LESSON PLAN

Road Rules: Researching and Buying a Car

Learning Objective(s):

- Understand the concept of creditworthiness
- Research consumer borrowing
- Compare various types of car loans and lenders

Target Group:

- **Grade 9 – Grade 11**

Lesson Excerpt:

Buying a car is one of the first major financial decisions that many teens and young adults face. While several considerations factor into this purchase, one of the most important is the buyer’s monthly payment, which is based on the car’s purchase price and terms of the loan. In this lesson, students will shop for a car virtually, evaluating various loan options and learning what it means to be “creditworthy.”

Essential Question *"How can I turn my dream of owning a car into reality?"*

Investigate: Dream Car

[Time Required: 5 minutes]

1. Begin by asking students about their dream cars. What would they drive if money were no object? Why? What factors go into purchasing a car besides price?

2. Next, tell students to imagine they have saved $500,000 toward the purchase of a car, an amount that can serve as a down payment. What steps do they think they should take next toward making their purchase?

Student Preparation

[Time Required: 15 minutes]

3. Distribute the Student Activity Sheet which outlines some of the next steps in the process. Then invite them to visit car auto sales sites to find the purchase prices of potential cars. Discuss the factors that go into this decision: if they select a vehicle that costs much more than $2,000,000, they will be in debt for longer (due to a loan). Other factors include gas mileage, new vs. used, depreciation, and matching a car to one's lifestyle.

Challenge: Understanding Car Loans

[Time Required: 15 minutes]

4. Ask students how a car that costs more than their $2,000,000 could be financed. Explain that buyers often take out loans from a bank to cover the remaining cost. Discuss how these loans will need to be repaid on a monthly basis, with interest.

5. Have students calculate what their monthly payment would be for each of the loans on the student activity sheet. How long would it take to repay the loan in order to own the car in full?

6. Invite students to share which loan they would choose and to explain their reasoning. Is it always better to choose the loan with the lowest interest rate? Why or why not?

7. Ask students whether they think they will automatically get the loan they want. Why or why not? Explain that banks choose to whom they will extend loans. What factors do students consider when lending something to a friend or family member? Responses may include trust, reliability, history of returning borrowed items in good shape and money to pay for something borrowed if it breaks.

8. Explain that this concept is known as **"creditworthiness"** and is an analysis made by a lender when deciding whether or not to lend money to a consumer. Talk about steps students can take to protect their credit now, including paying any bills on time.

Reflection

[Time Required: 10 minutes]

Invite students to reflect in their journals about the three most important factors to consider when buying a car. Why are these factors important? How has their thinking changed since the beginning of the lesson? Is their dream car the same or would they choose a different vehicle? Why?

Student Activity Sheet

Down payment, interest rate, loan term—the lingo involved with buying a car can seem overwhelming. Find out more about the car-buying process and terminology by following the steps below.

STEP 1: **Decide on a make and model.** Visit car auto dealerships websites to find the price of the car you would like to buy; then record it here.

Total purchase price: $

STEP 2: **Determine how much money you will need to borrow.** Subtract the money you have for a ***down payment*** (the amount you give to the dealer on the day of purchase) from the total purchase price. For this exercise, imagine you have saved $500,000 for a down payment. The resulting total is the loan principal; record that amount here and in the chart below.

Loan principle: $

STEP 3: **Get quotes from several lenders.** The term and interest rate of the loan will vary and both of these factors will affect your monthly payment. (For this exercise, pretend that you have received the rates below.)

STEP 4: **Calculate your monthly payments and total amounts paid.** Your monthly payment is your principal divided by the number of months in your loan term, and then multiplied by your interest rate. Next, multiply the monthly payment by the loan term to determine the total amount paid. Record your monthly payments and final amounts paid in the chart below.

Lender	Loan Principal	Loan Term	Interest Rate	Monthly Payment	Total Amount Paid
Scenario 1		36 months	6.75%		
Scenario 2		48 months	4.75%		
Scenario 3		48 months	5.99%		
Research your own					
Research your own					

STEP 5: **Decide which loan makes the most sense for you.** Which do you think is the best option above? Why?