



Lesson Eight

Cars and Loans



the costs of owning and operating a car

Ownership (fixed) costs:

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

Operating (flexible) costs:

- Gasoline
- Oil and other fluids
- Tires
- Maintenance and repairs
- Parking and tolls





decisions, decisions...

Quality

What level of quality do I want?

What level of quality do I need?

Cost

How much do I want to spend?

Car Model

Should I choose a car with a well-known name even if it costs more?

Research

What do consumer magazines say about the kind of car I want?

Recommendation

Do I know anyone who owns the kind of car I want?

Timing

Should I wait until there's a sale on the kind of car I want?

New or Used

Should I buy a new or a used car?

Where to Buy

If I buy a used car, should I buy it from a dealer or a private party?



shopping for a new car

Before you shop, ask yourself:

- Which car model and options do I want?
- What is the invoice price? What is the true cost to the dealer?
- How much am I willing to pay the dealer above the invoice price?
- What is the value of my present car that I will be trading in?

Before you buy, be sure you:

- take the car for a test drive.
- make your offer to as many dealers as possible.
- compare final sales prices and buying services.
- compare financing costs from various sources.
- try to sell your old car yourself (dealers usually give better deals without a trade-in).
- decide whether you need an optional service contract.



shopping for a used car

Before you shop, ask yourself:

- **How much can I afford to spend?**
- **Which car models and options interest me?**
- **What is the cost of car maintenance?**
- **Where is the nearest shop that services the kind of car I want?**
- **Are parts readily available for the kind of car I want?**
- **What price can I expect to pay? (Check recent prices in used-car “blue books,” on the Internet, in newspaper ads, consumer magazines, etc.)**
- **What kind of financing is available?**
- **What are the costs of a loan?**
- **Do I know how to read a “Buyer’s Guide” sticker?**



shopping for a used car

Before you buy, be sure you:

- **know the reputation of the dealer.**
- **know what type of warranty comes with the car.**
- **know what type of service contract comes with the car.**
- **ask about the maintenance history.**
- **take the car for a test drive.**
- **have the car inspected by an independent service maintenance person.**





sources of used cars

New-car dealers:

- provide quality used vehicles.
- have a service department available.
- ask higher prices than other sources.



Used car dealers:

- specialize in previously owned vehicles.
- offer only limited warranty (if any).
- may sell vehicles in poor condition.

Private parties:

- can offer a good buy if the vehicle was well maintained.
- offer little consumer protection.

Other sources:

- sell vehicles that have been driven many miles.
- examples: auctions or sales by government agencies, auto rental companies, the Internet



how many prices are there?

List Price/Retail Price/Sticker Price:

The price the dealership is asking for a new car.

Invoice Price/Dealer Invoice Price:

The price the dealer has paid the manufacturer for the car.

Base Price:

The price of the car before any options are added.

Book Value:

The value of a used car listed in pricing books (Kelley Blue Book).

Asking Price:

The amount a seller wants for his/her used car. You may be able to buy the car for a slightly lower price than this.



shopping for a car loan

These factors may vary between loans...

- Annual Percentage Rate (APR)
- Length of the loan
- Monthly payments
- Total finance charge

and so does the amount you'll repay!

Borrowing \$8,000 at different rates:

APR	Length of loan	Total monthly payment	Total finance charge	To be repaid
10.00%	36 months	\$258.14	\$1,292.94	\$9,292.94
	60 months	\$169.98	\$2,198.52	\$10,198.52
12.25%	36 months	\$266.67	\$1,600.15	\$9,600.15
	60 months	\$178.97	\$2,738.03	\$10,738.03
13.00%	36 months	\$269.55	\$1,703.87	\$9,703.87
	60 months	\$182.02	\$2,921.58	\$10,921.58



calculating the total cost of a loan

To estimate the total cost of a loan:

amount of the loan x APR x number of years*

Example:

amount of the loan: **\$10,000**

APR: **10%**

number of years: **5**

$\$10,000 \times 0.10 \times 5 = \$5,000$ interest

$\$5,000$ (interest) + $\$10,000$ (amount of loan) = $\$15,000$ total cost

To estimate the amount of monthly payments:

total to be paid divided by number of months of the loan*

Example:

total to be paid: **\$15,000**

number of months: **60 (5 years)**

$\$15,000 \div 60 = \250 per month

* These formulas produce estimates that are slightly higher than your actual costs and payments. They do not account for smaller interest payments as you repay the loan.



how much can you afford to borrow?

How much can you afford to borrow? (the 20-10 rule)

20:

Never borrow more than 20% of your yearly net income.

Example:

You earn \$400 a month after taxes.

Your yearly net income is: $\$400 \times 12 \text{ months} = \$4,800$

20% of your yearly net income is: $\$4,800 \times 20\% = \960

You should have less than \$960 of debt!

10:

Your monthly payments should be less than 10% of your monthly net income.

Example:

You earn \$400 a month after taxes.

10% of your monthly net income is: $\$400 \times 10\% = \40

You should pay less than \$40 per month for all debts!



types of car insurance coverage

General Liability (40-50% of premium)

Pays for bodily injury.

Pays for property damage (ex. to another person's car).

Collision (up to 30% of premium)

Pays for the physical damage to your car.

Includes a deductible (paid by the customer).

Comprehensive (about 12% of premium)

Pays for damage caused by vandalism, fire, floods, theft, etc.

Medical

Covers medical payments for injured driver and passengers.

Uninsured motorist

Pays for bodily injury in accidents caused by uninsured drivers.



how insurance rates are set

Personal characteristics

Age

Sex

Marital status

Personal habits

Type and frequency of vehicle use

Geographic location

“Rural” usually lowers rates, “urban” usually raises rates

Driving record

Accident with death, bodily injury, or property damage

Number and kind of moving violations

Vehicle characteristics

Damage, repair, and theft record of type and model of car

Value and age of car



scenario 1

Manuel wants to buy a car. He wants to know exactly how much he can afford to spend each month to own, operate, and maintain 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 tolls.

Manuel needs to have car insurance. He has shopped around and expects that a car insurance premium will cost about \$225 a month.

1. Which car can Manuel afford?

2. What are the terms of the loan that would allow Manuel to stay within his budget?



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1. Which car can Manuel afford?

The car for \$6,000

2. What are the terms of the loan that would allow Manuel to stay within his budget?

A 60-month loan with an APR of 10%



scenario 2

Rose is thinking about buying a car. She has \$1,000 saved for a down payment. 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. She brings home \$974 from her second job.

Her fixed expenses include:

- \$250 for rent
- \$34 for a credit payment on furniture

Her flexible monthly expenses include:

- \$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 tolls.

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

1. Which car can Rose afford?

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



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

1. Which car can Rose afford?

The car for \$4,000

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

A 36-month loan with an APR up to 16%