

Chapter Five: Buying Big Stuff

BUYING BIG STUFF



Lesson Plan

Materials

1. Car Advertisements (magazines, downloaded video from the internet, or taped from TV)
2. Deciding What You Want Worksheet
3. Loan Calculations Sheet
4. Don't Abuse Your Credit Story
5. Dry erase marker fine point
6. Chalkboard or Flip Chart
7. At least four calculators
8. Student Materials Packets

Outline

1. Review
2. Intro
3. Deciding
4. Liquidity
5. Loan Shop
6. Check

Lesson Objectives

1. The student will be able to fill out a check register to obtain a new balance.
2. The student will be able to analyze advertising and describe what information they get about a product from the advertisement.
3. The student will be able to prioritize different features of an item they want to purchase in order to decide which version of the item to buy.
4. The student will be able to comparison-shop for a large purchase they want to make.
5. The student will be able to compare loan rates to find the best rates for their large purchase.

Procedure

REVIEW (10 min.)

1. *Last class we talked about credit cards and credit report. To help remind us about some of what we learned I want to read you a story. It is about a student in college, who has gotten in over his head in credit card debt.*
2. The story is called "**Don't Abuse Your Credit**"
3. Draw the IEAL chart on the board and ask students to listen to the story and think about what pieces of the story fit into the different parts of the chart.

INTRO (1 min.)

- 4. *Today we will talk about buying a car and using a loan to buy it. When you apply for a car loan it is similar to applying for a credit card. Except that, instead of using the money, paying it back, and then using it again like a credit card, you just borrow the money and then pay it back over time plus some interest. This is called an installment loan. What type of loan is a credit card? Revolving.*

DECIDING WHAT YOU WANT (25 min.)

- 5. *Open your packets to the page entitled **Deciding What I Want to Buy***
- 6. *I am thinking about buying a used car and I was wondering if you could help me. In front of you, you have a list of questions that I asked myself before I bought a car. Underneath them are my answers to those questions, and then some questions for you.*
- 7. *It is very important to know exactly what you want when you are buying any item. By sitting down and carefully answering some simple questions in your head before you buy you can insure that you will be very satisfied with the item.*
- 8. *You are going to answer these questions and see if you can choose the car that is right for me.*
Read the questions together and answer them as a class. The teacher version follows this lesson. We think it helps to write out the answers on the board.
- 9. Show the advertisements and discuss what questions they can help answer, moving the class toward the idea that advertisements aren't designed to give you information; they are designed to make you want something. Discuss the difference.
- 10. *Now that we have an idea of what I want, let's take a look at the three options here and see which car is best for me. Decide on one car that is right for me based on what I said in my answers, then write two sentences about why it the right car for me.*
- 11. While the students are working on this, go up to the board and draw a chart that looks like this....

	Honda	Toyota	Hyundai
Reliability			
Price			
MPG			
Maintenance			

12. After students finish, fill in the chart as a class using the information from the sheet. Because I ranked the criteria in order of importance you can immediately eliminate the Hyundai because it is the lowest on reliability. Then comes the tough choice. Price is next on the list, and there the Toyota wins. But if you go one step further, the Honda wins on gas mileage. So the question is, even if the Toyota's price is lower, will I save more money on gas buying the Honda? And will I save enough on gas that eventually the price evens out? Discuss this question, it is most important the students understand MPG ratings and how they work.
13. *What does MPG mean?* Miles per gallon or the number is how many miles you can go in that car for every gallon of gas.
14. I decided to choose the Honda because in the long term, my costs are less and I may save a lot of money. We use that number to figure out the loan terms.
15. *Next, I need to get a loan which means I will have to pay interest. I made a spending plan and found that I can afford \$500 (write this on the board) for the total cost of the car. If I borrow the money, each month I will have to make a loan payment on the car until I have it paid off. What else do I have to pay for?* Gas, insurance, and maintenance
16. **(Write the number on the board under the \$500)** *If I pay \$100 per month for gas, \$100 for car insurance, and put \$50 in a savings account in case the car breaks down, how much do I have left over to pay the loan payment?* \$250

LIQUIDITY (3 min.)

17. *What is the listed price on the Honda?* \$6,500
18. Draw your best picture of a car on the board and write \$6,500 beneath it. Then next to that drawing, draw a picture of a \$6,500 bill. (I know, there is no such thing, Just bear with me.)
19. Point to the bill and ask, "*Can I spend this at any store, to buy anything I want that costs less than \$6,500?*" Yes
20. Point to the car and ask, "*How about this?*" *Can I spend this at any store, to get anything that I want?*" No
21. *Why not? You just said it was worth \$6,500, just like the bill. What would I have to do to spend it?* You have to sell it and get cash.
22. *The difference between spending the \$6,500 dollar bill and the \$6,500 car is called liquidity. The car is not liquid, which means you can't spend it. Another way to think about this is to say that non-liquid assets can't flow easily from one person to another.*

LOAN SHOP (15 min.)

23. *I need 4 volunteers for this activity. Each of you will be a loan officer from one of the financial institutions on the **Loan Calculations Worksheet**. I will come to you one by one and ask you for the terms of the loan. Then I will decide which loan to go with. Everyone else needs to be paying attention because you need to get the monthly payment down on your sheets as well.*
24. On the sheets all the terms are filled in except the monthly payment. To find the monthly payment, you divide the Total Cost of the Loan box by the number of **months** that you have to pay the loan back. You may want to ask students to raise their hands and guess how to do this. It can help to use a transparency of this sheet so you are able to write in the monthly payments.
25. Choose your first loan officer. Walk up to her or him, shake hands. Introduce yourself and ask about each of the terms, saving the monthly payment for last.
26. *Is this a fixed rate loan or a variable rate loan? All the loan rates are fixed. What could happen if it was a variable rate? The rate could change and I might have higher payments.*
27. After the students tell you what the monthly payment will be ask the class, “*Can I afford this payment?*”
28. Point out that the longer the term of the loan the more you pay in interest, so even though the payments are smaller, you are really paying more.
29. Also notice that the interest rate goes up the longer the term of the loan is. This is because the financial institution knows that the longer you own the car, the more risk exists that it will break down and you will stop paying on the loan. They manage that risk by charging you more.
30. *If my credit report contained information about late payments on other bills, would my interest rate go up or down? Up!*
31. *I chose Syracuse Cooperative Federal Credit Union as my loan provider because they had the best loan terms that I could afford. Generally, you want to get the loan with the shortest term and the lowest interest rate you can find that you can afford to make the payments on.*
32. A student may point out that it costs more than the \$250 I budgeted per month to spend on the car payment. Discuss how I might cut back on other expenses to make that slightly higher payment and how much money that will save me in the long term. Mortgages and other long term loans are the same, paying just a little bit more up front can save you lots of money in the long term.

CHECK AND REGISTER (3 min.)

33. Have students fill out a check for their first payment on the loan and fill out a check register to keep track of the expenses. Do this together as a class.

Note to instructor

We have calculated this at 57 minutes of teaching time. This is the minimum, it can take much longer. Feel free to adjust the time according to students' needs.

Don't Abuse Your Credit

I thought that I would never get a credit card, I was sure that I would always pay for things upfront in cash. Then I went to college, and realized that it is hard to save up six hundred dollars when you are only making \$5.15 an hour.

I wanted to take a trip to Paris, France with my girlfriend and I wanted to go during Christmas break. Trouble was it was already October. I should have tried to use a little patience, but the tickets were so cheap and I just knew they were going to go up before I could save the money.

I decided to get a credit card from the bank where I had my checking account. I went down and filled out an application and was approved for \$1,500 limit. As soon as the card came in the mail and I had activated it I was online buying tickets to Paris. I paid a total of \$636 for the tickets, and then I realized I needed some luggage!

One thing led to another and by the time I was ready to leave I had gone over my \$1,500 limit, and I got charged a thirty dollar fee. I now owed \$1,673 to the credit card company. I tried not to worry about it and had good time in Paris, and when I came back I started paying the bill.

I only made \$115 a week at my job and I needed to pay my other bills too, which left only about \$10 a month to pay on the credit card. Each month I would make a small payment and each month they would add interest, so that I really only paid about \$5 on what I owed. It took me about 3 years to pay that off, and that includes putting any money I got for presents towards the bills. I added it all up and for the \$1,673 I put on the card I paid about \$2,000 just in interest and fees. I missed a few payments just because I didn't have the money and now my credit is not so good. I learned a good lesson, I still have a credit card but I only borrow what I can pay off at the end of the month. I also learned to be patient.

You know what I have to show for all those payments, a beat up old suitcase. I could use some new luggage.

Deciding What You Want to Buy

Instructor Copy

Name _____

Date _____

Directions:

Answer the questions that follow the letters. This is an example of what you should think about before you buy. Be conscious of your **needs**, not your wants.

1. What are you going to use this item for?

I will use this car to travel to and from work each day (about 10 miles), to do grocery/general shopping and to take long distance trips about once per month. On trips I will go to the Adirondack Mountains to go hiking (bringing lots of gear) and possibly a few friends. I will also go to Long Island to visit family (about 300 miles away). I don't have children and I cannot drive a manual transmission.

a. Based on this answer what should I be looking for in a car?

Good gas mileage, space to carry things, sturdy for travel, no stick shift

2. How much can you afford to spend?

I can afford a total monthly payment for **all costs** of the car of about \$300 per month. I would like to pay as little in interest charges on a car loan as possible, so I do not want to enter into a long loan.

a. What are all of the costs associated with the purchase of the car?

Gas, insurance, maintenance, car payments

b. Why does the length of the loan mean I will have to pay more interest?

Usually a longer term means smaller payments, smaller payments means less payment on the balance you owe. Each month interest is charged on what you owe, the more you owe the more interest you pay.

3. How long do you need it to last?

I would like the car to last for at least five years. By that time I will be making more money and can afford to get another car. The car must last until I pay off the car loan used to by the car.

a. How can I tell how long the car will last?

Check how many miles are on the car on the odometer. Have a mechanic look at the car. Check for rust under the car. Find the Vehicle Identification Number (VIN) and run it through www.carfax.com (this costs money). Use Kelley Blue Book to get information about that model of car, use the internet to see what others say about the car.

4. What are the most important things about the quality of the car to you?

The most important things for me in order of importance is reliability (not going to break down), low price, and lots of miles to the gallon of gas. The car should be easy to drive and take care of and safe, and should have some space for carrying things.

a. List the priorities in order of importance below.

1. Reliability
2. Price
3. MPG
4. Maintenance
5. Space

Car Loan Calculations

Instructor Copy

Name _____

Date _____

Directions

Calculate the monthly payments for each loan and then decide which loan would be best for me based on what I can afford per month.

<u>Loan Company</u>	<u>Length of Loan</u>	<u>APR</u>	<u>Monthly Payment</u>	<u>Total Cost of Loan</u>
HSBC Bank	2 years (24 months)	5%	\$285.16	\$6,843.94
Syracuse Cooperative Federal Credit Union	3 years (36 months)	6%	\$267.23	\$6,947.87
Chase Bank	4 years (48 months)	8%	\$158.68	\$7,616.83
M & T Bank	5 years (60 months)	10%	\$138.11	\$8,286.35

How do you get a loan?

1. Look at all the options and get your Truth in Lending Statement (form requiring banks and credit unions by law to give you all the terms of any loan).
2. Make sure you can easily afford the one you choose (no more than 20% of your income for a car or 30% for a house).
3. Fill out the application.
4. The credit union or bank will check out your past history of payments, number of loans and credit cards you have, how much money you owe, and any past judgments against you.
5. They will judge you on the 3 C's of Credit.
6. They let you know by mail if you are confirmed. If you are you get a check, buy the car, and start making payments. (If you are denied the loan they are legally required to tell you why they denied you (Truth in Lending).

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a. **Based on this answer what should I be looking for in a car?**

2. How much can you afford to spend?

I can afford a total monthly payment for **all costs** of the car of about \$300 per month. I would like to pay as little in interest charges on a car loan as possible, so I do not want to enter into a long loan.

b. **What are all of the costs associated with the purchase of the car?**

c. **Why does the length of the loan mean I will have to pay more interest?**

3. How long do you need it to last?

I would like the car to last for at least five years. By that time I will be making more money and can afford to get another car. The car must last until I pay off the car loan used to by the car.

d. **How can I tell how long the car will last?**

4. What are the most important things about the quality of the car to you?

The most important things for me in order of importance is reliability (not going to break down), low price and lots of miles to the gallon of gas. The car should be easy to drive and take care of and safe, and should have some space for carrying things.

e. **List the priorities in order of importance below.**



1996 Toyota Corolla

Reliability (1=worst 5=best)	Price	Gas Mileage (city/highway)	Safety (1= worst 5=best)	Space
5	\$ 5,575	26/30	4	Seats 5 people

Here are some reviews from owners.

Owner 1

Pros

ENGINE AND TRANSMISSION LONGEVITY

Cons

Looks, power, handling... Multiple electrical gremlins... Oversensitive Toyota alarm that goes off too easy... Gas mileage is not as good as they say, not safe, interior is too small (5'11")

Overall Review:

This car will mechanically last forever, but accessory wise is the pits!!! And handling does not even qualify for second rate. Also I had a 2005 Corolla as a rental for 6 weeks and 1,700 miles... Toyota's handling is still not as good as its competition (VW). I also have a friend who owns a 2003 Camry... After these three Toyotas... Would never buy one!!!

Owner 2

Pros

Very dependable, good gas mileage, paint still looks good, almost everything still works. It actually does great off-road, doesn't die out on me when I get the engine wet. It accelerates well.

Cons

I had to replace the motor mounts at about 90K. The starter went out shortly after that. Some of the interior gadgetry seems a little cheap. The seat belt recoil springs quit working about 3 years ago.

Overall Review:

A lot of things about this 9 year-old car still seem new. The doors and windows work perfectly. The engine, with 140,000 miles, sounds and performs like it is still new. Hardly any oil consumption, no leaks. I will probably get another one of these if this one ever wears out.



1996 Honda Civic Hatchback

Reliability (1= worst 5= best)	Price	Gas Mileage (city/highway)	Safety (1= worst 5=best)	Space
5	\$6,500	29/36	4	Seats 5 people

Here are some reviews from owners.

Owner 1

Pros:

Very reliable, car is 11 years old and drives like new. I bought it in 98 with 30,000 miles it has 176,000 miles now and it still drives the same. Only minor maintenance was required (tires, brakes, oil changes). It is not a luxury car of course, but it's very comfortable, yet spartan. Gas mileage is great, air conditioning works well, sound system is decent. In short, everything in this car works the way it is supposed too. Trouble-free.

Cons

Well it is not a sports car and it can be slow sometimes, but I don't really care. I am not a fast driver.

Overall Review

Overall it is nothing special, but it is a great reliable transportation. If you are a car fanatic who demands extreme performance and handling well, why are you even reading this? The Civic is obviously not the car for you. But if you need an extremely reliable and comfortable car for daily driving, it can't get any better than this.

Owner 2

Pros

179,000 miles and only 750 dollars in repairs...minus the givens such as tire, brakes, and normal wear...great, reliable, economical car.

Cons

As it ages, most problems seem to be electrical...windows, locks, nothing that keeps it from on the road, just little annoying stuff.

Overall Review:

Wish the new civic was more like the 96-00. Why change a good thing?



1996 Hyundai Elantra

Reliability (1= worst 5= best)	Price	Gas Mileage (city/highway)	Safety (1= worst 5=best)	Space
4	\$3,800	23/31	3	Seats 5 people

Here are some reviews from owners.

Owner 1

Pros

Good gas mileage, handling, trouble free until-----

Cons

Hyundai's attitude. I had only 35,000 miles on car when transmission blew. Refused a warranty, since I was over by 1 month in "time." Low mileage did not count. It cost me \$1,200. Hyundai lied about its warranty, just as they advertise now. I told them that I was thinking of buying a new one, but since their answer, I am THROUGH WITH HYUNDAI. Have since found out that Hyundai's transmissions are a very weak point. I am buying a Toyota. Also, body is poorly built.

Overall Review

"FOLDS LIKE A CHEAP CAMERA." Not bad for a runaround car. Only plan to have it for a short period of time before major mechanical problems.

Owner 2

Pros

Totally dependable; have had this car almost 9 years. It has gone 174,000 miles (original engine, original clutch) and is still going strong (well, as strong as a 9 year-old 4-cylinder gets). I wrote a review almost 3 years ago and I still love this car. Best value for the money. The first rust that appeared on the car was due to a 2004 ice storm. I had to use a gardening shovel to chip around my door to get in and chipped the paint in a few spots.

Cons

Nothing except she keeps getting more and more miles on her! (Hoping she makes it to 250,000 or until Hyundai releases a hybrid.)

Overall Review:

Great car, great car company. We've always been treated well and fairly by every Hyundai dealership/service department we've been to (in three states). I have always been impressed by the attitude and treatment I've received. There is no other car company out there for me; this is my second Hyundai in 17 years and they've made a believer out of me.

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2. Make sure you can easily afford the one you choose (no more than 20% of your income for a car or 30% for a house).
3. Fill out the application.
4. The credit union or bank will check out your past history of payments, number of loans and credit cards you have, how much money you owe, and any past judgments against you etc.
5. They will judge you on the 3 C's of Credit.
6. They let you know by mail if you are confirmed. If you are you get a check, buy the car, and start making payments. (If you are denied the loan they are legally required to tell you why they denied you (Truth in Lending).

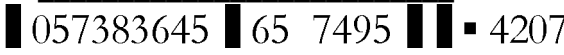
Make a Car Payment

Name _____

Date _____

Directions

Make this check out to the financial institution for the amount of the monthly car payment.
Then record the payment in the check register below to make sure you always know how much money you have in your checking account.

101	
Date _____	
PAY TO THE ORDER OF _____	\$
_____ DOLLARS	
Syracuse Cooperative Federal Credit Union	Eastside Office 723 Westcott Street Syracuse, NY 13210 Southside Office 401 South Avenue Syracuse, NY 13204
For _____	Signature _____
	

Check Number	Date	Description of Transaction	Payment/ Debit (-)		Fee	Deposit/ Credit (+)		Balance	
								0	00
	5/11	Paycheck				339	50	+339	50
								339	50
100	5/14	Groceries	50	00				-50	00
								289	50

