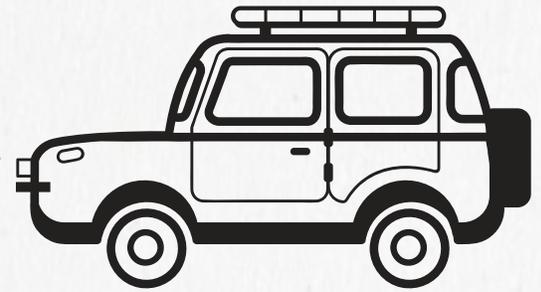


# Activity 1

## AUTO LOANS AND LEASES

Most of us will need to purchase a car at some point in our lives, and the options presented to us can be confusing. Practice making the most financially savvy choice by reading each of the scenarios below and answering the questions.



### PART 1: AUTO LOAN BASICS

Suppose you are buying a new car that costs \$20,000. You have a four-year-old vehicle, with a trade-in value of \$7,000. You also have \$1,000 cash to use as a down payment. The manufacturer is offering two incentives.

- Option 1: 1.9% financing over the course of the loan, which is 36 months; OR
- Option 2: A rebate of \$4,500 cash back on the vehicle, applied to the amount due at purchase. You would then take a loan from your bank, at a rate of 6.5% on a 36-month loan.

Use the online calculator at [www.edmunds.com/calculators/incentives-rebates.html?sv](http://www.edmunds.com/calculators/incentives-rebates.html?sv) to compare these two options. (Enter zero for sales tax and title costs.) Then answer these questions.

1. What is the total cost of the car after your down payment and trade-in?

- Option 1: \$ \_\_\_\_\_
- Option 2: \$ \_\_\_\_\_

2. What is your monthly payment?

- Option 1: \$ \_\_\_\_\_
- Option 2: \$ \_\_\_\_\_

3. Which incentive is the better choice? Why?

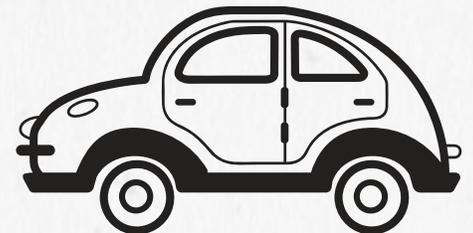


### PART 2: TOTAL COSTS

You want to buy a car that costs \$25,000. You do not have a car to trade in, but you have \$2,000 saved for a down payment. The dealer is offering a \$6,000 rebate as an incentive, and you qualify for a first-time-buyer incentive of \$500. You will take a 48-month loan with a 6.5% interest rate. In addition, you will have to pay 7.5% sales tax, and it will cost you \$25 per year for registration, plus \$480 per year in property tax. Your insurance premium will be \$56 per month.

Organize this financial information using the chart below. You can use the loan calculator at <https://tools.finra.org/loan> to determine your monthly loan payment. Then answer the questions.

PRICE	
Vehicle price	\$ _____
Sales tax	\$ _____
Down payment	\$ _____
Incentives	\$ _____
Purchase price/Loan amount	\$ _____
PAYMENTS	
Annual loan payment	Monthly payment: \$ _____ x 12 = \$ _____
Annual insurance premium	Monthly premium: \$ _____ x 12 = \$ _____
Annual registration fee	\$ _____
Annual property tax	\$ _____
Total annual cost	\$ _____



1. What is the total cost of the car over four years? Annual cost \$ \_\_\_\_\_ x 4 years = \$ \_\_\_\_\_

2. After you have repaid the loan, what will you pay annually for taxes, insurance, and fees? \$ \_\_\_\_\_

3. If you keep the car for seven years, how much will it have cost you? \$ \_\_\_\_\_

### PART 3: LEASE OPTION

You decide instead to lease the car for 48 months. You must pay a \$500 security deposit on the car before you leave the dealership. There is an additional fee of \$250 for the cost of completing the dealer lease paperwork. Your total monthly lease payment is \$383 per month. In your lease agreement, it has been determined that the value of the car will be \$14,000 at the end of the lease term. You are allowed 12,000 miles per year for the car, and the mileage fee for overages is \$.25 per mile. You pay \$68 per month for insurance, and it costs you \$25 per year to license the car. There is a \$1,500 early termination fee on the lease. There is a \$500 penalty if you return the car with "excessive wear and tear."

Organize this financial information using the chart below. Then answer the questions.

ONE-TIME COSTS	
• Security deposit	\$
• Paperwork fee	\$
ANNUAL COSTS	
• Annual lease payment	Monthly payment: \$ _____ x 12 = \$ _____
• Annual insurance premium	Monthly premium: \$ _____ x 12 = \$ _____
• Annual registration fee	\$
Total annual cost	\$
PENALTIES AND FEES	
• Mileage fee over 12,000 miles per year	\$.25 x _____ miles = \$ _____
• Early termination fee	\$
• Excessive wear and tear fee	\$

1. What is the total cost of the car over four years, including your one-time costs?

One-time cost \$ \_\_\_\_\_ + (Annual cost \$ \_\_\_\_\_ x 4 years) = \$ \_\_\_\_\_

2. You are in a car accident during the fourth year of the lease and the car is a total loss, thus ending the lease early. How will this affect you?

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3. At the end of your lease, you go to the dealer to return the car and lease another one. The dealer notices that the car's odometer reads 59,825 miles. What will happen?

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4. When you return the car, you decide you like it and want to purchase it. How much will it cost you?

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Now, weigh the options in Parts 2 and 3 and decide which you think you would choose. Why?

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