



Lesson 10: Convertible or Clunker? CASH, LOANS, AND LEASES

Factors	Vehicle Loans	Vehicle Leases	Paying All Cash
Ownership potential	<p>The vehicle belongs to you and the bank that gave you the loan until you have paid off the loan.</p> <p>Then, the vehicle becomes yours.</p>	<p>You are essentially renting the vehicle from the dealership. The lease is like a rental agreement. You make monthly payments to the dealership for a set number of months. The vehicle does not belong to you. When the lease ends, you have to return the vehicle to the dealership.</p> <p>You may decide to purchase the vehicle at the end of the lease. The total cost, however, generally ends up being more than it would have been if you had bought the vehicle.</p>	<p>The vehicle belongs to you because you paid for it in full at the time of purchase.</p>
Cost	<p>Purchasing a vehicle is usually more cost effective if you plan to keep the vehicle long-term.</p> <p>In the short term, however, the costs will generally be greater than a vehicle lease, because your total loan amount and monthly payments are likely to be higher.</p>	<p>A lease will probably cost less than a vehicle loan in the short term, because your total lease amount and monthly payments are likely to be lower.</p> <p>On the other hand, if you exceed the mileage on a leased vehicle or decide to buy it outright once your lease has expired, it will end up costing you more.</p>	<p>Paying in cash can be cost effective because you won't need to acquire any debt to own the car. But, saving up enough money to buy a vehicle outright requires planning ahead and saving diligently.</p>
Monthly payments	<p>Payments are higher, but you only pay them for a set term. Then, you own the vehicle.</p>	<p>Payments are lower because you are not purchasing the vehicle; the dealership still owns it.</p> <p>As long as you lease a vehicle, you will continue to make monthly payments.</p>	<p>No monthly payments, but you would have had to save up a large sum of money ahead of time in order to purchase the vehicle in full. This requires setting and sticking to savings goals.</p>



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CASH, LOANS, AND LEASES *(continued)*

Factors	Vehicle Loans	Vehicle Leases	Paying All Cash
Auto insurance	<p>It is usually less expensive than auto insurance for leased cars.</p> <p>Insurance may cost more during the loan than it will after the loan is repaid because the lender may require more coverage.</p>	<p>It usually costs more if you lease a car than it does if you buy.</p> <p>Most vehicle leases require you to carry higher levels of coverage than purchase agreements do.</p> <p>Some insurance carriers may also consider leasing to be higher risk than purchasing.</p>	<p>Insurance may cost less than if you carried a loan because a lender may require more coverage.</p>
Mileage limitations	<p>There are no mileage restrictions.</p>	<p>Leases restrict the number of miles you can drive the vehicle each year.</p> <p>If you exceed the mileage allowed, you have to pay the dealer for each mile over the limit according to your lease.</p> <p>For example: a dealer may charge you \$.15 for every mile that you drive over 24,000 miles in two years. If you drive the vehicle an additional 3,000 miles, you would owe the dealer \$450 for those miles.</p>	<p>There are no mileage restrictions.</p>
Wear and tear	<p>No additional costs for wear and tear are included in your loan agreement.</p>	<p>Most leases charge you extra money for any damage found at the end of the lease that goes beyond normal wear and tear.</p>	<p>No additional costs for wear and tear are included in your purchase price.</p>



Lesson 10: Convertible or Clunker? IT'S TIME TO FINANCE!

Narrator: *Jasmine and Rick are walking around Al's Super Used Cars lot and Al approaches them as they are looking at a blue sports car.*

Al: Hello there, folks! How can I help you this beautiful afternoon?

Rick: Well, my daughter is looking to buy her first car.

Al: *(looking at Jasmine)* Well, alright. What type of car are you looking for?

Jasmine: I'd like a car with satellite radio, a navigation system, air conditioning, sun roof....

Rick: *(cutting off Jasmine)* She wants the best deal you have on the lot...she's paying for this car herself!

Jasmine: Yeah, I know I have to pay for it myself, Dad! I really like this blue one! How much is it?

Al: The sticker here says \$10,000...*(Jasmine sighs and frowns.)*...but I think I could drop that down to \$9,250.

Jasmine: Well, how much would that be per month?

Al: That depends on the financing. It could be \$200 a month for five years with no down payment. Do you have money for a down payment?

Jasmine: Uh, no. I did not realize I would need money for a down payment.

Al: Do you have a job?

Jasmine: Yes, I usually make about \$200 a month from babysitting. I do not really have any other expenses, but I do not want to spend everything I make on a car!

Al: I have this nice red car over here. *(Al, Jasmine, and Rick walk toward another car.)* You can finance this one for \$125 a month, and then it is yours to own after six years.

Jasmine: I can afford that!!

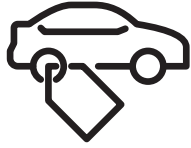
Rick: Remember, you'll need to pay for insurance, maintenance, gas, and everything else that comes along with owning a car...

Jasmine: I really want this one, Dad, and I can afford it!

Al: Step into my office and we can discuss paperwork for the car. *(Al, Jasmine, and Rick walk into Al's office and all sit down.)* OK, now will you be cosigning this loan for your daughter?

Characters

- Al, the car salesman
- Jasmine
- Rick, Jasmine's father
- Narrator

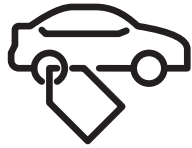


Lesson 10: Convertible or Clunker? IT'S TIME TO FINANCE! *(continued)*

Rick: Yes, she's only 17, so I will be cosigning. *(Turning to his daughter.)* Now, you know I expect you to pay the bill on time every month, right? I expect you to be responsible.

Jasmine: Yes, Dad, I know. I'll make sure I have the money to pay for everything.

Narrator: *Jasmine ends up financing the car for \$125 per month for six years. She does not realize that one reason the payment was lower per month was that the term of the loan was extended — meaning she will pay the loan back over a longer time period. This means that she will pay more in interest than if the term of the loan were shorter. After driving the car for two years, Jasmine went to start the car to go to work one morning and it made a funny noise and would not start. It ended up costing \$2,000 in repairs! Jasmine was disappointed to find out that the \$500 in insurance she paid every year did not cover the repair. Was financing this car the right idea for Jasmine? What should she have looked out for when shopping for a car?*



Lesson 10: Convertible or Clunker? IT'S TIME TO LEASE!

Narrator: *Todd and Sharon are walking around Al's Super Used Cars lot and Al approaches them as they are looking at a green truck.*

Al: Hello there, folks! How can I help you this beautiful afternoon?

Todd: I want a truck!!

Sharon: *(giving her son a stern look)* Yes, my son is looking for a truck he can purchase.

Todd: No, Mom, I want to lease a truck. I am going to college in two years and I will not be able to take my truck on campus. I am just looking for a truck for work and to drive to school and stuff until I graduate.

Al: Sounds like you know what you want!

Todd: Yes, sir. It will cost me less in the end and I do not want the long-term loan right now. I only plan on driving around town and I will return the truck when the lease expires. So how much does this cool truck cost? *(Points to a nearby truck he has been looking at.)*

Al: I can lease that to you for \$200 a month. Is that in your price range?

Todd: Wow, that's a lot more than I thought! I do not have a job right now, so coming up with \$200 a month may be difficult. What if I promise that I will get a job, Mom?

Sharon: You cannot just promise to get a job, Todd! I thought you said you had saved some money from working at the restaurant this summer?

Todd: Yeah, I have money for a down payment and the first few payments, but I will need to find a job so I can continue to make the monthly payments.

Al: Maybe you need to come back when you have a job and you know that you can afford this nice truck?

Todd: No! I want it now. I told my friends that I could drive them to a concert next weekend. I know I can find a job in the next few weeks, and I have the money for the down payment and the first month. *(Turns to Sharon.)* Mom, can I please get this truck??

Sharon: It is your decision, but don't forget that your father and I do not want to cover the payments if you cannot make them.

Todd: I know, I know! OK, I want to get it!!

Characters

- Al, the car salesman
- Todd
- Sharon, Todd's mother
- Narrator



Lesson 10: Convertible or Clunker? IT'S TIME TO LEASE! *(continued)*

AI: Alright, just step into my office and we will see what we can do!

Narrator: *Sharon leases the truck on Todd's behalf. Sharon and Todd agree that Todd is responsible for the payment and all expenses. Todd finds a part-time job; however, he did not realize that gas would be so expensive, because he is the one always driving his friends around. Every month he struggles to make the payment. He has to give up buying items like music and clothing just so he can make the lease payment. After two years, Todd turns the leased truck back in to the dealership and realizes that he has paid \$4,800 for the truck, and now he has nothing to show for it! Was this the right choice for Todd? What could he have done differently?*



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Name: _____

There are many different elements to consider when contemplating a vehicle purchase. Research three different types of vehicles that interest you and find out what the total cost of the vehicles will be in your area by investigating local vehicle prices, sales tax, and license and registration fees. Use an Internet search engine or the web links below to get started.

FDIC Consumer News
<https://fdic.gov/consumers/consumer/news/cnspr12/autoloans.html>

FTC Consumer Information
www.consumer.ftc.gov/articles/0209-buying-new-car

U.S. Department of Energy Fuel Economy
www.fueleconomy.gov

	Vehicle 1	Vehicle 2	Vehicle 3
Make/Model			
Price			
Sales Tax			
License and Registration Fees			
Misc.			
Total			

What research was surprising to you? Did the vehicles cost more or less than what you expected? Why?