a new car:

- Read about new car features and prices
- Shop around
- Plan to negotiate price
- Learn the terms
- Consider the warranty and service contract

a used car from a dealer:

- Consider costs, reliability, dealer reputation
- Read the “Buyer’s Guide” sticker
- Consider the warranty and the service contract

a used car from a private party:

- Sometimes includes manufacturer’s warranty
- Often will cost less than from a dealer



slide 8-2b



slide 8-2c

how many prices are there?

List Price/Retail Price/Sticker Price — The price the dealership is asking for a vehicle. This is the price the manufacturer has “suggested” be charged for the vehicle.

Invoice Price/Dealer Invoice Price — The price the dealer has paid the manufacturer.

Base Price — The price of the vehicle before buyer options are added to the cost.

Book Value — The value of a used car listed through resources like Kelley Blue Book at kbb.com.

Asking Price — In the used vehicle market, it is the amount the seller wants to receive for the vehicle. The seller may actually accept an offer slightly lower than this price.

Warranty — A written guarantee to make needed repairs on a car within a limited period of time.

As-Is (No Warranty) — If you buy a car and have problems with it, you must pay for any repairs yourself.



slide 8-2e

cars and loans teaching notes

implied warranties — Always in effect unless the product is sold as-is or the seller says in writing that there is no warranty.

dealer warranties — Offered and specifically written by the dealer. Terms and conditions can vary greatly, so it is useful to compare warranty terms on similar cars or negotiate warranty coverage.

unexpired manufacturer's warranties — The manufacturer's warranty can sometimes be transferred to the new owner for a fee.

service contract ("extended warranty") — A car warranty that goes into effect after the basic warranty coverage provided by the car manufacturer or dealer expires. A service contract is designed to avoid costly repairs, as a motor vehicle gets older.

service contracts

Before deciding to buy a service contract, find out:

- the cost.
- which repairs the contract covers.
- whether the warranty already covers the same repairs.
- whether the vehicle is likely to need repairs and at what cost.
- whether there is a deductible and, if so, what it is.
- whether repairs and service are limited to the dealership location.
- whether the contract covers expenses such as towing.
- whether there is a cancellation or refund policy.
- whether the dealer or company offering the service is reputable.
- whether you can purchase the service contract later.

lesson 8 quiz: shopping for a car



quiz 8-2

cars and loans teaching notes

8-3 The student will identify factors to consider when shopping for a car loan and car insurance.

how do you shop for a car loan? what do you need to know about car insurance?

- Discuss the factors that influence the total cost of a loan. Tell students that shopping for a loan is as important as shopping for a car.
- Discuss various sources for loans, including banks, consumer finance companies, dealerships, and family and friends.
- Use the example in slide 8-3a to illustrate how the terms of a loan make a difference in the total cost a borrower pays to buy a car.
- Demonstrate how to calculate the total cost of a loan. (slide 8-3b)
- Introduce students to the "Auto" section of financial calculators on the Practical Money Skills website. Using this tool, students can calculate the cost of a loan or compare the cost of two or more different loans.
- Review the 20-10 rule for determining how much a consumer can safely borrow. (slide 8-3c) Remind students that the 20-10 rule applies to and includes all debts, not just a car loan.
- Discuss what information students will need to fill out a loan application. Have students practice filling out this information on a form. (activity 8-3a)
- Stress that there are serious consequences for failing to make loan payments. They should notify the lender immediately if they are having difficulty making payments. Explain that the car that students buy is actually collateral for their car loans. Repossession is when a creditor takes the property that has been pledged. A creditor will repossess a car if the owner has missed loan payments and has not worked with the lender to resolve the problem.
- Begin a discussion of car insurance by talking about its importance and by defining some basic terms, such as "premium," "amount of coverage," and "deductible."
- Define various types of car insurance coverage. (slide 8-3d)
- Identify the criteria insurance companies use to set rates. (slide 8-3e) Discuss which of these



discussion



slide 8-3a



slide 8-3b



slide 8-3c



slide 8-3d



slide 8-3e



student activity 8-3a

cars and loans teaching notes

factors are beyond students' control (e.g. age, gender) and which ones, to some extent, they can control (e.g. driving record, type of car they drive).

sources for obtaining loans

- **Banks** — this is a good place to start shopping for a loan.
- **Consumer Finance Companies (“small loan companies”)** — usually offer higher interest rates.
- **Dealership** — it is possible to finance a new or used car through the dealership where it is purchased.
- **Family and friends** — always put verbal agreements in writing.

shopping for a car loan

1. APR
2. Length of loan
3. Monthly payments
4. Total finance charge
5. Total to be repaid
6. Total cost of various loans
7. Shop around for a car loan and compare the costs.



slide 8-3a

how much does it really cost?

1. How to approximate the total cost of a loan
2. How to approximate monthly payments

repossession:

- The car you buy is collateral for your car loan. Repossession is when a creditor takes the property that has been pledged.

rights of creditor:

- Can seize car as soon as you default.
- Cannot use physical force or threats of force.
- Can keep car or resell it.
- May not keep or sell any personal property in car.

cars and loans teaching notes

your rights:

- May buy back car by paying the full amount owed on it plus repossession expenses.
- Your legal responsibilities: Must pay the “deficiency balance”— the amount of debt remaining even after the creditor has sold your car.

premium:

- The amount paid for insurance coverage.
- Amount of coverage: The maximum amount an insured driver would receive in the event of an accident, theft, or damage to his/her car.

deductible:

- The amount an insured driver must pay toward his/her own losses before the insurance company pays on a claim.

car insurance

types of insurance coverage:

- General liability – Most states require this. If the accident is your fault, your policy pays for injury and property damages to another vehicle and people in the vehicle.
- Collision - Covers damages to your vehicle in an accident. You may or may not want to carry this. For instance, if your car is worth only \$600 and you have a minimum deductible of \$250, it is not worth paying \$300 a year for collision coverage.
- Comprehensive – Covers damages to your vehicle caused by vandalism, fire, floods, theft, or other natural disasters. Decide whether this is necessary coverage based on the present condition of your car.
- Medical payments – Provides coverage for medical expenses related to an injury in a car accident.
- Uninsured motorist – Covers the cost of your injuries if a driver who has no auto insurance or has insufficient insurance coverage hits you.



slide 8-3d

cars and loans teaching notes

how insurance rates are set

- age
- gender
- marital status
- personal habits
- type and frequency of vehicle use
- location
- driving record
- vehicle characteristics



slide 8-3e

lesson 8 quiz: car loans and insurance



quiz 8-3

cars and loans teaching notes

8-4 The student will determine how much money can safely be spent each month to own, operate, and maintain a car within a given budget.

how do you budget for a car?

- Remind students that although everyone wants to own a car, owning and maintaining a car can be very expensive.
- As a class, read and discuss the scenarios for Manuel and Rose. (slides 8-4a and 8-4b)
- Divide students into two groups. Assign one group to “shop” for a car loan for Manuel, the other to “shop” for a car loan for Rose. Instruct each group to use the “How Much Car Can You Afford?” calculator on the Practical Money Skills for Life website to determine the finance charges, monthly payments and total loan costs for three different priced cars, at four different interest rates. (activities 8-4a and 8-4b)
- Based on the groups’ loan calculation findings, answer questions about which car and car loan Manuel and Rose can afford.
- As an optional activity, students can consult a car-buying guide to choose a specific type and model of car for each of the three prices.
- Have the groups create a budget for their fictitious car buyer. Ask them to complete a budget form, noting expenses with and without a car. (activities 8-4c and 8-4d) Remind students to think carefully about what categories of expenses are affected by car ownership. Have each group compare their own car buyer’s budget with and without a car and then present their findings to the class.



discussion



slide 8-4a, 8-4b



student activity 8-4a, 8-4b



student activity 8-4c, 8-4d

review of costs

1. Costs of driving off lot include: down payment, tax, and license
2. Car payments
3. Monthly operating costs
4. Monthly maintenance costs
5. Monthly insurance premium
6. Unplanned maintenance and operating costs

cars and loans lesson outline

additional activities for practice and generalization of concepts related to cars and loans

- Have students compare the cost of owning and maintaining a vehicle compared to the cost of using mass transit.
- Have students interview several people to obtain information about which factors influenced their selections of a motor vehicle.
- Take a field trip to compare prices and services at various sources of used cars.
- Introduce students to the Consumer Reports annual Buying Guide to research the reliability of various cars and learn tips for purchasing a used car.
- Have students use the “How Much Car Can You Afford” calculator from the Practical Money Skills website to determine how much car they can reasonably afford, based upon down payment, length of loan, monthly payments, and APR.
- Go to www.edmunds.com or www.kbb.com for information on current prices for motor vehicles.
- Have the students search newspaper listings for cars in their price ranges. Using the “Auto Loan Payment” calculator from the Practical Money Skills website, have them determine how much their monthly payments would be for different car prices.
- Have students prepare a video or in-class presentation in which they role-play shopping for a new or used car with an auto-dealer.
- Invite an insurance agent to give a presentation on types of coverage, how automobile insurance rates are set, and advice to young car owners.
- Have students research the cost of car insurance based on their age, gender, marital status, frequency of car use, residence, driving record, types of cars they want, and the amount of insurance they think they need. There are several websites that enable consumers to enter information and compare quotes from multiple sources:

www.insure.com

www.insurance.com
- Invite a driver education instructor to talk about safe driving tips and how a driver’s safety record affects his/her insurance rates.

Discussion of leasing vs. buying

After researching and negotiating a reasonable price for a new car, you have the option of buying the car outright or leasing. You must decide which of these two options makes the most sense for your situation. For example, if you purchase a car outright, you may be able to negotiate a price that is lower than the sticker price. Usually there is a down payment required. So, the first consideration is the opportunity cost of that initial cash outlay, since there are other ways that cash could be invested. The monthly payments are generally quite a bit higher than monthly lease payments would be. Occasionally, there might be a special low-interest-rate promotion running that will lower the payments, but as you increase the number of months that you want to finance the car, you will also increase the interest amount. At the end of the loan, you will own the car with no further payments due.

If you lease the car, it is possible to do it with no down payment, but the lease is usually calculated on sticker price. The monthly payments are usually less than an actual car loan. At the end of the lease, however, you will either have to turn in the car or pay an agreed-to buy-out price to keep the car. If you turn in the car, there might be a return fee and a mileage fee if you have gone over the total miles allowed, as specified in the lease. Any damages to the car must be paid at that time (e.g. scratches on car doors, stains on seats, etc.) Also, you will have to start the whole process over again with a new car. If you want to keep the car, you will have to pay the buy-out price (sometimes called residual value) either in cash or with a used-car loan.

There are financial formulas that can calculate the net present value of all of your options, but your own personal situation also needs to be taken into account. Some questions to keep in mind are:

- Do you have cash available for a down payment?
- How much of a monthly payment can you afford?
- How long do you plan to keep the car?
- What would it be like to own a car outright with no payments at the completion of a loan?
- What would it be like having to return a car to the dealership at the end of a lease?



lesson 8 quiz: the costs of a car

From the list below, can you find ten (10) costs of owning and operating a car? Put a check beside your choices.

- Registration fee
- Tolls
- Entertainment
- Car loan payment
- Credit card payments
- Utilities
- Title and license
- Bus fare
- Tuition
- School expenses
- Car insurance
- Clothing
- Maintenance and repairs
- Personal items
- Gasoline
- Electric bills
- Oil and other fluids
- Tires
- Parking
- Household items



lesson 8 quiz: shopping for a car

choose the correct answer.

1. c **Kelley Blue Book is a good source for researching:**
 - a. current interest rates.
 - b. service contracts.
 - c. used-car prices.
 - d. the reputation of area dealers.

2. b **Which of the following is not true about buying a new car?**
 - a. A person should make a buying offer to as many dealers as possible.
 - b. A person will always get the best deal by trading in his or her old car.
 - c. A person should compare final sales prices and buying services.
 - d. It is a good idea to compare financing costs from various sources.

3. d **Before deciding to buy a service contract, a person should find out:**
 - a. the invoice price.
 - b. the value of a trade-in.
 - c. the nearest shop that services the kind of car.
 - d. whether the vehicle is likely to need repairs and at what cost.

4. c **The most reliable source for buying a used car is usually:**
 - a. an auto rental company.
 - b. the Internet.
 - c. a car dealer.
 - d. a private party.

5. a **Which of the following is not true about buying a used car?**
 - a. A person should never buy from a private party.
 - b. A person should find out the cost of maintenance for the kind of car wanted.
 - c. A person should know the reputation of the dealer.
 - d. It is a good idea to compare financing costs from various sources.



lesson 8 quiz: car loans and insurance

choose the correct answer.

1. d **When shopping for a car loan, compare each loan's:**
 - a. APR.
 - b. monthly payment.
 - c. total finance charge.
 - d. all of the above.

2. c **If a person chooses a longer time period to repay the loan:**
 - a. the monthly payments will be higher.
 - b. the total amount to be repaid will be lower.
 - c. the total amount to be repaid will be higher.
 - d. the APR will be higher.

3. a **If a person is having trouble keeping up with car loan payments:**
 - a. he/she should notify the lender immediately.
 - b. the car will be repossessed immediately.
 - c. he/she can miss a few payments with no penalty.
 - d. he/she can change the APR of the loan.

4. d **The insurance coverage for damage to a vehicle as a result of an accident is called:**
 - a. property damage.
 - b. comprehensive.
 - c. liability.
 - d. collision.

5. c **Damage to a car caused by vandalism or floods is covered by:**
 - a. medical insurance.
 - b. collision insurance.
 - c. comprehensive insurance.
 - d. uninsured motorist insurance.