Unit 04 Cars and Loans

If GM had kept up with technology like the computer industry has, we would all be driving $25 cars that got 1,000 MPG.

Bill Gates

Overview

Buying a car is like jumping into a lake. Without some planning and research into what you might encounter, you could be in too deep before you know it.
Should I buy or lease a car? Should I buy a new car or a used car? Where is the best place to finance my car purchase? Should I reduce my "environmental footprint" by using public transit or auto share?
Relax. You're going to be prepared. If you take the car-buying process one step at a time and do a little homework, the water will be fine.

Goal

To investigate the financial responsibilities of buying, leasing, maintaining, insuring, and operating a car, and translate those responsibilities into a monthly budget.

Time Frame

Four 75-minute periods

Lesson 02.04.01
Costs of owning and operating a car

Lesson 02.04.02
Shopping for a car

Lesson 02.04.03
Deciding on the right purchase for you

Lesson 02.04.04
Car insurance and warranties

End-of-unit quiz and answer sheet
Each lesson includes black-line print masters for overheads and activities.

Lesson 01
Costs of owning and operating a car .01

Overview

Before you get too excited about how much you can afford and start looking at the fanciest sports cars or most luxurious sedans, remember that your expenses will include not only your car payment, but also your insurance, gas, maintenance, and other miscellaneous costs associated with operating a vehicle. As a general rule, the more expensive the car, the more it costs to insure and maintain it.

In this lesson, students are asked to identify costs associated with owning and operating a motor vehicle and investigate the financial alternative of leasing.

Goal
To investigate the financial responsibilities of buying, leasing, maintaining, insuring and operating a car and translate those responsibilities into a monthly budget.

Objectives
Identify the costs associated with owning and operating a car.
Estimate various costs associated with owning and operating a vehicle.
Understand the concepts related to leasing a vehicle.
Demonstrate an understanding of the things you should research and decisions you should make before you begin to shop for a car.

Timeline
Class discussion	30 minutes
Student activity	45 minutes

Instructions
Classroom Discussion
Ask if there are students in the class who already have their own car. These students will be very helpful to call on during the discussion.
Discuss and list as a large group the cost of owning a car and the costs of operating a car before you show the students Overhead A. Using the overhead explain all items on the list from depreciation to service contracts.
Discuss with students the factors that influence the selection of a motor vehicle. Use Overhead B, Real cost of operating a car to demonstrate the different costs based on different vehicles.
Discuss the cost advantages of operating a hybrid vehicle or a smart car and the benefits to the environment. This is a good time to discuss the need for a vehicle depending on where you live (city, rural). Have students go to **www.oee.nrcan.gc.ca** and check out "Top 10 Tips for Safe Fuel-efficient Driving" and the "Fuel Efficient Vehicles of the Year," (Note the litre/100km. and the CO^2 emissions/yr. depending on the vehicle).
Using Overhead C, Leasing a car, and overheads D and E, Monthly lease payment formula, explain what a lease is, the advantages and disadvantages of leasing a vehicle and how to calculate the monthly payment. Give students a number of different scenarios to practice calculating monthly lease payments using the formula given on Overhead E.

Student Activity
Have students use the Internet or newspaper to find a vehicle they would like to purchase that would fit into their budget now or when they go to work.
Using Activity A, The operating costs of a car, have students estimate various costs associated with owning and operating the vehicle. The students can use an on-line car loan calculator (like the one at **www.practicalmoneyskills.ca**) to determine the annual interest on a car loan. Use the car loan calculator at **www.canadian driver.com/tools /loan.htm** to see the effect of a down payment on the cost of the loan.
At this point you can give them an estimated figure for annual insurance costs based on males and females between the ages of 16 and 19. To determine the average price per litre, check on-line. The average Canadian drives 18,000 km per year. The Canadian Automobile Association estimates it costs $8,000 to $14,725 each year to own and operate a car in Canada.
Have students investigate the "Additional Web resources" suggested below and in a paragraph for each in their notebook explain what they discovered.

Teacher Notes
Contact an automobile insurance broker to obtain an estimated annual insurance cost for a male and female between the ages of 16 and 19.
Contact Transport Canada to determine the license and registration fees.
Prepare a number of different scenarios for students to practice buying a car if it is financed over 5 years. and then sold or traded in.
Visit a local car show or dealership.

Required Materials
Overhead A, The cost of owning and operating a car
Overhead B, Real cost of operating a car
Overhead C, Leasing a car
Overhead D, Monthly lease payment
Overhead E, Formula + Calculation
Activity A, The operating costs of a car

Assessment and Evaluation
Participation in classroom discussions—communication mark.
Evaluation of Activity A.

Supplemental Activities
Consider inviting the following to class to discuss buying a vehicle with the students:
- Bank loans officer
- Auto insurance broker
- Dealership sales representative

Check out the ownership costs and operating cost of a hybrid vehicle.
Go to **www.practicalmoneyskill.ca**—select: student, select: life events, select: buying a car.

Additional Web Resources

Canadian Driver
www.canadiandriver.com/tools/loan.htm
Automobile Protection Association
www.apa.ca
Auto Trader.ca
www.autotrader.ca
Canadian Automobile Association
www.caa.ca
Search: driving costs
Select: driving costs brochure
Government of Canada—Office of Energy Efficiency
www.oee.nrcan.gc.ca

Overhead A

The cost of owning and operating a car

Ownership (fixed) costs

- Insurance
- Service contract (if purchased)
- Interest on loan (if buying on credit)
- Registration fee, license, taxes, GST
- Depreciation (based on purchase price)

Operating (variable) costs

- Tires
- Tickets
- Gasoline
- Parking and tolls
- Oil and other fluids
- Maintenance and repairs

Overhead B

Real cost of operating a car

02.04.01

Ownership costs include insurance, finance charges, license, registration, taxes, and depreciation.

Operating costs include gas, oil, tires, and maintenance.

DIFFERENT VEHICLES—DIFFERENT COSTS					
Cost	Subcompact	Compact	Mid-size	Minivan	Full-size
Per year	$ 8,400.48	$ 8,870.20	$ 10,480.78	$9,452.34	$13,108.68
Per day	$23.01	$24.30	$28.71	$25.89	$35.91

Notes

(1) **The above figures are based on a provincial average to account for the fact that it costs more to operate a vehicle in some areas of the country than in others. These include ownership and operating costs.**

(2) **The operating costs are based on 24,000 km driven annually, approximately 15.9¢/km or 29% of the total costs.**

overhead C

Overhead C
Leasing a car

Advantages

- Smaller initial outlay than down payment when buying on credit
- A lower monthly payment than you would pay on a loan for the same vehicle
- You pay tax only on the monthly payment rather than up front on the full price of the vehicle
- The opportunity to drive a new vehicle more often
- The comfort of knowing your vehicle is under warranty for all or nearly all of the ownership period
- Options at lease end (return the vehicle, buy the vehicle if your lease has a purchase option, or let the leasing company sell it)
- You avoid tying up your money in a vehicle

Disadvantages

- No ownership interest in the vehicle
- Must meet requirements similar to applying for credit
- Additional costs occur (such as penalties for extra kilometres over the limit, certain repairs, penalties for ending lease early)

Here are some questions you should ask yourself in considering the loan or lease question.

- Can I afford to pay cash or carry the monthly payments of a loan?
  If no, then leasing may be an option. But remember, paying cash or short-term borrowing is always cheaper than a lease.
- Do I typically keep my vehicle for more than five years?
  If yes, then leasing is likely not a good idea unless you just cannot afford the monthly loan payment.
- Do I drive a lot?
  Most consumers in Canada drive 20,000 to 25,000 km per year. If you drive a lot more than this, then leasing can get quite expensive because of the excess kilometre charges.

Overhead D

Monthly lease payment

Car Lease
Leasing is a method of financing that only pays for a portion of a vehicle's value. Leasing is an alternative to financing a vehicle's total value. Lease payments, which are based on a vehicle's expected depreciation, are significantly lower than loan payments. Vehicles that depreciate at a slower rate make the best lease deals. The lease is actually a loan for the amount of the depreciation.

Your monthly payment is determined by the total price of the vehicle minus your trade-in minus your down payment, minus what they expect to be able to sell the car for at the end of your lease. That number is then divided by the number of months in the term of the lease. Then they add a finance charge and a profit margin.

Always negotiate the price of the vehicle first before you discuss monthly payments. The lower the price you negotiate the lower the monthly payment.

Definitions of Terms

Negotiated price—the price you agreed to pay for the vehicle

Trade-in value—the price the dealership agreed to give you for your old vehicle

Net capital cost—Negotiated price minus trade-in value minus down payment

Residual value—the predicted lease-end value of a vehicle, how much of a vehicle's original value (sticker price; not selling price) will remain after the vehicle has aged and been driven for a specified period of time and a specified number of miles. Simply put, what the vehicle is worth at the end of the lease. (For our calculation we can assume a 45% residual value at the end of a 48-month lease and a 50% residual value at the end of a 36-month lease.)

Money factor—interest rate divided by 2400

Interest rate—the negotiated interest rate for the lease (example 3.3%)

Down payment—the amount of money you put down on the vehicle at time of purchase (amount required will depend on customer's credit rating)

Depreciation—the steady reduction in a vehicle's value as the vehicle gets older and as more miles are driven

Finance fee—what you pay to borrow the amount that represents the amount of the depreciation

Term—number of months in the lease

Overhead E
Formula + calculation

02.04.01

Formula

Lease payment = Depreciation fee + Finance fee + Sales tax

Depreciation fee = Net capital cost – Residual / Months in the lease

Finance fee = Net capital cost + Residual x Money factor

Example

Negotiated Price	=	*$18,872*
Trade-in	=	*$2,000*
Down payment	=	$1,000
NET CAPITAL COST	**=**	**$15,872**

Residual value = $8,446 Term of lease = 48 months

Money Factor (interest rate / 2400) = .0013750
Interest Rate = 3.3%

Lease calculation

Depreciation Fee = Net capital cost – Residual /48
= $15,872 – $8,446 / 48
= $154.71

Finance Fee = Net capital cost + Residual value x Money factor
= $15,872 + $8,446 x .0013750
= $33.44

Sales tax (GST & PST) = (Depreciation fee + Finance fee) x .13
= $24.46

Lease payment = Depreciation fee + Finance fee + Sales tax
= $154.71 + $33.44 + $24.46
= $212.61 per month

If the dealership comes up with a different monthly payment, you better ask why. Remember: always negotiate the price of the vehicle first before you discuss monthly payments.

activity A

Activity A
The operating costs of a car

02.04.01

name: ____________________ date: ____________________

Model year ____________________

Make, size, model ____________________

Fixed costs

Depreciation—Purchase price $ __________
divided by estimated life ______ years $ __________

Annual interest on car loan (if applicable) $ __________

Annual insurance costs $ __________

License, registration, taxes $ __________

Variable costs

Gasoline—estimated kilometres per year __________
divided by ______ km/litre times
the average price of ______ per litre $ __________

Oil changes for the year $ __________

Tires $ __________

Maintenance, repairs $ __________

Parking and tolls $ __________

Total costs $ __________

Divided by kilometres per year

Equals Cost per kilometre $ __________

Part 2...

Based on business visits, phone calls, advertisements, and the Internet, obtain information for the cost of (a) an oil change, (b) a tune-up, (c) new brakes, (d) tires.

Lesson 02
Shopping for a car
.02

Overview

There's no sense getting all worked up about a car you can't afford. So save yourself some disappointment and figure out a payment amount you can handle before you start looking.

Start with your budget. How much room is there in your budget? Could you, for example, fit an extra $200 a month in your budget without strapping yourself too much or eliminating your savings? If so, can you fit an extra $300 a month in your budget? No? How about $250? Continue that process until you have a general idea of how much extra room you have in your budget. That's how much you can afford to pay for a car every month.

Goals
Provide the information necessary to help students make responsible, affordable decisions when buying a vehicle.

Objectives
Given a budget, decide how much money can safely be spent each month to own, operate, and maintain a car.

Timeline

Class discussion	30 minutes
Demonstration (car loan calculator)	10 minutes
Student activity	35 minutes

Instructions
Classroom Discussion
The first thing to consider when buying a car is how much can you afford. Using Overhead A, How much can you afford, discuss the 20–10 guideline. Discuss Overhead B, Shopping for a car loan; Overhead C, How to calculate the total cost of a loan.
Teacher can demonstrate the use of an on-line "car loan calculator."

Student Activity
Using the scenarios provided in activities A and B, have students decide how much can be spent safely each month to own, operate, and maintain a car. After completing the budget worksheets, answer the questions for each scenario. Use a loan calculator to help you recommend how much can be spent on a vehicle in each case. Keep in mind the 20–10 guideline. GOOGLE "car loan calculator" or use Overhead C to calculate, in each case, "Total Cost of Loan," "Monthly Payment," and "Total Amount Financed."

Teacher Notes
By showing students how to use an on-line "car loan calculator," you can very nicely demonstrate the effect of different down payments, interest rates, and lengths of the loan, on monthly payments, total finance charge and total to be repaid.
After students have completed the activity, a number of students can share with the class their recommendations for Scenario 1 and Scenario 2 from Activity A.

Required Materials
Overhead A, How much can you afford?
(the 20–10 guideline)
Overhead B, Shopping for a car loan
Overhead C, How to calculate the total cost of a loan
Activity A, How much should you spend? (four pages)
Activity B, Shopping for a car loan.

Assessment and Evaluation:
Notebook check for completion of Activity A.

Supplemental Activities
Activity B, Shopping for a car loan, is an excellent enrichment activity. Have a few students complete the assignment by going to a number of financial institutions in the community and reporting back to the class. Alternatively have the students complete the assignment by going on-line.

Go to **www.practicalmoneyskills.ca** and read about buying a car.
Select: Consumer
Select: Life Events
Select: Buying a Car

Additional Web Resources

Car Buying Tips.com
www.carbuyingtips.com

Insurance Institute for Highway Safety
www.carsafety.org

Canadian Driver
www.canadiandriver.com

Overhead A

How much can you afford? (the 20–10 guideline)

Never borrow more than 20% of your yearly net income

- **If you earn $3,000 a month after taxes, then your net income in one year is.**

  12 x $3,000 = $36,000

- **Calculate 20% of your annual net income to find your safe debt load.**

  $36,000 x 20% = $7,200

- **So, you should never have more than $7,200 of debt outstanding.**

- **Note: Housing debt (e.g., mortgage payments) should not be counted as part of the 20%.**

Monthly payments shouldn't exceed 10% of your monthly net income.

- **If your take-home pay is $3,000 a month**

  $3,000 x 10% = $300

- **Your total monthly debt payments shouldn't total more than $300 per month.**

overhead B

Overhead B
Shopping for a car loan

Variables include

- Annual percentage rate (APR)
- Length of the loan
- Monthly payments
- Total finance charge
- Total to be repaid

Example of how loans can vary

- Borrowing $8,000 at different rates

APR	Length of loan	Total monthly payment	Total finance charge	To be repaid
10.00%	36 months	$258.14	$1,292.94	$9,292.94
	60 months	$169.98	$2,198.52	$10,198.52
12.25%	36 months	$266.67	$1,600.15	$9,600.15
	60 months	$178.97	$2,738.03	$9,703.87
13.00%	36 months	$269.55	$1,703.87	$9,703.87
	60 months	$182.02	$2,921.58	$10,921.58

Overhead C

How to calculate the total cost of a loan

To estimate the total cost of financing a loan

- **Amount of the loan x APR x number of years***
    - **Example:**

      $10,000 x 0.10 x 5 years = $5,000

To estimate the amount of monthly payments

- **Total to be paid divided by number of months of the loan***
    - **Example:**

      $15,000 / 60 = $250 per month

*** These formulas produce estimates that are slightly higher than your actual costs and payments because they do not account for the reduction of interest payments as you repay the loan.**

Activity A
How much should you spend?

name: date:

Scenario 1

Manuel wants to buy a car. But before he goes shopping, he wants to know exactly how much he can afford to spend each month on owning, operating, and maintaining a car.

Manuel's net monthly income is $2,560. His fixed expenses are

- $700 for rent

His flexible monthly expenses are

- $150 for savings
- $50 for utilities
- $350 for food
- $70 for transportation (bus fare)
- $300 for tuition and books
- $80 for entertainment
- $40 for personal items
- $58 for household items

If Manuel gets a car, he expects to spend about $120 a month on gas and oil, and about $60 on parking and bridge tolls.

Manuel needs to have car insurance. He has shopped around and expects that a car insurance premium for the type and year of car he wants will cost about $325 a month.

Use the attached budget sheet to complete the following chart and answer the following questions.

Activity A
How much should you spend? (continued)

name: ______________________ date: ______________________

Scenario 2

Rose is thinking about buying a car. She has $1,000 saved for a down payment. Before she goes shopping, she wants to know how much she can afford to spend each month on a car.

Rose brings home $1,252 each month from her first job, and $1,348 from her second job.

Her fixed expenses include:

- $500 for rent
- $74 for a credit payment on some furniture she bought several months ago

Her flexible monthly expenses are:

- $200 for savings
- $40 for telephone
- $350 for food
- $90 for transportation (bus fare)
- $400 for tuition
- $40 for school supplies
- $80 for clothing
- $80 for entertainment
- $40 for household supplies
- $65 for personal items

If Rose gets a car, she expects to spend about $80 a month on gas and oil, and about $40 on parking and bridge tolls.

If Rose gets a car, she will need car insurance. She has done some research and she expects her car insurance premium to be about $210 a month.

Using the attached budget sheet and the computer-based activity “Comparing the True Cost of Loans,” complete the following chart. Then, answer the questions that follow.

Activity A
How much should you spend? (continued)

name: date:

Budget Questions

Income	scenario	how you'd do it	difference
Job #1	$	$	$
Job #2	$	$	$
Other	$	$	$
Total Income	$	$	$
Fixed expenses			
Savings	$	$	$
Rent	$	$	$
Car insurance	$	$	$
Installment payments			
Car loan payment	$	$	$
Credit card 1	$	$	$
Credit card 2	$	$	$
Total installment debt	$	$	$
Percentage of net income	$	$	$
Flexible expenses			
Food/Eating out	$	$	$
Utilities	$	$	$
Transportation	$	$	$
Bus fare	$	$	$
Gas and oil	$	$	$
Parking and tolls	$	$	$
Repairs	$	$	$
Tuition/School expenses	$	$	$
Clothing	$	$	$
Entertainment	$	$	$
Household items	$	$	$
Personal items (toothpaste, etc.)	$	$	$
Other	$	$	$
Total Monthly Expenses	$	$	$
Total income less Total expenses	$	$	$

Activity A
How much should you spend? (continued)

name: ______________________ date: ______________________

Budget Questions

How much would you recommend spending on a car? Try a number of situations before you decide. Use the loan calculator at www.canadiandriver.com/tools/loan.htm or type into GOOGLE "car loan calculator" or use Overhead C to calculate, in each case, "Total Cost of Loan," "Monthly Payment," and "Total Amount Financed."

Loan Calculator		Results	
Purchase price	________	Total amount financed	________
Loan term	________	Total interest paid	________
Interest rate %	________	GST total amount	________
Province	________	PST/HST amount	________
		Total cost of loan	________
		Monthly payment	________

1. What is the most you could spend on a vehicle based on the budget?

2. What would you recommend spending on a vehicle based on the budget?

3. What are the terms of the loan that would allow buying a vehicle and still staying within the budget?

4. What were the main differences between the budget you set up using the income and expenses and the budget that was provided?

activity B

Activity B
Shopping for a car loan

02.04.02

name: ______________________________ date: ______________________

Amount of loan $ ______________________

Financial institution or dealership					
APR					
Length of loan					
Monthly payment					
Total finance charge					
Total to be repaid					

Pretend that you have decided to purchase a new car. Select the model you would like and find out what it costs. Then, shop around for the best car loan terms. Try several different institutions, such as a bank, a credit union, and car dealerships. When you have finished, look at your chart. Which loan would you take? What features make it more appealing than the others? Which institutions offered the best rates, and why do you think they did so?

Lesson 03
Deciding on the right purchase for you .03

Overview

What actions should a person take when buying a vehicle?

Start searching for a vehicle according to what you need. Once you've found several choices that match with your requirements, narrow down your choices according to what you want. For example, you might need room for transporting your snowboard or camping equipment and a price that fits your budget. You also want a car that looks cool and is fun to drive.

Goals
To provide the student with an understanding of the decisions involved in purchasing a vehicle.
To help students become educated consumers when planning and negotiating the purchase of a vehicle.

Objectives
Identify the decisions related to buying a vehicle.
Compare the different shopping decisions related to buying a used vehicle versus a new vehicle.

Timeline

Class discussion	20 minutes
Student activity	55 minutes

Instructions
Classroom Discussion
Discuss as a large group the concept of needs and wants and deciding to spend your money using Overhead A, Consumer decision-making. Discuss deciding on the right purchase, reviewing decisions on quality, services, repairs, new, used, affect on the environment, etc.
Using Overhead B, Shopping for a used car, discuss with the students things you should consider before you begin shopping and as you shop.
Review with the students Overhead C, Sources of used cars, and Overhead D, Shopping for a new car.
Activity
Have students develop a personal scenario where they are buying or leasing a new or used vehicle and already own a vehicle they will have to get rid of. The student will do the following: determine how much they can afford, determine the monthly lease or loan payment, determine the value of their vehicle independent of a dealer's trade-in offer, decide if they will trade-in their old vehicle or sell it privately, research the reliability of the model, determine if repair facilities and parts are readily available, and determine the reputation of the source of the vehicle. Also find out what type of warranty and service contract comes with the vehicle.
If you don't know much about car prices, you'll need a price guide. A good bet is the Kelley Blue Book **www.kbb.com**.
Consumer Reports publishes an issue related to reliability of vehicles. **www.consumerreports.org**.
APA (Automobile Protection Association) **www.apa.ca** provides information about vehicle defects, new vehicle dealer ratings, class actions, etc. An excellent source of information for the assignment.
Industry Canada has a handy on-line tool that can help you make up your mind. Go to **www.ic.gc.ca** and type into the search tool, "vehicle lease or buy calculator."

Teacher Notes
After the activity, students could pair-and-share the results of the activity.

For the activity have students use the monthly lease payment formula from lesson one or a car loan calculator to determine monthly payment required.

Required Materials
Overhead A, Consumer decision-making
Overhead B, Shopping for a used car
Overhead C, Sources of used cars
Overhead D, Shopping for a new car

Assessment and Evaluation
Participation in classroom discussions—communication mark.
Evaluation of activity.

Supplemental Activities
Have a dealership salesperson come into the class and role-play with the teacher the negotiations related to the purchase of a vehicle.

As an enrichment activity have students go to **www.practicalmoneyskills.ca**
Select: Consumer
Select: Life events
Select: Buying a Car, Scoring a Good Deal

Additional Web Resources

Kelley Blue Book
www.kbb.com

ConsumerReports.org
www.consumerreports.org

Automobile Protection Association
www.apa.ca

Autotrader.ca
www.autotrader.ca

overhead A

Overhead A
Consumer decision-making

02.04.03

Deciding to spend your money

- Do I really need this item?
- Is it worth the time I spend making the money to buy it?
- Is there a better use for my money right now?

Deciding on the right purchase

- What level of quality do I want (low, medium, or high)?
- What level of quality do I need?
- What types of services and repairs does the dealer offer?
- Should I wait until there is a sale on the type of car I want?
- Should I buy a new or a used car?
- If I buy a used car, should I buy it from a dealer or from a private party?
- Should I choose a car with a well-known name even if it costs more?
- Do I know anyone who owns the type of car I want?
- Are the warranty and the service contracts on the car comparable with warranties and service contracts on similar cars?
- What do consumer magazines say about the type of car I want?
- Should I consider the effect the vehicle has on the environment?

Overhead B

Shopping for a used car

Before you begin shopping

- Decide how much you can afford to spend.
- Decide which car models and options interest you.
- Research the reliability of the model of car you want.
- Find out where the nearest repair facility is that works on the type of car you want.
- Find out whether parts are readily available for the type of car you want. Find recent prices in used-car “blue books” in the library, on the Internet, in newspaper ads, consumer magazines, etc.
- Shop for financing.
- Factor in the costs of the loan and the cost of maintenance.
- Know how to read a “Buyer’s Guide” sticker.

As you shop

- Find out the reputation of the dealer.
- Find out what type of warranty comes with the car.
- Find out what type of service contract comes with the car.

overhead C

Overhead C

Sources of used cars

02.04.03

New-car dealers

Provide quality used vehicles; service department available; higher prices than other sources

Used-car dealers

Specialize in previously owned vehicles; limited warranty (if any); vehicles may be in poor condition

Private parties

May be a good buy if vehicle was well maintained; few consumer protection regulations apply to private party sales

Other sources

Such as auctions or sales by government agencies, auto rental companies, and on the Internet; most of these vehicles have been driven many kilometres

Overhead D
Shopping for a new car

Before you begin shopping

- Decide which car model and specific options you want.
- Find out the invoice price and the true cost to the dealer of the model and options you want.
- Decide how much you are willing to pay the dealer above the invoice price.
- Make your offer to as many dealers as possible.
- Compare final sales prices with other dealers and buying services.
- Compare financing costs from various sources.
- If you already have a car, find out its value independent of the dealer's trade-in offer.
- Try to sell your old car yourself (dealers usually give better deals without a trade-in).
- Decide whether you need an optional service contract or credit insurance.

Lesson 04
Car insurance and warranties .04

Overview

Insurance is as much a necessity of owning a car as gas. You simply cannot do without it. As a matter of fact, it's the law.

A warranty is the manufacturer's or dealer's promise, usually in writing, that a product is of a certain quality. It may apply to the entire product, parts and labour, or to parts only. It usually promises that the product or defective parts will be replaced free of charge for a certain period of time.

Goals
To help students develop an understanding of car insurance, types of coverage and how rates are determined.
To help students develop an understanding of a warranty and why it is important when purchasing a new or used vehicle.

Objectives
Identify the types of car insurance coverage and factors affecting insurance costs.
Explain the differences between various kinds of warranties.

Timeline
Class discussion	30 minutes
Student activity	45 minutes

Instructions
Classroom Discussion
As a large group discuss car insurance using Overhead A, Types of car insurance coverage (liability, collision, comprehensive). See how many the students can come up with, and what their explanation is of each before you show the overheads. Work from what the students know to what they don't know. Do the same with Overhead B, How insurance rates are set. Discuss the effect of driving convictions (speeding, careless driving, drinking and driving) on insurance rates. Also discuss the effect of higher deductibles on the insurance rates and driving under parents' insurance.
Explain to the students what a warranty is and why it is important when purchasing a new or used vehicle. Using Overhead C, Warranties, explain the different kinds of warranties in relation to the purchase of a vehicle (as-is, implied, dealer, unexpired). Using Overhead D, Service contract, outline with the students the questions you should ask before buying an extended warranty.
Activity 1
Using Activity A, Shopping for insurance, have students research the cost of car insurance based on their age, gender, marital status, frequency of car use, where they live, driving record, type of cars they want and the amount of insurance they think they need. Discuss their findings—would the cost of insurance alter their budgets or change their plans about the types of cars they want? Can they still afford a vehicle? Many insurance companies have on-line calculators to determine the approximate cost of insuring a certain vehicle.
Activity 2
Now that you have learned all about the ins and outs of buying, leasing, maintaining, insuring, and operating a car, and translated those responsibilities into a monthly budget, how about saving the environment *and* your budget by not owning a car at all. Have students research car share programs such as "Autoshare" and "Zip Car" and complete Activity B, To own or not to own.
Have students try the quiz.

Teacher Notes
Students can go on-line and get free auto insurance quotes based on different scenarios.

Required Materials:
Overhead A, Types of car insurance coverage
Overhead B, How insurance rates are set
Overhead C, Warranties
Overhead D, Service contract
Activity A, Shopping for insurance
Activity B, To own or not to own
Activity C, Warranties and service contracts

Assessment and Evaluation:
Participation in classroom discussions—communication mark.
Evaluation of activity.

Supplemental Activities
Invite a car insurance representative to class to answer students' questions.
Using Activity C, Warranties and service contracts, have students collect examples of automobile warranties and service contracts. Discuss how various warranties and service contracts differ.

Go to **www.ibc.ca**. In the search tool type "How Cars Measure Up" and check out the frequency of insurance claims related to your vehicle (theft, collision etc.).

Additional Web Resources

Insurance Bureau of Canada
www.ibc.ca

Overhead A

Types of car insurance coverage

02.04.04

Insurance coverage and costs are under provincial jurisdiction and as such vary greatly from province to province. Car owners are advised to check with the appropriate provincial government department to determine exactly what kind of coverage is required in their province.

Liability (40–50% of premium)

- Bodily-injury coverage
- Property-damage coverage (e.g. to another person's car)

Collision (up to 30% of premium)

- Pays for the physical damage to your car as a result of an accident
- Limited by deductible

Comprehensive (about 12% of premium)

- Pays for damage caused by vandalism, hailstorms, floods, theft, etc.

Medical

- Covers medical payments for driver and passengers injured in accident

Rental reimbursement

- Pays a specific amount per day to rent a car while yours is being fixed

Towing and labour

Overhead B
How insurance rates are set

02.04.04

Personal characteristics

- Age
- Gender
- Marital status
- Personal habits (e.g., smoking)
- Type and frequency of vehicle use (e.g., commuting)

Geographic location (often classified by postal code)

- Rural locations usually have lower rates; urban locations usually have higher rates

Driving record

- Accident with death, bodily injury, or property damage may trigger a surcharge on premium for three years
- Number and kind of moving violations (and total of associated points)
- Number of years insured with the company

Vehicle characteristics

- Damage, repair, and theft record of type and model of car
- Age of car

Overhead C
Warranties

As-is (no warranty)

- No expressed or implied warranty.
- If you buy a car and have problems with it, you must pay for any repairs yourself.
- Some provinces do not permit “as-is” sales on used cars.

Implied warranties

- Warranty of merchantability—a product will do what it is designed to do.
- Warranty of fitness for a particular purpose—a product will do what the seller promises it will do.
- Always in effect unless the product is sold as-is or the seller says in writing that there is no warranty.

Dealer warranties

- Offered and specifically written by the dealer.
- Terms and conditions can vary greatly.
- Useful to compare warranty terms on similar cars or negotiate warranty coverage.

Unexpired manufacturer’s warranties

- Manufacturer’s warranty can sometimes be transferred to the new owner. There may be a fee for the transfer process.

Overhead D
Service contracts (also called “extended warranties”)
02.04.04

Before deciding to buy a service contract, find out

- The cost
- Which repairs the contract covers
- Whether the warranty already covers the same repairs
- Whether the vehicle is likely to need repairs and, if so, the potential cost of repairs
- Whether there is a deductible and, if so, how much?
- Whether repairs and service can be performed at locations other than at the dealership
- Whether the contract covers incidental expenses such as towing
- Whether there is a cancellation or refund policy and, if so, the cost
- Whether the dealer or company offering the service is reputable
- Whether you can purchase the service contract later

activity A

Activity A
Shopping for insurance

02.04.04

name: ______________________ date: ______________________

Minimum coverage required by province

Company 1 ______________________
Agent ______________________
Address ______________________
Phone ______________________

Company 2 ______________________
Agent ______________________
Address ______________________
Phone ______________________

	Amount of Coverage	Premium for Company 1	Premium for Company 2
Bodily-injury liability			
Property damage			
Personal injury protection (no-fault insurance province)			
Other			

Coverage you desire

	Amount of Coverage	Premium for Company 1	Premium for Company 2
Bodily-injury liability			
Medical			
Property damage			
Personal injury protection (no-fault insurance province)			
Collision—$250 deductible			
Collision—$500 deductible			
Towing and labour			
Other			

Which company best suits your needs?

____

____

activity B

Activity B
To own or not to own

02.04.04

name: ______________________ date: ______________________

My research says (Record related information.)	I think What do I think is being said in the research?
Therefore... (Conclusion based on all of the information gathered and prior knowledge.)	

What real-life experiences have you had that would verify the conclusion?

activity C

Activity C
Warranties and service contracts

02.04.04

name: date:

Find an example of a car warranty and of a service contract.
Then, answer the following questions:

1. What is the purpose of the warranty?

2. What type of warranty is it (as-is, implied, dealer, manufacturer's)?

3. List the basic terms of the warranty.

4. What is the service contract for?

5. List the basic terms of the service contract.

Cars and Loans

quiz

Quiz

02.04.

name: date:

True/False (4 marks)

1. _____ Most used cars sold by private parties have a one-year warranty.

2. _____ A service contract is designed to help consumers avoid costly repairs as a motor vehicle gets older.

3. _____ Bodily-injury liability covers the damage to another person's car for which you were at fault.

4. _____ Collision insurance covers damage caused to a motor vehicle by vandalism or floods.

Multiple Choice (5 marks)

5. The most reliable source for buying a used car is usually
- **A.** a rental car company
- **B.** a police auction
- **C.** a new car dealer
- **D.** private party sales

6. _______ warranty refers to the fact that a product will do what it is designed to do.
- **A.** An extended
- **B.** An implied
- **C.** A dealer
- **D.** An unexpired manufacturer's

7. In a car lease residual value refers to
- **A.** amount financed
- **B.** the amount of money you put down on the vehicle
- **C.** features of an extended warranty
- **D.** what the vehicle is worth at the end of the lease

8. The auto insurance coverage for damage to your vehicle as a result of an accident is called
- **A.** property damage
- **B.** comprehensive
- **C.** liability
- **D.** collision

9. Doctor costs for injuries to others resulting from an accident are covered by _______ liability.
- **A.** medical
- **B.** collision
- **C.** bodily injury
- **D.** comprehensive

Case Application (6 marks)

Celine drives a seven-year-old car that recently needed $1,300 in repairs. Each day, she drives 46 kilometres to and from her job. What actions should she take to decide if she should (1) keep this car, (2) buy a newer used car, or (3) buy a new car?

answers

quiz

Quiz

Cars and Loans

02.04.

True/False (4 marks)

1. **F** Most used cars sold by private parties have a one-year warranty.

2. **T** A service contract is designed to avoid costly repairs as a motor vehicle gets older

3. **F** Bodily-injury liability covers the damage to another person's car for which you were at fault.

4. **F** Collision insurance covers damage caused to a motor vehicle by vandalism or floods.

Multiple Choice (5 marks)

5. **The most reliable source for buying a used car is usually**
   C. a new car dealer

6. **______ warranty refers to the fact that a product will do what it is designed to do.**
   B. An implied

7. **In a car lease residual value refers to**
   D. what the vehicle is worth at the end of the lease

8. **The auto insurance coverage for damage to your vehicle as a result of an accident is called**
   D. collision

9. **Doctor costs for injuries to others resulting from an accident are covered by ______ liability.**
   C. bodily injury

Case Application (6 marks)

Celine drives a seven-year-old car that recently needed $1,300 in repairs. Each day, she drives 46 kilometres to and from her job. What actions should she take to decide if she should (1) keep this car, (2) buy a newer used car, or (3) buy a new car?

Many factors go into this decision. First, Celine must consider her financial situation. Based on a realistic budget, what amount can she afford to spend for buying a different vehicle? Next, will her current car (after the recent repairs) give her reliable transportation? In addition, how do the expected operating costs of the various vehicles compare?