



**Lesson Six**

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Cars and Loans

# **cars and loans** lesson outline

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## **overview**

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

“Where is the best place to finance my automobile purchase?”

“Is it better to take the rebate or the low-rate financing plan?”

These are typical questions asked by people buying vehicles. In this lesson, students are asked to identify costs associated with owning and operating a motor vehicle. Since these costs are commonly underestimated, guidelines are provided on how much to spend when buying vehicles.

The material provided in this lesson will address the many factors and decisions involved in purchasing and financing a vehicle. In addition to comparing used and new cars, we also cover warranties, service contracts, and financing the purchase. Other issues related to using credit for buying a car include the information required by the Truth-in-Lending law, use of a co-signer, and repossession.

Finally, various aspects of auto insurance are discussed. Students will learn about types of coverages, factors affecting insurance costs, and comparing insurance companies.

## **goals**

Investigate the legal and financial responsibilities of buying, maintaining, insuring, and operating a car, and translate those responsibilities into a monthly budget.

## **lesson objectives**

- List some of the costs of owning and operating a car
- Given a budget, decide how much you can afford to pay for a car
- List some of the things you should research and some decisions you should make before you begin to shop for a car
- Understand the differences between various kinds of warranties and service contracts
- List some steps you can take to resolve warranty and service contract disputes
- List some of the factors to consider when shopping for a car loan
- Calculate the total cost of various car loans
- Understand what a co-signer is, and describe when one is necessary
- List the responsibilities of a co-signer and of the person getting the loan
- List some of the factors to consider when shopping for car insurance
- List some of the factors used to set car insurance rates
- Understand the circumstances under which a vehicle can be repossessed, and list the legal rights and responsibilities of the creditor and of the debtor
- Given a budget, decide how much money can safely be spent each month to own, operate, and maintain a car
- Know the advantages and disadvantages of leasing a motor vehicle



## **presentation slides**

- 6-A** costs of owning and operating a motor vehicle
- 6-B** how much can you afford? (the 20-10 rule)
- 6-C** consumer decision making
- 6-D** shopping for a used car
- 6-E** sources of used cars
- 6-F** shopping for a new car
- 6-G** warranties
- 6-H** service contracts
- 6-I** shopping for a car loan
- 6-J** how to calculate the total cost of a loan
- 6-K** the Truth in Lending Act
- 6-L** types of auto insurance coverage
- 6-M** how insurance rates are set
- 6-N** repossession
- 6-O** leasing a motor vehicle

## **student activities**

- 6-1** Operating Costs of a Motor Vehicle
  - Have students estimate various costs associated with owning and operating a motor vehicle.
- 6-2** Warranties and Service Contracts
  - Have students collect examples of automobile warranties and service contracts.
  - Discuss how various warranties and service contracts differ.
- 6-3** Shopping for a Car Loan
  - Have students shop for and compare the costs of car loans.
  - Discuss the factors that influence the total cost of a loan.
- 6-4** Shopping for Insurance
  - Have students research the cost of car insurance based on their age, gender, marital status, frequency of car use, where they live, driving record, types of cars they want, and the amount of insurance they think they need vs. what may be required by the state.

## **cars and loans lesson outline**

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- Discuss their findings—would the cost of insurance alter their budgets or change their plans about the types of cars they want? Can they still afford cars?

### **6-5** How Much Would You Spend

- Using the scenarios provided, have students decide how much can be spent safely each month to own, operate, and maintain a car.

### **6-6** Lesson Six Quiz

**For more information, please refer to the Appendix.**

## cars and loans target audiences

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Learning activities appropriate to varied target audiences for Lesson Six

	 14-18	 19-25	 26-↑
activity	teenagers (14-18)	young adults (19-25)	adults (26+)
Survey/Interview	●	●	●
Student Activity 6-1	●	●	
Field Activity	●	●	
Web Activity	●	●	●
Student Activity 6-2	●	●	●
Student Activity 6-3		●	●
Interview	●	●	
Oral Presentation	●	●	
Student Activity 6-4	●	●	
Student Activity 6-5	●	●	●
Lesson Six Quiz 6-6	●	●	●

# **cars and loans** teaching notes

## **costs of owning a car**

1. Initial purchase price
2. Registration and title costs
3. Sales tax
4. Financing costs
5. Depreciation
6. Insurance
7. Scheduled maintenance
8. Storage (renting garage space)



**discussion**



**survey/interview**

Have students obtain information from several people about the factors that influence their selection of a motor vehicle.



**slide 6-A**

## **costs of operating a car**

1. Unscheduled repairs and maintenance
2. Gasoline
3. Oil and other fluids
4. Parking and tolls
5. Tickets



**discussion**



**student activity 6-1**

## **how much can you afford?**

1. The 20-10 rule
2. Working with a budget



**discussion**



**slide 6-B**

# cars and loans teaching notes

## shopping for a car

1. Consumer decision making
  - Deciding to spend your money
  - Deciding on the right purchase
2. A used car from a dealer
  - Consider costs, reliability, dealer reputation
  - Read the “Buyer’s Guide” sticker
  - Consider the warranty and the service contract
  - What to do if you have problems
3. A used car from a private party
  - Sometimes includes manufacturer’s warranty
  - Difference in price compared to a dealer
4. A new car
  - Read about new car features and prices
  - Shop around
  - Plan to negotiate price
  - Learn the terms
  - Consider the service contract



discussion



field activity:

Compare prices and services at various sources of used cars.



web activity:

Go to **edmunds.com** or **kbb.com** for information on current prices for motor vehicles.



slides 6-C, 6-D, 6-E & 6-F

# **cars and loans** teaching notes

## **about warranties and service contracts**

1. Types of warranties
  - As-is warranty
  - Implied warranty
  - Dealer warranty
  - Manufacturer's warranty
2. Service contracts
3. Preventing problems
4. Resolving disputes
5. Comparing promises of warranties and service contracts



discussion



student activity 6-2



slides 6-G & 6-H

## **shopping for a car loan**

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



discussion



student activity 6-3



slide 6-I

## **how much does it really cost?**

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



discussion



slide 6-J

# cars and loans teaching notes

## the truth-in-lending act

1. What it covers
2. How it protects you, the consumer



discussion



slide 6-K

## do you need a loan co-signer?

1. What a co-signer is
2. When you need one
3. Responsibilities
  - Yours
  - Co-signer's



discussion



interview:

Talk to someone who has co-signed a loan to learn more about this situation.

## about auto insurance

1. Importance of and legal requirements
2. Types of coverage
  - Bodily injury liability
  - Property damage liability
  - Collision
  - Comprehensive
  - Medical payments
  - Uninsured motorist
  - Rental reimbursement
  - Towing and labor
3. How insurance rates are set
  - Age
  - Sex
  - Marital status
  - Personal habits (e.g., smoking)
  - Type of use
  - Frequency of use
  - Location
  - Driving record deductible
  - Type of car
  - Value and age of car



discussion



oral presentation:

Have students prepare a video or in-class presentation with suggestions for reducing the cost of auto insurance.



slides 6-L & 6-M

# cars and loans teaching notes

## about auto insurance (continued)

- Investigate the cost of car insurance in your area
  - Type of coverage
  - Type of car
  - Cost factors



student activity 6-4

## how much would you spend?

- Cost of driving off lot
  - Down payment
  - Tax
  - License
  - Other
- Car payment
- Monthly operating costs
- Monthly maintenance costs
- Monthly insurance premium
- Unplanned maintenance and operating costs



discussion



student activity 6-5

## about repossession

- Reasons for
- Creditor rights
  - Seizing the car
  - Reselling the car
- Your rights
  - Buying the car back
- Your legal responsibilities
  - Paying the deficiency
- What you can do



discussion



slide 6-N

## leasing a motor vehicle



slide 6-O

## lesson six quiz



quiz 6-6



## how much would you spend?

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### scenario 1

Manuel wants to buy a car. But before he goes shopping, he wants to know exactly how much he can afford to spend each month on owning, operating, and maintaining a car.

**Manuel's net monthly income is \$1,280. His fixed expenses are:**

- \$350 for rent

**His flexible monthly expenses are:**

- \$75 for savings
- \$25 for utilities
- \$185 for food
- \$35 for transportation (bus fare)
- \$150 for tuition and books
- \$40 for entertainment
- \$20 for personal items
- \$29 for household items

If Manuel gets a car, he expects to spend about \$40 a month on gas and oil, and about \$20 on parking and bridge tolls.

Manuel needs to have car insurance. He has shopped around and expects that a car insurance premium for the type and year of car he wants will cost about \$225 a month.

### directions

Use the attached budget sheet and auto loan payment calculator ([practicalmoneyskills.com/c2](http://practicalmoneyskills.com/c2)) to complete the following chart and answer the following questions.



# how much would you spend?

## answer key

### car for \$6,000 (Amount of loan: \$6,000)

<b>APR:</b>	4%	<b>APR:</b>	5%
<b>Length of Loan:</b>	60 months	<b>Length of Loan:</b>	60 months
<b>Total Cost of Loan:</b>	\$6,629.95	<b>Total Cost of Loan:</b>	\$6,793.64
<b>Monthly Payment:</b>	\$110.50	<b>Monthly Payment:</b>	\$113.23
<b>Total Finance Charge:</b>	\$629.95	<b>Total Finance Charge:</b>	\$793.64

<b>APR:</b>	6%	<b>APR:</b>	7%
<b>Length of Loan:</b>	60 months	<b>Length of Loan:</b>	60 months
<b>Total Cost of Loan:</b>	\$6,959.81	<b>Total Cost of Loan:</b>	\$7,128.43
<b>Monthly Payment:</b>	\$116.00	<b>Monthly Payment:</b>	\$118.81
<b>Total Finance Charge:</b>	\$959.81	<b>Total Finance Charge:</b>	\$1,128.43

### car for \$8,000 (Amount of loan: \$8,000)

<b>APR:</b>	4%	<b>APR:</b>	5%
<b>Length of Loan:</b>	60 months	<b>Length of Loan:</b>	60 months
<b>Total Cost of Loan:</b>	\$8,839.93	<b>Total Cost of Loan:</b>	\$9,058.19
<b>Monthly Payment:</b>	\$147.33	<b>Monthly Payment:</b>	\$150.97
<b>Total Finance Charge:</b>	\$839.93	<b>Total Finance Charge:</b>	\$1,058.19

<b>APR:</b>	6%	<b>APR:</b>	7%
<b>Length of Loan:</b>	60 months	<b>Length of Loan:</b>	60 months
<b>Total Cost of Loan:</b>	\$9,279.74	<b>Total Cost of Loan:</b>	\$9,504.58
<b>Monthly Payment:</b>	\$154.66	<b>Monthly Payment:</b>	\$158.41
<b>Total Finance Charge:</b>	\$1,279.74	<b>Total Finance Charge:</b>	\$1,504.58

## how much would you spend? answer key

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### car for \$10,000 (Amount of loan: \$10,000)

<b>APR:</b>	4%	<b>APR:</b>	5%
<b>Length of Loan:</b>	60 months	<b>Length of Loan:</b>	60 months
<b>Total Cost of Loan:</b>	\$11,049.91	<b>Total Cost of Loan:</b>	\$11,322.74
<b>Monthly Payment:</b>	\$184.17	<b>Monthly Payment:</b>	\$188.71
<b>Total Finance Charge:</b>	\$1,049.91	<b>Total Finance Charge:</b>	\$1,322.74

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<b>APR:</b>	6%	<b>APR:</b>	7%
<b>Length of Loan:</b>	60 months	<b>Length of Loan:</b>	60 months
<b>Total Cost of Loan:</b>	\$11,599.68	<b>Total Cost of Loan:</b>	\$11,880.72
<b>Monthly Payment:</b>	\$193.33	<b>Monthly Payment:</b>	\$198.01
<b>Total Finance Charge:</b>	\$1,599.68	<b>Total Finance Charge:</b>	\$1,880.72

1. Which car can Manuel afford?

*None of them*

2. What are the terms of the loan that would allow Manuel to buy a car and still stay within his budget?

*There are no terms he could afford*

3. Using the column “How You’d Do It” on Manuel’s budget worksheet, figure how you would set up a budget if you had Manuel’s income and expenses.

4. What were the main differences between the budget you set up using Manuel’s income and expenses and the budget that was provided?



## how much would you spend? (continued)

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### scenario 2

Rose is thinking about buying a car. She has \$1,000 saved for a down payment. Before she goes shopping, she wants to know how much she can afford to spend each month on a car.

**Rose brings home \$926 each month from her first job, and \$974 from her second job.**

**Her fixed expenses include:**

- \$250 for rent
- \$34 for a credit payment on some furniture she bought several months ago that has a total outstanding balance of \$540

**Her flexible monthly expenses are:**

- \$100 for savings
- \$20 for telephone
- \$175 for food
- \$45 for transportation (bus fare)
- \$70 for tuition
- \$20 for school supplies
- \$40 for clothing
- \$40 for entertainment
- \$20 for household supplies
- \$29 for personal items

If Rose gets a car, she expects to spend about \$60 a month on gas and oil, and about \$30 on parking and bridge tolls.

If Rose gets a car, she will need car insurance. She has done some research, and she expects her car insurance premium to be about \$175 a month.

### directions

Use the attached budget sheet and auto loan payment calculator ([practicalmoneyskills.com/c2](http://practicalmoneyskills.com/c2)) to complete the following chart and answer the following questions.

# how much would you spend? *answer key*

## car for \$4,000 (Amount of loan: \$3,000)

<b>APR:</b>	4%	<b>APR:</b>	5%
<b>Length of Loan:</b>	36 months	<b>Length of Loan:</b>	36 months
<b>Total Cost of Loan:</b>	\$3,188.59	<b>Total Cost of Loan:</b>	\$3,236.86
<b>Monthly Payment:</b>	\$88.57	<b>Monthly Payment:</b>	\$89.91
<b>Total Finance Charge:</b>	\$188.59	<b>Total Finance Charge:</b>	\$236.86

<b>APR:</b>	6%	<b>APR:</b>	7%
<b>Length of Loan:</b>	36 months	<b>Length of Loan:</b>	36 months
<b>Total Cost of Loan:</b>	\$3,285.57	<b>Total Cost of Loan:</b>	\$3,334.73
<b>Monthly Payment:</b>	\$91.27	<b>Monthly Payment:</b>	\$92.63
<b>Total Finance Charge:</b>	\$285.57	<b>Total Finance Charge:</b>	\$334.73

## car for \$6,000 (Amount of loan: \$5,000)

<b>APR:</b>	4%	<b>APR:</b>	5%
<b>Length of Loan:</b>	36 months	<b>Length of Loan:</b>	36 months
<b>Total Cost of Loan:</b>	\$5,314.32	<b>Total Cost of Loan:</b>	\$5,394.76
<b>Monthly Payment:</b>	\$147.62	<b>Monthly Payment:</b>	\$149.85
<b>Total Finance Charge:</b>	\$314.32	<b>Total Finance Charge:</b>	\$394.76

<b>APR:</b>	6%	<b>APR:</b>	7%
<b>Length of Loan:</b>	36 months	<b>Length of Loan:</b>	36 months
<b>Total Cost of Loan:</b>	\$5,475.95	<b>Total Cost of Loan:</b>	\$5,557.88
<b>Monthly Payment:</b>	\$152.11	<b>Monthly Payment:</b>	\$154.39
<b>Total Finance Charge:</b>	\$475.95	<b>Total Finance Charge:</b>	\$557.88

## how much would you spend? *answer key*

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### car for \$8,000 (Amount of loan: \$7,000)

<b>APR:</b>	4%	<b>APR:</b>	5%
<b>Length of Loan:</b>	36 months	<b>Length of Loan:</b>	36 months
<b>Total Cost of Loan:</b>	\$7,440.04	<b>Total Cost of Loan:</b>	\$7,552.67
<b>Monthly Payment:</b>	\$206.67	<b>Monthly Payment:</b>	\$209.80
<b>Total Finance Charge:</b>	\$440.04	<b>Total Finance Charge:</b>	\$552.67

<b>APR:</b>	6%	<b>APR:</b>	7%
<b>Length of Loan:</b>	36 months	<b>Length of Loan:</b>	36 months
<b>Total Cost of Loan:</b>	\$7,666.33	<b>Total Cost of Loan:</b>	\$7,781.03
<b>Monthly Payment:</b>	\$212.95	<b>Monthly Payment:</b>	\$216.14
<b>Total Finance Charge:</b>	\$666.33	<b>Total Finance Charge:</b>	\$781.03

5. Which car can Rose afford?

*She can afford any car*

6. Using the column “How You’d Do It” on Rose’s budget worksheet, figure how you would set up a budget if you had Rose’s income and expenses.

7. What were the main differences between the budget you set up using Rose’s income and expenses, and the budget that was provided?



# lesson six quiz: cars and loans

## answer key

### true-false

1. f Most used cars sold by private parties have a one-year warranty.
2. t A service contract is designed to avoid costly repairs as a motor vehicle gets older.
3. t The Truth in Lending Act requires that a borrower be informed of the total finance charge.
4. f Bodily-injury liability covers the damage to another person's car for which you were at fault.
5. f Collision insurance covers damage caused to a motor vehicle by vandalism or floods.

### multiple choice

6. D Through which of the following entities may you be able to purchase a used car?
  - A. Rental car company
  - B. Used car seller
  - C. Private seller
  - D. All of the above
7. B \_\_\_\_\_ warranty refers to the fact that a product will do what it is designed to do.
  - A. An extended
  - B. An implied
  - C. A dealer
  - D. An unexpired manufacturer's
8. A The Truth in Lending Act requires that borrowers be informed of the:
  - A. amount financed
  - B. cost of auto insurance
  - C. features of an extended warranty
  - D. reasons a person has been denied credit
9. D The auto insurance coverage for damage to your vehicle as a result of an accident is called:
  - A. property damage
  - B. comprehensive
  - C. liability
  - D. collision
10. C Doctor costs for injuries to others resulting from an accident are covered by \_\_\_\_\_ liability.
  - A. medical
  - B. collision
  - C. bodily injury
  - D. comprehensive

### case application

Angelina drives a seven-year-old car that recently needed \$1,300 in repairs. Each day, she drives 46 miles to and from her job. What actions should she take to decide if she should (1) keep this car, (2) buy a newer used car, or (3) buy a new car? *Many factors go into this decision. First, Angelina must consider her financial situation. Based on a realistic budget, what amount can she afford to spend for buying a different vehicle? Next, will her current car (after the recent repairs) give her reliable transportation? In addition, how do the expected operating costs of the various vehicles compare?*