

Money Smart Students

Celebrating National Financial Literacy Month and Money Smart Week

Buying a Car

Are you thinking about buying a car? In 2014, more than 214 million licensed drivers drove more than 3 trillion miles in the U.S., according to information from the U.S. census and the Federal Highway Administration. With these huge numbers, there are many consumers looking to buy a car. And if you want to be one of the smart car buyers, there are some tips to help you make informed decisions.

First, before you buy a car, make sure you can afford to pay for it. A general guideline is to keep total car costs below 20 percent of your monthly net pay. This includes the monthly payment as well as ownership and operating costs such as gas, repairs and insurance.

The principal amount financed can be reduced by making a down payment. This reduces the total cost of a car because you'll pay less interest.

Longer financing terms will decrease the monthly payment, but the longer the term, the more you will pay in the end because of additional interest.

Before signing a legal contract for a car loan, read it carefully. After signing, you are obligated to follow the terms. A car loan is a secured loan backed with collateral: the car.

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WORD BANK

Credit score - A number based on information in a credit report, which indicates a person's credit risk.

Interest - The price of using someone else's money.

Interest rate - The percentage of the amount of a loan that is charged for a loan.

Net pay - The amount earned after all deductions and taxes have been subtracted from a paycheck.

Principal - The original amount of money borrowed or still owed.

Not abiding by the terms of the contract will mean your car can be repossessed (taken back) by the lender.

Smart buyers know the cost of a car depends on the amount financed, the length of the car loan and the interest rate of the loan. The interest rate depends on your credit score. They consider not only their wants, but also their wallets.

▶ Learn more about credit scores by viewing these videos: www.stlouisfed.org/credit-score and www.stlouisfed.org/credit-report.

Money Smart Students Preparation:

1. Look through the St. Louis Post-Dispatch or the ePost to find car advertisements. What financing terms are offered in the ads? Are there incentives offered for buying? What techniques are used to influence buying decisions?
2. Look through the St. Louis Post-Dispatch or the ePost to find articles related to gas prices. Explain how information in the articles can affect car sales. What changes may be seen in the choices and the volume of cars purchased?

Money Smart Students Extension: You've been given the task of promoting the "Smart Tips for Car Buyers Campaign."

Use advertisements from the St. Louis Post-Dispatch as models to create an ad for a car that includes smart buyer tips found in this article.

Money Smart Students Tip: George Washington said, "We must consult our means rather than our wishes."

Money Smart Students Trivia: The Ford Model T, produced from 1908 to 1927, is considered the first affordable automobile. Marketed to the middle class, the car was heavily advertised in newspapers with prices ranging from \$260 to \$900.

NEXT WEEK: Planning for the Future