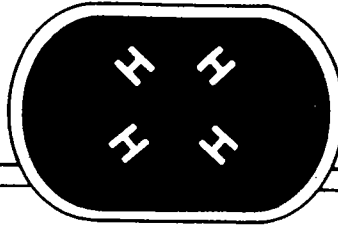
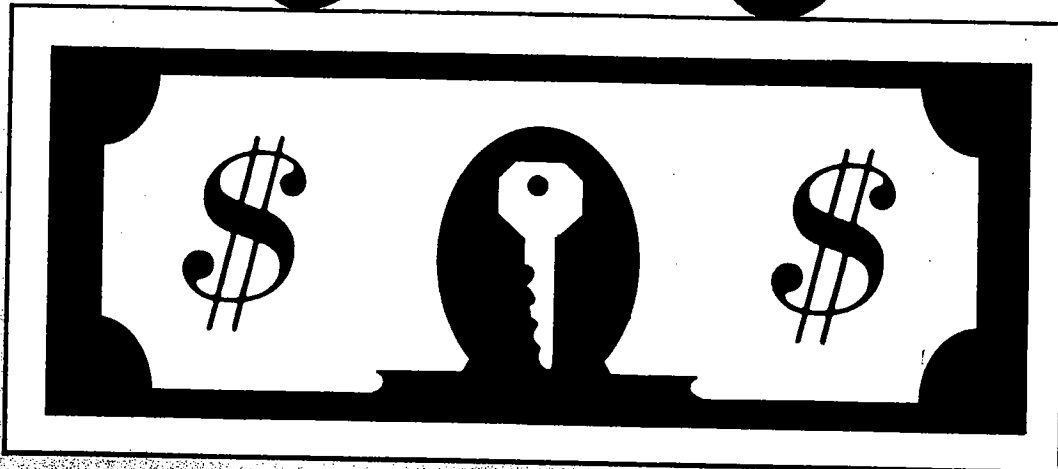
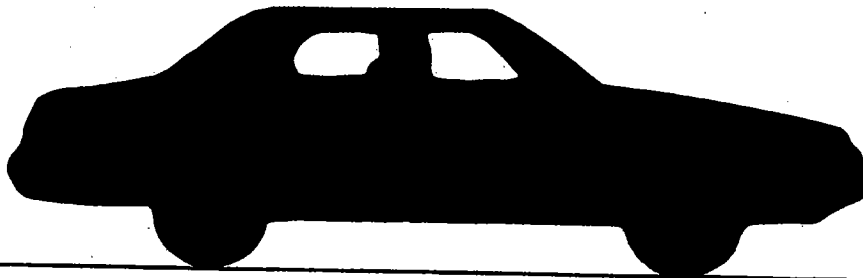


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YEARS IN PROJECT _____
YEARS IN 4-H _____



4-H AUTOMOTIVE PROJECT

BUYING YOUR FIRST CAR



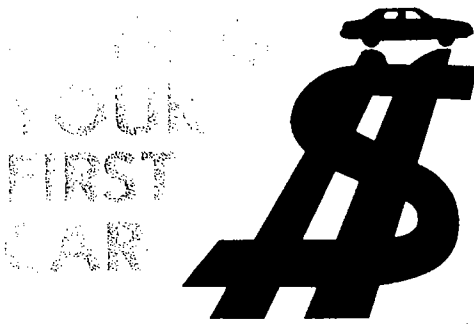


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1986

Introduction

Buying a car can be exciting. How often have you dreamed of owning your very first car? Once, twice, hundreds of times. Well you're like most teens. TV ads, car showrooms, popular magazines and the cars owned by your friends all are constant reminders of the "wheels" you'd like to have.

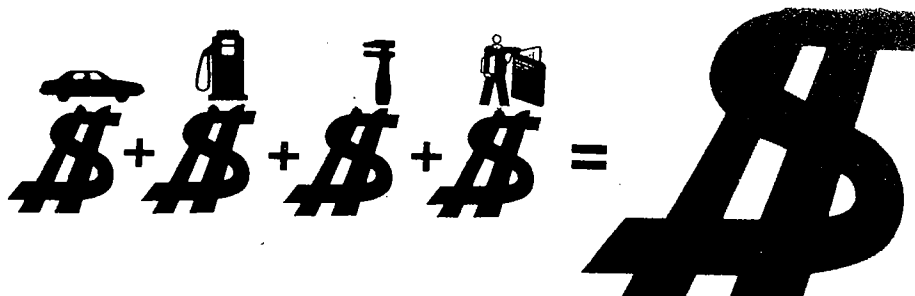
What would a car mean to you? They're a lot of things to different people—a source of pleasure, pride, status, and even basic transportation. In our society, cars are a necessity.

Yes, cars are all of these things and more. Cars are expensive to own and maintain. They can also cause tremendous frustration, be a pain in the neck and an inconvenience if you make a poor choice and buy a "lemon".

Each year millions of people compare, test and buy cars, some of which perform well and some badly. Some give pleasure and satisfaction while others require costly repairs. The degree to which people have

success or headaches as the result of purchasing a car usually relates to the care and detail they use in the selection process.

This project is designed to help you develop skills and strategies in buying a car that will give you the service, dependability and pleasure that you may expect for your hard earned money. Even if you are not intending to purchase a car in the near future, this project will be beneficial in preparing you for when you do.



Most people planning to buy a car for the first time immediately think of the purchase price and do not consider the expenses involved in operating and maintaining a car. In order to get a better picture of what a car is going to cost you, it is necessary to look at other costs that you will incur in addition to the purchase price of the car.

Operating expenses include gas, oil, insurance, local parking stickers,

property tax (some states), required safety or emission checks, and title and registration fees.

Maintenance costs include expenses involving the following: oil changes every 3,000 to 7,000 miles, including filters; tune-ups, including the costs of parts; tire replacement; brake checks and/or replacements; front end alignments (at least once a year); grease jobs; and dealer warranty-required checks (new cars). Other

costs may include air conditioner maintenance, flat tires, towing costs, belt and hose replacements, batteries and various emergency repairs or services.

In order to get a more complete picture of what a car would cost you to own and operate, use the following chart to figure the cost of owning and operating your family car, for at least one year.

Figuring the Cost of Owning and Operating a Car

Make and model of car _____

Year _____

	Totals
1. Total purchase cost of the car (including shipping and dealer preparation charges)	_____
2. Cost of a loan, if applicable (interest rate charges)	_____
3. Sales tax (state/local)	_____
4. Property tax (if applicable)	_____
5. Drivers license, title and registration	_____
6. Annual insurance cost	_____
7. Local registration or stickers	_____
8. Required safety/emission checks	_____
9. Gasoline	_____
Approximate yearly mileage _____	
Approximate gas mileage _____	

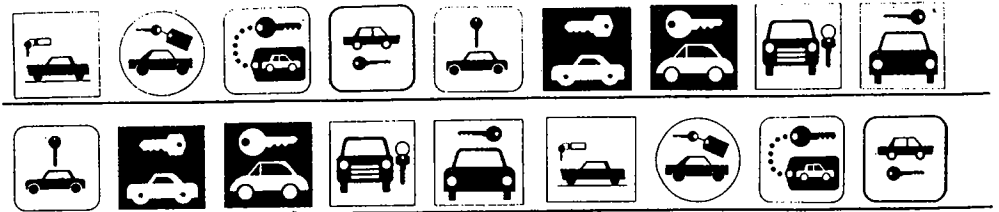
10. Oil changes (include the costs for oil, labor, oil and air filters, lubrication, etc.) _____
11. Tune-ups (include the costs for tune-ups and parts) _____
12. Tire purchases (if necessary) _____
13. Emergency expenses (flat tires, towing, etc.) _____
14. Brake checks, repairs _____
15. Other expenses (state) _____
16. Total Car Expenses _____
 - A. Number of Years Expected to Finance Your Car _____
 - B. Total Purchase Cost (add lines 1-3) _____
 - C. Annual Purchase Cost (divide line A into line B) _____
 - D. Annual Operating Costs (add lines 4-15) _____
 - E. Total Estimated Operating Costs (multiply line A x D) _____
17. Annual Cost of Owning & Operating a Car (add lines C & D) _____
18. Total Estimated Cost of Owning & Operating a Car (multiply above amount by line A) _____

NOTE: You may use the EPA estimate to figure yearly cost of gas. Divide the yearly mileage by the M.P.G. This will give you the approximate number of gallons of gas used. Multiply the number of gallons by the average cost of a gallon of gas to get the approximate cost of gasoline for a year.

Remember, operation and maintenance costs continue even after you have paid for the car. And these costs usually increase with the age of the car.

In order to determine your total for owning and operating a car, even after it's paid for, you must keep very accurate records each year. Add the total purchase price with the total

operation and maintenance costs, then divide by the number of years that you owned and operated the car.



Buying a car is more than kicking a few tires and satisfying one's visual appeal. You can't judge a car by its cover. Car dealers are in business to make money, so it's your job as the buyer to make sure you get a good deal. How do you do it? You study the facts.

Before you actually start looking for a car, there is some homework you can do to increase your chances of getting a car that will make you happy. This project will help to outline a process that will enable you to become a wise shopper. You will be provided steps to consider before

and during the process of purchasing a car. Follow-up activities are provided after each step to allow you to practice some of the skills you will need. Following these steps should help increase your chances of making a good buy.

STEP 1

Whether you buy a new or used car will probably depend on the amount of money you have to spend, but money should not be the only factor to consider. There is more to owning a car than the purchase

price. The expense of operating and maintaining a car must also be considered. Your personal needs, such as transportation to and from work, distance to be traveled, pleasure driv-

ing, climate, family size, etc., are elements that must be considered in choosing your dream vehicle. The following check-off sheet will help you to narrow your choices.

How much can you afford to spend? Purchase cost \$ _____

Can you afford a new or used car? _____ Monthly payments \$ _____

Probable Use (Percentage)

Work/School _____% Other Uses _____, _____%

Pleasure/Recreation _____% _____, _____%

Combined Family Use _____%

Seating Capacity Needs

_____ 2 Passenger _____ 4 Passenger _____ 5 or More Passenger

Engine Size

_____ 4 Cylinder _____ 6 Cylinder _____ 8 Cylinder _____ Gas Mileage

Type of Engine/Transmission

_____ Front-Wheel Drive _____ Rear-Wheel Drive _____ 4-Wheel Drive

_____ Manual Transmission _____ Automatic Transmission

Body Style

_____ Compact _____ Mid Size _____ Full Size
 _____ Sedan _____ Station Wagon _____ Sports Car
 _____ 2 Door _____ 4 Door _____ Hatchback
 _____ Van _____ Pick-up _____ Other _____

Accessories

_____ Radio AM/FM _____ Power Door Locks _____ Rear Window Defogger
 _____ Power Steering _____ Power Windows _____ Other _____
 _____ Power Brakes _____ Power Seats _____
 _____ Air Conditioning _____ Tape Player _____

STEP 2

At this point, you may have already decided which make and model of car you would like. If not,

refer to newspaper ads or visit car dealerships to compare similar makes

of cars with your desired equipment and options. Record the results here.

Car No. 1
Make _____ Cost _____

Car No. 2
Make _____ Cost _____

Car No. 3
Make _____ Cost _____

Car No. 4
Make _____ Cost _____

Car No. 5
Make _____ Cost _____

Car No. 6
Make _____ Cost _____

Use consumer information publications, such as Consumer Reports, to see what they say about the cars you have considered. Record major advantages and disadvantages:

Car No. 1
Comments:

Car No. 2
Comments:

Car No. 3
Comments:

Car No. 4
Comments:

Car No. 5
Comments:

Car No. 6
Comments:

STEP 3

There are a number of DO'S and DONT'S you must consider when you are purchasing a new car. They are:

DO

1. Read popular and consumer magazines which compare performance, manageability, service, gas mileage, etc.
2. Look at a lot of cars, makes and models that interest you.
3. Set aside a month of evenings and weekends to look and visit several dealers.
4. Go for a ride in the vehicle you are interested in. Test-drive the cars yourself.
5. Read the literature the dealer has available on the cars of interest to you. Take copies of the brochures home with you.
6. Ask questions about performance, reliability, warranties, gas mileage, features, etc. Compare dealer responses to the national statistics.
7. Decide what you want. Write it down on paper with all your specifications.
8. When you find the car you want,

check its features against your list of specifications. Is it what you *want* and can *afford*? Does it fit your needs?

9. Make a list of the features you would be willing to sacrifice if cost or availability warrants it.
10. When talking to the dealer about costs, make sure that the price includes everything that it takes to drive it out the door (taxes, license, dealer preparation, etc.).
11. Have the dealer explain the provisions of the warranties that come with the car; understand the limitations.
12. Make it a practice to look and go away. Go back and look again, if necessary. Give yourself some time to really think about the car and your decision. Above all, know what you can afford.
13. When you actually go to purchase a car, take along an experienced adult or parent. They can be helpful in negotiating and in completing documents and forms.
14. Keep your emotions out of making a transaction. Use common sense; be practical; and back

yourself up with facts and figures.

DON'TS

1. Don't get carried away with gleaming chrome and bright paint inside the showroom.
2. Don't let the salesperson talk you into features you don't need or want.
3. Don't be too quick to make the deal when the dealer quotes you an offer. Don't be afraid to tell him you want to think it over and come back.
4. Don't let the salesperson pressure you into making a deal. Tell him/her that you are just looking now and you plan to go to other dealers. A "best deal" purchase on the spot can turn out to be a bad purchase.
5. Don't settle for the window sticker price. Sticker prices give you an idea of what a car will cost. When you are ready to buy, you can then bargain for a better deal.
6. Don't sign anything until absolutely ready to make a purchase.

Follow-up Activity

Use the following form to list and rank the specifications of your dream car. Consider your needs as listed in the table on page 4.

Specifications for Your Dream Car			
Items to Consider	1st Choice	2nd Choice	3rd Choice
Make of car	_____	_____	_____
Model of car	_____	_____	_____
Transmission			
Manual	_____	_____	_____
Automatic	_____	_____	_____
Car Accessories (rank in priority order according to your needs)		Power Seats	_____
		AM/FM Stereo Radio	_____
Power Steering	_____	Cruise Control	_____
Power Brakes	_____	Body Trim/Moldings	_____
Tape Player	_____	Rust Protection	_____
Air Conditioning	_____	Other _____	_____
Power Windows/Door Locks	_____	_____	_____
Rear Window Defogger	_____	_____	_____

Buying Your First Car

Remember, car accessories are optional. They can increase or decrease the cost of a car. When you're looking around for a new car, you can start with the base price of a standard "stripped down" model and add accessories according to what you can afford. Your willingness to sacrifice some accessories may reduce the cost of a car. However, you may have to wait for the car to be ordered and shipped.

Remember, too, that cars on a dealer lot or showroom floor already have many accessories added and will be priced accordingly. And, naturally, salespersons want to sell what they already have in stock. So be careful! There's room for negotiation. But this is the time when salespersons want to "make you a deal."

STEP 4

There are times when good deals are easier to make. Car prices may be cheaper:

- Just before new models come out. Last year's models may be considerably cheaper. However, you must consider the drop in

depreciation that will occur when the new models come out.

- During winter months, especially during a snow storm, dealer business is slower and they are eager to sell more cars.
- At the end of the month; some

dealerships have monthly quotas for their sales people.

- When companies run sales and rebate offers. Some companies promote sales with contests among their dealers and during holiday and seasonal specials.

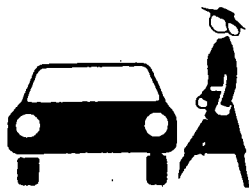
Follow-up Activity

Look and listen for newspaper, radio, TV, and other advertisements concerning car sales. Keep a record for one month. Record the following data.

Date _____
Dealership Placing the Ad _____
Type of Media Ad _____
(radio, TV, newspapers, etc.)
Regular Selling Price \$ _____
Sale Price \$ _____
Actual Difference in Price \$ _____

This activity will allow you to determine which dealerships give a real bargain. If you keep records for one year, you can determine the best months for buying a car.

How to Buy a Used Car



Depending on the make, model, body style and year of the car you want, you may be able to buy more for your money by shopping for used instead of new cars. But it takes a lot more knowledge and time to appraise a car that's been used rather than one that is new. And limited warranties usually accompany used cars.

Buying a used car involves most of the steps previously stated. However, used cars can vary greatly in quality and features. A good rule to remember when looking at used cars is, "The person that sold the car sold it for a reason." That reason may vary from just wanting to get a newer car or change models to getting rid of a real lemon. And you, as a consumer, may or may not be told the whole truth of the matter.

There are several things to remember when considering a used car. The following are some of the basic steps to take:

1. Know how much you have to spend or can afford.
2. Know what you want or would like.
3. Consider how long you plan to keep the car.
4. Have in mind your major use of a car.
5. Write down your specifications.
6. Check the classified ads for various models, years and prices.
7. Study consumer and automobile magazine reports.
8. List in priority order the options you want.

Where to Look for Used Cars

Generally you get less pressure or sales pitch from individual owners selling their cars. Often an individual can give you more information about the car, its maintenance record and general condition. Buying from a relative, friend or neighbor has advantages. You may know personally how the car has performed or been treated.

How to Appraise a Used Car

Some guidelines to consider when looking at a used car:

1. Inspect the car in daylight or in a well lighted garage.
2. Stand to the front, to the rear and then to the side so you can view the body. Check to see if the panels line up, and look for waviness in the sides which could indicate that body work has been done.
3. Examine inner fender panels to determine if the car was wrecked. Look for signs of welding or hammering when the outer fenders are in pretty fair shape.
4. Check for repainting. Look closely at emblems and other pieces of trim that show paint overspray.
5. Check for body work by tapping with your knuckles on various parts of fenders. Differences in sounds could indicate body work. Also, you can use a magnet, which will not stick to fiberglass body patchwork.
6. Look inside doors and fenders. A slight bubbling of the paint usually indicates rust possibilities.
7. Do the doors open easily?
8. Do all the windows go up and down easily?
9. Check the trunk for evidence of body work—on the inside of the rear fenders.
10. Check the general appearance of the trunk. Is it relatively clean? What does the spare tire look like? Is there a jack?
11. Check the car's interior. How does it smell? A moldy or musty smell may indicate a flood-damaged car. Dealers sometimes use a strong air freshener to cover flooded cars.
12. Does the interior look as though it has been cared for?
13. Check under the hood. Is the engine relatively clean? Is it spotless, or is it dusty with oil and grit? Sometimes an ultra clean engine indicates a prior steam cleaning to hide oil leaks.
14. Pull the oil filler cap and check for heavy deposits of sludge (a mud-like deposit). Use a flash light to check down into the filler opening. Even on high mileage cars the valve cover and engine should be free of a lot of sludge if the oil was changed regularly.
15. Pull the dipstick. Does it have any thick sludge on it? It should smell like oil not gasoline. Water droplets on the dipstick can mean problems, such as a blown head gasket, cracked block or a flood victim.
16. Check the air filter. Is it reasonably clean and not plugged up?
17. Ask the owner to start the engine with the hood up. Does the engine move a lot? Check for possible broken engine mounts.
18. Does the engine start easily and idle smoothly?
19. Check the exhaust pipe. Blue smoke while running usually means the car is burning some oil. This is expensive to correct. Black smoke usually indicates improper fuel mixture or need for a tune-up (not too costly to correct).
20. Is the engine loud? A ticking sound could mean a stuck valve or the need for a valve adjustment.
21. Accelerate the engine rapidly and quickly. A knocking sound during acceleration or deceleration could mean a bad rod bearing.
22. With automatic transmission cars, use the brake and move the selector lever through each possible selection. If the transmission is slow in shifting it may need servicing.
23. Check the transmission fluid level (usually in park or neutral). Is it low? If the color is brown instead of purplish red or if it smells burnt, the transmission is about to need service.
24. Check the undercarriage and the ground under the engine and transmission for evidence of oil leaks, especially after you have run the engine.
25. Check the tires. Uneven wear can indicate front end problems.
26. Check the exhaust system for leaks, cracks or excessive noise.
27. Check the inside of the rear wheels for possible brake fluid

leaks. Check the inside of front-wheel disk brake rotors for grooves or uneven brake wear. Check for thickness of front brake pads.

28. Do all lights and turn signals work?
29. Test drive the car and make the following checks:
 - a. Does the car run smoothly?
 - b. Run the car up to 50 MPH and then back it off by taking your foot completely off the accelerator. Check the rear view mirror. Is there blue smoke coming from the exhaust?
 - c. Does the steering seem firm? Are there any vibrations in the steering wheel?
 - d. Apply the brakes. Is there any pull to one side? Is there any grinding noise? Does the pedal feel firm or squeaky? Does the pedal return to the top of its travel?
 - e. Check heater, windshield wipers, air conditioning, door locks, safety belts, dash lights, etc.
 - f. When you return from the test ride, set the park brake and let

the engine idle. Lift the hood and remove the oil filler cap again. Does smoke pour from the opening? Excess smoke indicates a hot running engine or sludge-filled valve cover.

- g. Check engine sound again. It should not change from when first started. It could be a little quieter. More noise may indicate excessive engine wear.
- h. During the course of checking out the car, ask the owner questions such as:
 - Did the owner buy it new? How many people now drive the car? Has the engine ever been worked on? Does he/she service it themselves? If not, who does the service work? How many miles ago was the front end aligned? When was the last brake job done? What kind of gas mileage does the car get?

You can then check the owner's honesty with your observations. If you have any doubts, ask the owner

if you could have a mechanic check it out. And it would be helpful to talk with whomever has been servicing the car. If you decide that the car is acceptable to you and you agree to the price, before you hand over your money, you may want to check the following:

- Make sure the title is clear and transferable.
- Will the owner warrant the car in any way?
- Will the owner have the vehicle inspected (if an inspection is required in your state)?
- Are there any return policies? This is especially appropriate for a dealer purchase.

There are ways to hide defects in cars. Used car dealers are often masters of this disguise. You must become knowledgeable of what to look for and conduct a thorough check. Try to talk with people who may know or have serviced the car. The more you know, the better consumer you can be.

Follow-up Activity

Use this checklist to rate a used car that you may be interested in. Or, just for the practice, you may want to run the check on a car belonging to a friend, relative or family member, if the car is at least two years old. You may even want to answer an interesting classified ad in your newspaper.

For each item listed, indicate a (+) meaning good, a (-) meaning poor, or a (0) meaning fair. The starred items are critical.

Used Car Checklist

Body panels—body work, shape, paint overspray, body alignment

Lower body panels, rust or hidden rust-painted cover up

Truck (evidence of body work or damage)

Spare tire and jack present

Condition of spare tire

Lights work

(headlights, dashboard and interior lights)

(brake, tail, backup and license plate lights)

(turn signal and 4-way emergency flashers)

	+	0	-

Doors and window operation

Interior appearance—check for odor, stains, mold and cover up

Accessories work

windows

seats

radio and tape player

air conditioner

defroster/rear defogger

heater

washer and wiper

horn

	+	0	-



Insurance Requirements and Options

Some states require evidence of auto insurance (at least liability) before you get a car licensed. Other states have what is called financial responsibility laws. These laws state that drivers must be able to demonstrate that they can pay for the consequences if involved in an accident. Most people use insurance as the easiest way to meet that requirement. If you are going to own and operate a car, it is wise to have insurance, because if you are involved in an accident and it's your fault, you could be sued for property damage and personal injury if people are hurt in the accident. The costs could run into hundreds or thousands of dollars. So it's best to buy insurance.

There are several different types of coverage you can have on your car. Some are required by law; others are optional insurances for your personal protection.

Liability is the most common type of coverage. Many states require you to have a specific minimum amount of the coverage. Liability is divided into three amounts. Here is an example: **10/20/5** The first number refers to the amount of coverage in thousands of dollars for injury to one person. The second number refers to the amount of coverage in thousands of dollars for 2 or more people injured. The third number refers to the amount of coverage in thousands of dollars for property damage. Property damage coverage covers damage to the other person's car or other property such as fences, telephone poles, etc. Liability insurance only covers the other person if you are at fault. It will not pay for damages to your car. It does cover any legal costs if someone sues you as a result of an auto accident. Liability insurance is a must to protect you and your family from the claims of others stemming from an auto accident.

Collision coverage pays for the repair or replacement (of equal value) of your car if the accident is your fault or the other person

doesn't have money to pay for damages, even though it may be his or her fault. This type of insurance is usually available on a deductible basis, such as: \$50, \$100, \$200, \$250, \$500 deductible. This means that if you have damages to your car totaling \$1,000 and you have a \$250 deductible coverage, you would pay the first \$250 and the insurance company would pay \$750. Generally, the higher the deductible the lower the cost of the collision coverage.

Comprehensive insurance covers such hazards as fires, flood damage, broken glass, vandalism, tornado damage and theft of your car. In general, articles stolen out of a car would not be covered by auto insurance.

Non-insured Vehicles coverage covers you if you are injured by someone who does not have insurance and probably doesn't have the money to pay your claim either. It also covers you if you are the victim of a hit and run driver. Many states require this type of coverage. In some states this coverage is also referred to as uninsured motorist coverage.

Medical insurance pays for doctor and hospital bills up to the limit of the policy for each person in your car, if injured in an accident.

Towing and Emergency Road Service insurance pays for towing and roadside service charges if your car happens to break down or needs to be towed to a repair garage.

Cost of Auto Insurance

Auto insurance costs are determined by several factors:

1. **Where you live.** Cities with a lot of cars will have higher insurance costs.
2. **Your age.** Younger people have higher numbers of accidents, so their insurance costs are higher.
3. **The number of miles you drive in a year.** The more miles you drive, the higher the insurance cost is going to be.
4. **The type, age and value of your car.** More expensive cars will cost more to insure. Sports cars and high performance cars will be

higher. Newer cars will cost more to insure than older cars. The age of a car can also determine what type of coverage you should have on your car. For example, an insurance company will only pay you what your car is worth if it is damaged. So if a car is worth only \$500 it would not be wise to pay \$600 in collision coverage.

5. **School grades and driver education.** Many insurance companies offer discounts for good school grades and completion of high school driver education.
6. **Good driving records.** Many insurance companies offer cheaper rates if you keep a good driving record free from traffic violations and accidents.
7. **Sex.** Females have fewer accidents and have lower rates.
8. **The number of people driving a car.** Usually most insurance companies charge for additional drivers on a single policy.



Follow-up Activity

Study the insurance policy for your family car. Complete the following chart which indicates your family's coverage.

Family Car Insurance Policy

Car Make _____ Model _____ Year _____ Value of Car \$ _____

Insurance Coverage:

Liability - yes/no \$ _____ One person injured \$ _____ Two or more persons injured

\$ _____ Property damage Cost \$ _____

Collision - yes/no \$ _____ Amount of deductible Cost \$ _____

Comprehensive - yes/no (list coverage) _____
 _____ Cost \$ _____

Uninsured motorist - yes/no Cost \$ _____

Medical payment - yes/no \$ _____ Policy Amount Cost \$ _____

Emergency road service/towing - yes/no \$ _____ Limitations Cost \$ _____

Other options (list) _____ Cost \$ _____

_____ Cost \$ _____

TOTAL POLICY COST \$ _____

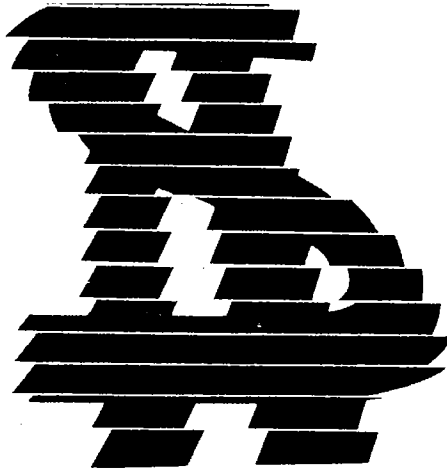
What to Do If You Have an Accident

Most insurance companies recommend several steps to take if you have an accident. These steps are:

1. Try to stay calm. Turn off the ignition.
2. If there are injuries, call an ambulance.
3. Notify the police and do not leave the scene of the accident. To leave could be called a hit-and-run—a criminal offense.
4. Exchange necessary information. From the driver of the other vehicle, you will need his or her name, address, telephone number, insurance company and policy number. This also is the only information you should give to the other driver. Do not discuss the accident or accept responsibility. Also, obtain the names, addresses and telephone numbers of all passengers (injured or not) and any witnesses.
5. Make notes that will help you remember exactly what has happened.
6. If you have a camera with you, take pictures of the vehicles and the area.
7. Direct traffic around the accident, move if necessary.
8. Report the accident to your insurance agent or your company as soon as possible.
9. Some states require you to file an accident report within a specific time.

Follow-up Activity

Make your own personal form that you can use in case you become involved in an accident. Leave blank spaces to fill in all the necessary information previously stated. Make several photocopies of your form and carry them in your car at all times.



There are many ways to finance a car. Some places where you can get a loan are banks, credit unions, savings and loans, commercial lenders, and car dealers and manufacturers. Buying a car with a loan will add more to the cost of your car. There are often many differences in loan costs, depending on where you get your loan. It pays to shop around. The amount of your car payments will depend on several things: 1) the amount you borrow; 2) the rate of interest the lender charges, and 3) the length of time you take to pay it off. (The longer the time the greater the cost.) Before you agree to a loan, make sure you know what you are agreeing to. Ask the lender to write down the terms of the loan or, better yet, give you a sample copy of their loan agreement contract. Have a parent or experienced adult review the terms with you.

Where to Get a Loan

Car Manufacturers. While some car dealers may offer a loan program which may result in the best deal, it's not the place to start your search for a loan. First, telephone several lenders in your area to check on their annual percentage rate (APR) for new car loans (or used car loans). Ask whether there are different rates depending upon the term of the loan (usually three or four years) or the size of the down payment you make. A shorter term or larger down payment may result in a lower rate because it reduces the lender's risk.

Banks. In addition to your regular bank, check at least two others. Some are much more interested in making loans than others, so calling around may uncover a bargain. Don't automatically assume that a bank will give you the best deal. Some banks discourage car loans and deliberately price auto loans higher

than competitors.

You may be offered a *variable rate loan*. This means that your loan can be increased or decreased depending on current interest rates. Your loan may be cheaper initially, but you are taking a chance on your payments increasing in coming years.

Savings and Loans companies now can offer auto loans. They are often trying to get new customers.

Credit Unions. If you are a member of a credit union be sure to check its going loan rate. Many times their rates are reasonable. If you are not a member, consider joining if its auto loan rate can benefit you.

Life Insurance. If you have a whole life insurance policy, borrowing against its cash value probably offers the best loan you can find. Rates on life insurance loans usually run between 5% and 8%. Your life insurance policy will tell you how much you can borrow and the interest rate on loans.

Dealers. Finally, check the dealerships that sell the kind of car you want. Dealers actually serve as middle men, writing loans that wind up at local banks or with finance companies, such as GMAC or Ford Motor Credit. Their loans can be reasonable or expensive. Shop around and compare costs.

Haggling over the price is a ritual of car shopping. Unlike most other products you may buy, cars don't carry a take it or leave it price tag, so the sharper your bargaining skills, the more likely you are to chip off more of the sticker price. The same kind of bargaining can pay off when it comes to the cost of the loan to pay for the car.

Car loans are big money items, so each point cut from the interest rate can save you money. A few points cut from the interest rate can save as much as hundreds of dollars off the

car price.

Beware of some loan offers. Some offers may be money savers; others may end up costing you much more. A common deception is the failure to tell you of restrictions, such as a "special rate" applying to only a few cars, makes or models; or a "special rate" applying only if the customer comes up with half the car price. In some deals the customer ends up paying more for cheap financing by forfeiting a cash discount or loading up the car with high-priced options. In many cases, cut rate loans are a come-on just to get you to the car dealer.

What Will the Loan Cost?

It is essential not to let your search for the best interest rate blind you to other parts of the deal. When you shop you have to consider and compare deals as complete packages: the price of the car, the trade-in amount, the APR on the loan, the required down payment, the size and term of the loan, the monthly payments, and the total finance charge.

Consider this example, which assumes you want to buy a \$12,000 car. Dealer A offers you \$4,500 for your trade-in and will finance the \$7,500 balance at the bargain rate of 12% for four years. Dealer B refuses to dip below 13.5% on the loan but is offering you \$5,000 for your old car. Which deal is better?

If you choose deal A, you pay \$1,980 in interest on the loan compared with \$2,097 on deal B. That's a savings of \$117 in interest on deal A. Nice, but not enough to make up for the \$500 lower price tag that comes with deal B. Overall, the bargain interest note would cost almost \$400. Be careful not to haggle yourself into that kind of deal.

The table below can be used to determine the monthly payments on 36- and 48-month auto loans at the interest rates shown. If you need a \$9,000 loan, for example, your monthly payments on a four-year note would be approximately \$237 (90 x \$2.63) at 12% APR and \$255 (90 x \$2.83) at 16% APR. (Rates have been rounded off for ease in

calculating.)

You can also use the table to determine how much you can afford to borrow at various interest rates. Once you have decided the size of the monthly payment you can fit into your budget, divide that amount by the figure shown for the term and interest rate you expect to use to finance the car. Multiply the result

by 100, and you'll have the maximum loan you can afford.

Assume, for example, that you set \$185 as your top monthly payment. For a four-year loan at 14%, the payment per \$100 borrowed is \$2.73. Dividing \$185 by that amount gives you \$67.76. Multiplying that by 100 tells you that you can borrow \$6,776 at 14% and stay within your budget.

Term	Annual Percentage Rate							
	9%	10%	11%	12%	13%	14%	15%	16%
3 years	\$3.18	\$3.23	\$3.27	\$3.32	\$3.37	\$3.42	\$3.47	\$3.52
4 years	\$2.49	\$2.54	\$2.58	\$2.63	\$2.68	\$2.73	\$2.78	\$2.83

You will probably purchase several cars during your lifetime. Therefore, it will be to your benefit to master the art of buying a car. Besides,

looking and going through the process can be an enjoyable and rewarding experience if you know what you are doing. This project will give you

a head start in that process. It can also serve as a guide for future car purchases.

Follow-up Activity

Contact four different auto loan agencies in your area (banks, savings and loans, credit unions, car dealers) and record the following loan information for each. Which agency is cheapest in your area?

Cost of an Auto Loan

Agency Name _____

Amount being financed \$ _____

Type of loan _____ fixed rate; _____ variable rate

Number of months financed _____ months

Annual interest rate

(new car) _____ %; amount interest on loan \$ _____

(used car) _____ %; amount interest on loan \$ _____

Credit life insurance required - yes/no \$ _____

Credit check fee - yes/no \$ _____

Total Cost of Loan \$ _____

Monthly Payment Cost \$ _____

