



MONEY SMART FOR YOUNG ADULTS



MODULE 10

Buying a Car

Participant Guide



FDIC-029-2022

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WELCOME

Welcome to the FDIC's Money Smart for Young Adults!

This is the participant guide for **Module 10: Buying a Car**. Use it during and after training. You can write in it. It is yours to keep.

Module purpose

This module will help you consider options for buying a car. By the end of this module, you will be able to:

- Identify one-time and ongoing costs of car ownership
- Compare options for buying cars, including leasing
- Describe how car loans work
- List the consequences of not making car loan payments

SECTION 1:

Car Costs and Options

We will discuss one-time and ongoing costs of car ownership and compare options for buying cars.



KEY TAKEAWAY:

What you pay to buy a car matters. But also consider ongoing costs of owning and using the car.

Car Costs

Buying a car is often the first big purchase people make. People shop for cars both online and in-person.

What are costs of buying and owning a car?



✓ APPLY IT:

Taking Stock of Car Costs

Use the tables to estimate the one-time and ongoing costs of a car in the “Car 1” column. If you are comparing multiple cars, add them in the “Car 2” and “Car 3” columns.

CAR INFORMATION	Car 1:	Car 2:	Car 3:
Make			
Model			
Year			
Seller			
PRICE			
ONE-TIME COSTS	Car 1:	Car 2:	Car 3:
Down Payment			
Registration and Title Fees			
Sales Taxes			
Documentation Fees			
Other Seller Fees / Dealer Fees			
Car Loan Origination Fees			
Extended Vehicle Warranties and Service Contracts			
Other:			
Other:			
Other:			
TOTAL One-Time Costs			

Apply It: Taking Stock of Car Costs *continued*

ONGOING COSTS BY MONTH	Car 1:	Car 2:	Car 3:
Car Loan Payment			
Car Insurance			
Fuel			
Maintenance			
Registration Renewals and Inspections			
Property Taxes			
Parking and Tolls			
Other:			
Other:			
Other:			
TOTAL Cost Per Month			
TOTAL Cost Per Year			



Leasing

When you lease a car, you pay for the right to use the car for an agreed number of months and miles. You are paying to drive the car, not buy it. At the end of a lease, you must return the car unless the lease agreement gives you the option of buying it. Monthly lease payments are usually lower than monthly payments if you bought the same car. Your lease agreement will specify who must pay for maintenance and repairs during the lease term. You can negotiate the terms of a car lease.

Think about how much you drive. The mileage limit in standard leases is typically 15,000 or fewer miles per year. Also, consider all of the lease terms and whether you may move during the lease period.



TRY IT:

Considering Car Options

Read the scenario and answer the questions.

SCENARIO:

Antonio Considers Car Options

Antonio lives with his parents while he works and attends community college. His older sister is moving out of state for a job and will take the car she shares with Antonio with her. He needs a car to get to work and school.

Antonio earns \$1,000 per month as a house painter. Living at home, he has few expenses, about \$250 per month. He has saved \$4,000.



Antonio shopped for a car online. He also visited car dealers in-person to take some of the cars he found for a test drive. He has narrowed down his choices to these options:

- Buying a used 2019 Culpeo. Antonio estimates the one-time costs to be \$2,000 and the total monthly costs of ownership to be \$590 on average for the first five years.
- Buying a used 2019 Sechuran. Antonio estimates the one-time costs to be \$1,900 and the total monthly costs of ownership to be \$600 on average for the first five years.
- Leasing a 2022 Corsac. For \$575 per month for 12 months, Antonio can drive the car up to 15,000 miles during that time period. This is a newer car than the other options and the model has a reputation for fuel efficiency for the first five years.

What else would you want to know about Antonio's situation before giving him advice on which car to buy or lease?

What else should Antonio research and consider about the leasing option?

If Antonio decides to buy, rather than lease, would you recommend he buy the Culpeo or Sechuran?

If Antonio buys a car and later sells it, who receives the money from that sale? Can Antonio sell his car if he leases?



Remember the Key Takeaway

“What you pay to buy a car matters. But also consider ongoing costs of owning and using the car.”

SECTION 2:

Car Loans

We will discuss how car loans work and the consequences of not making payments on car loans.



KEY TAKEAWAY:

You do not have to get your car loan from whomever is selling you the car. Compare multiple car loan offers.

Car Loan Basics

Car loans work much the same way as other types of loans. Your down payment could be cash, the value of a trade-in, or both. The more you put down, the less you need to borrow. You agree to pay back the amount you borrowed through monthly payments, plus fees and interest.

Monthly payments are calculated based on three factors: loan amount, annual percentage rate (APR), and loan term. A longer loan can reduce your monthly payment, but you pay more interest over the life of the loan.

If you make a smaller down payment on a car, you will need to borrow more. Will a larger loan amount make your monthly payment go up or down?

If you negotiate with the lender and get a lower APR, will your monthly payment go up or down?

If you choose a longer loan term, will your monthly payment go up or down?

If you choose a longer loan term, will the total amount of interest you pay over the life of the loan go up or down?

It is critical to make your car payments on time and as agreed. What can happen if you do not pay your car loan?

You do not have to get your car loan from the seller. You can get your car loan from another lender, such as a bank or credit union, instead. You are shopping for two products: the car loan and the car. Negotiate and consider several offers.

TRY IT:

Comparing Car Loan Offers

Read the scenario and answer the questions.

SCENARIO:

Tina Compares Car Loan Offers

Tina wants to buy a used car. Wheels-for-Less has a car for sale that would meet her needs. Wheels-for-Less offers her a car loan. After shopping around for a car loan, she has two additional financing options.



Car Loan Detail	Wheel-for-Less Used Cars	Skyline City Bank	AutoLoanLine.com
Price	\$13,000	\$13,000	\$13,000
Down Payment	\$4,000	\$4,000	\$4,000
Amount of Car Loan	\$9,000	\$9,000	\$9,000
Term	60 months	52 months	60 months
Annual Percentage Rate (APR)	9.00%	8.00%	8.00%
Monthly Payments	\$187	\$205	\$182
Interest Paid Over the Life of the Loan	\$2,210	\$1,680	\$1,949

If Tina wants to keep her monthly payment as low as possible, even if she pays more interest over the life of the loan, which loan should she choose

What are ways Tina could lower her monthly payment?

If Tina wants to minimize the amount of interest over the life of the loan, which loan should she choose?

How could Tina pay less interest over the life of the loan?

Credit Scores and Car Loans

Your credit history is your record of paying back what you owe. Credit reports are documents that summarize your credit history. Credit scores are numbers based on information in your credit reports. They predict the likelihood that you will pay your bills and debt payments as agreed. Your credit reports include positive information: the times when you paid your bills and debt payments on time. Your credit reports also include negative information: the times when you did not pay your bills and debt payments on time.

Why will lenders review your credit reports and scores when considering offering you a car loan?

A co-signer is a person—such as a parent, close family member, or friend—who commits to paying back the loan if you do not. Having a co-signer on your loan gives your lender additional assurance that the loan will be repaid. Lenders may be more willing to offer you a loan and may offer better terms, such as a lower interest rate.

A co-signer takes full responsibility to pay back the loan. If you do not repay your loan, your co-signer will be responsible for repaying it, even if that person never drove the car. Negative information about missed or late car loan payments will appear on the co-signer's credit reports and may lower the cosigner's credit scores.



Remember the Key Takeaway

“ You do not have to get your car loan from whomever is selling you the car. Compare multiple car loan offers.”

MODULE CLOSING

Remember the Key Takeaways

SECTION	KEY TAKEAWAY
1: Car Costs and Options	What you pay to buy a car matters. But also consider ongoing costs of owning and using the car.
2: Car Loans	You do not have to get your car loan from whomever is selling you the car. Compare multiple car loan offers.

Take Action

You are more likely to act if you commit to **taking action now**. One way to commit is to think about what you plan to do because of what you learned today. Then write it down.

What will I do?

How will I do it?

Will I share my plans with anyone? If so, who?

Where to Get More Information or Help

The Federal Trade Commission provides online information and resources on buying and owning cars, as well as leasing. Visit consumer.ftc.gov/topics/buying-owning-car.

Visit fuelconomy.gov for fuel efficiency estimates for different cars and also average gas prices near you.

If you have a question about a banking product, ask a customer service representative at the financial institution for help.

If you have a concern, explain to the customer service representative what happened and what you would like them to do to correct the situation. If that does not help, consider contacting the federal regulator for that financial institution.

To find out who regulates the financial institution, call the FDIC toll-free at 1-877-ASK-FDIC (1-877-275-3342) or visit fdic.gov/consumers/assistance/filecomplaint.html.



Pre-Training Survey

Your instructor may ask you to complete this pre-training survey.

Please answer these questions:

1. You can get a car loan from a bank or credit union, even if the car seller offers you a car loan.
☐ True ☐ False
2. When you lease a car, you pay for the right to use the car for an agreed number of months and miles.
☐ True ☐ False
3. Co-signers on car loans are protected from negative impacts on their credit scores.
☐ True ☐ False
4. Which does not affect the amount of your monthly car loan payment:
 - a. The loan amount
 - b. The annual percentage rate (APR)
 - c. The length of the loan
 - d. All of the above affect the amount of your monthly car loan payment.

Post-Training Survey

Your instructor may ask you to complete this post-training survey.

Please answer these questions:

1. You can get a car loan from a bank or credit union, even if the car seller offers you a car loan.
☐ True ☐ False
2. When you lease a car, you pay for the right to use the car for an agreed number of months and miles.
☐ True ☐ False
3. Co-signers on car loans are protected from negative impacts on their credit scores.
☐ True ☐ False
4. Which does not affect the amount of your monthly car loan payment:
 - a. The loan amount
 - b. The annual percentage rate (APR)
 - c. The length of the loan
 - d. All of the above affect the amount of your monthly car loan payment.

About the Training

Please answer the following questions about the training.

1. The trainer:

- | | | |
|--|------------------------------|-----------------------------|
| Shared information in a way that was clear and easy to understand. | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Made the training engaging. | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Encouraged participation and discussion. | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Showed respect for all participants. | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Created a good learning environment. | <input type="checkbox"/> Yes | <input type="checkbox"/> No |

2. Do you feel better able to make decisions related to the topic of this training?

- ☐ True ☐ False ☐ I do not know

3. Did the training provide information that you can use immediately?

- ☐ True ☐ False ☐ I do not know

4. What were strengths of the training materials?

What could be improved?

5. What were strengths of how the instructor led the training?

What could be improved?

6. What else would you like to learn about this topic or other money topics?