

IT JUST + ADDS UP

LESSON TWENTY-SEVEN

Major Purchases: Buying a Car

TEACHERS

Introduction

Most of us can imagine driving a hot sports car or a super-sized truck. But, dreaming about a car and buying one is quite different. Most cars today are so expensive that we finance them instead of paying cash. Financing is another name for buying on credit and generally relates to major purchases. Today, many car dealerships offer special financing that may or may not be better than using our local banks. It depends on the financing terms offered on that specific vehicle. So, it pays to shop around for the best financing deal just like shopping around for the best car deal. We must remember, however, that monthly payments are not our only expense. We still need to buy car insurance, pay for regular maintenance and buy gasoline. And, when buying the vehicle, we pay additional costs like taxes, title fees and license fees. Buying a new vehicle is a major expense. Considering more than the price of the car or monthly payments will help us meet our financial goals.

Purpose

This lesson will help students learn about auto financing. Students will use an amortization schedule and compare different interest financing methods.

Definition of the Week

Financing: Another name for buying on credit, usually relates to major purchases.

Tool Kit

Car advertisements from the newspaper (watch for the special section in Saturday's paper)

Preview website <http://ray.met.fsu.edu/cgi-bin/amortize>

Procedure

1. Ask students if they would like to buy a new car. Have them select their "dream" car from the newspaper ads. Help them consider gas mileage, safety and other special features when selecting a car.
2. Tell them most people finance their cars for 36, 48 or 60 months. Have students take the total cost of their cars and divide by 36, 48 and 60 months. Discuss the difference in payments. Remind students that it is rare to pay only the price; they usually must pay interest on their purchase. Have students use the amortization schedule at <http://ray.met.fsu.edu/cgi-bin/amortize> to compute car payments at different interest rates. Remind students to compare payments for 36, 48 and 60 months. Have students add together the cumulative payments and cumulative interest paid to determine the total price of the vehicle. Discuss how lower payments for a longer time means they actually pay more for their cars.

PARENT OPTION

Discuss the costs of owning and operating your family vehicles with your child. Check with a car dealer about the estimated costs of tax, title and license fees on the car your child selected in the teacher activity. Add those costs to the price of the car and re-visit the amortization website to see how it changes monthly payments. You may also want to get an estimate of insurance costs for a young person driving that car; add it to the monthly payments to give your child a more complete picture of the costs of owning a car. Help your child consider other alternatives to their "dream" car. Have your child visit with your banker about the rights and responsibilities of getting a car loan. Help your child research the advantages and disadvantages of buying a used car vs. buying a new car.

Buying a New Car

- ➔ Review your budget to see how much you can afford to spend before looking for a new car. Compare the cost of buying a new car with the cost of buying a used car. Consider your driving patterns and needs before shopping for your new vehicle.
 - ➔ Check to see what incentives and rebates are available on the car you want to buy. Compare the price of using those incentives and rebates with financing from your local bank to see which is the best deal.
 - ➔ Visit Edmunds.com for information on the car you want to buy. Be sure to check out the information on "Cost to Own" before making your purchase. It will help you evaluate the actual cost of owning a car.
 - ➔ If you are financing the car, use the amortization schedule at <http://ray.met.fsu.edu/cgi-bin/amortize> to determine the monthly payment. Remember to adjust the sales price for any incentives or rebates.
 - ➔ Be sure you have saved enough money for the down payment, tax, title and license (car tag) before making your purchase. Paying them at the time of purchase is less expensive than financing them.
 - ➔ Call your insurance agent or check www.netquote.com to determine approximate costs of getting insurance for your car before you make a decision.
- Remember to add any monthly insurance costs to the monthly cost of operating your new car.
- ➔ Test-drive any car you are considering. Be sure to compare the safety, mileage and comfort features in each as well as any other equipment you need.
 - ➔ Check out the car's safety rating at www.safercar.gov before making your selection.
 - ➔ Go to Edmunds.com True Market Value to find the book value of your current vehicle if you are trading one in. Print out this information and take it to the dealer with you.
 - ➔ Once you've reached a final price on the car, ask the salesperson to show you a worksheet showing all the prices, taxes and fees. Don't sign anything until you are certain you can make the payments.
 - ➔ Inspect the car for dents, dings and scratches before taking final delivery. Negotiate any repairs before leaving the dealer's lot. Get all repair agreements in writing and take one copy with you for your records.
 - ➔ Call your insurance agent within 10 days to be sure your car has coverage. Even if the dealer promises to call, you need to follow up with your agent.



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