

Lesson 1: Buying a Car

Student Guide Pages: 148-150

Lesson Objectives: By the end of this lesson, your students should be able to:

- explain the ideal age of the car they should buy
- explain why the monthly car payment means nothing
- explain the downside of leasing
- list seven tips for buying a car

Lesson Summary:

When it comes to buying cars, the advice is simple to understand but difficult to follow. In three sentences, here it is:

1. Buy the cheapest car you feel safe in.
2. Pay cash.
3. Shop around.

The truth is that more people swindle *themselves* when shopping for a car than actually get swindled. Simply put, we now believe cars are a reflection of ourselves, so we want to buy something sharp. Don't fall for it! Safety and price, in that order, should be your focus.

Here are some other pointers:

- **Don't buy a new car.** Ideally, buy a car that is 2 to 5 years old. Studies show this is the sweet spot. A new car loses 25 percent of its value instantly, while cars older than 5 are often plagued with repairs, despite their low price.
- **Shop the car *and* the financing.** You don't have to get a loan from the dealer; you can get it from your bank or even a bank you have never used before.
- **Check the book value.** Visit www.kbb.com and www.edmunds.com, sites that list used car prices.
- **Find a senior citizen.** Retired seniors usually don't drive a lot, so they may have slightly older cars but with very low mileage, and they may be willing to sell.
- **The monthly payment means nothing.** What matters is the value of the car you are getting. Any salesperson can stretch out the monthly payments until the number works for you. Think in terms of the dealer's price compared to the book value.
- **Don't lease.** The way to get value out of a car is to buy a car that is 2 to 5 years old and drive it until it dies. Even when it dies, you can always sell it for something. With leasing, you never own the car. Leasing only appears cheaper because the salesperson tinkers with the monthly payments.

- **Buy on a Tuesday or Wednesday.** These tend to be the slowest days at dealerships, which means salespeople may be willing to bargain.

Review Questions:

- Is a car an appreciable or depreciable asset?
Answer: Depreciable, because the longer you own it, the less it is worth.
- Why is a senior citizen typically a good person to buy a car from?
Answer: Cars are priced in both age and mileage. An older vehicle will be offered at a lower price, but if it has low mileage, it will also last longer. Many retired people do not drive a lot, so they have these types of cars for sale.
- Cassandra looked at buying versus leasing, and buying seemed more expensive. Why?
Answer: Often, when leasing appears more attractive, the car salesperson assumes you are going to buy a new car every three years. This is expensive! Most people should own a car for seven to ten years. Ask the salesperson to run the numbers with that timeframe in mind, and things change.

Homework Assignment:

Have each student choose the car they want to buy, anything they desire, but warn the would-be Ferrari owners that their homework will be the toughest. Tell them to research the different ways to get it and write a summary of their research and their decision. They can visit the websites mentioned in this chapter, look at classified ads, and maybe even talk to a salesperson on the phone. They should compare leasing versus buying and buying new versus buying used. Help them get familiar with the process, because they'll eventually have to go through it, if they haven't already.

Class Activity:

As a class or in small groups, students should talk about the car they own or have previously owned, discussing where they found it, the price, and what they liked about it, etc.

Additional Information:

www.edmunds.com and **www.kbb.com**: These sites list the book value of used cars.

www.carfax.com: This site is an insurance database of accident information. All cars have a unique Vehicle Identification Number

(VIN). When a car is in an accident, the insurance company makes a note of the vehicle, the VIN, and the details of the damage. Carfax can tell you the accident history of a used car.

www.lendingtree.com: This website will teach you about available car loans. You can take this information to the car dealership.

Fun Facts:

Sam Walton, the founder of Walmart, drove a pick-up truck while he was the richest man in America.

Notes: _____

Car-Buying Checklist

- _____ Visit Kelly's Blue Book (www.kkb.com) or Edmunds Car Guides (www.edmunds.com) to determine the book value of the model you want. Also look in the classified ads for comparison numbers.

- _____ Visit www.lendingtree.com to search for car loan rates to compare to the salesperson's offer. Ask your bank for rates as well.

- _____ Visit www.creditkarma.com and print out your credit report and score to show to salespeople so they don't check your credit at every dealership.

- _____ Determine what you can afford based on the prices and rates you've seen. Whip out your zero-based budget and take a good look. If you cannot afford the car you want, make some lifestyle adjustments or look at cheaper vehicles.

- _____ Get preapproved by a bank, internet bank, or another lending institution. Allow lenders to examine your financial information and determine how much money you can afford to borrow. Use preapproval by one lender as negotiating power with other lenders, such as the car dealer.

- _____ Review the Negotiation Forms from this Guide in Part 5 Lesson 5.

- _____ Decide on the trade-in versus sell-it-yourself dilemma. If you trade in your old vehicle to the dealer, you won't get as much money as you might by selling it outright to someone else.

- _____ Check the vehicle on carfax.com for any damage or accidents.