

Budget Exercises for Students, Exercise 3 Purchase or Lease a Vehicle

You will need to lease or buy a used or new vehicle for transportation. (New meaning brand new or leased) and will have \$2,500 for a down payment and have to spend at least \$5,000 for used or a new car. There is no restriction on the lease cost.

Considerations:

- If you do not lease a vehicle then the used or new car will require no less than \$2,500 in financing and your finance term must be three years or more.
- Be sure to check if there any ancillary fees such as tax, title and destination.
- Go the Internet and search dealerships, online line sellers such as TrueCar or Auto Trader or car manufacturer's websites for offerings (one simple search is to type in the car you desire and go from there)
- You may opt to call a vehicle seller and speak to a live person.
- Consider gas mileage as you will determine the amount of gas you'll need each month
- Consider at least three options in your search before you narrow it down to one.

Given Variables

- Purchasing a new car or leasing will come with a standard warranty
- Buying a used car may not have a warranty

Go to bankrate.com/auto and input basic information such as zip code and length of the finance term and choose the lowest interest rate. It may just list the average rate which you can choose. Once you have the interest rate go to <http://www.bankrate.com/calculators/auto/auto-loan-calculator.aspx> and input the interest rate, amount financed and the term to determine the monthly payment. Use the sample grid below to document your results. Use the **Automobile Comparison** grid provide on the website.

Which car do you want to choose? What lead you to that decision? **Tips:** If you lease a vehicle consider the amount of miles that you drive in that if you exceed the limit you will assessed further charges. Additionally, the down payment on the lease may be lower than \$2,500. So you have two options: one is to pay the entire \$2,500 which will reduce the monthly cost or pay the lesser amount and you will have excess cash in your savings.

As for leasing or buying when choosing a vehicle you will be able to determine how much gas, maintenance and auto insurance will cost in the budget. (Discussed in the subsequent exercises). Therefore, as you narrow down your choice you will need to consider those items before making a final decision.

Auto Grid Comparison

Description	2003 Mini Cooper	2016 Focus
New, Used, Lease	Buy Used	Lease
Interest Rate	5.5%	N/A
Down Payment	\$2,500	\$1,500
MPG City/Hwy	25/35	35/45
Taxes	Use the state tax rate if applicable (tax rate multiplied by purchase price of the car)	Use the state tax rate if applicable (tax rate multiplied by purchase price of the car)
Title	\$17	\$100
Destination Fee	\$0	\$500
Warranty	1 year or 10,000 miles	3 years / 30,000 miles
Miles	120,000	0 (new car)
Cost	\$5,500 (\$8,000 - \$2,500)	N/A
Term	3 years	36 months
Monthly Payment	\$166	\$225
Other		~20 per mile charge over 30,000 miles ~Oil changes included in the lease

[REFER TO THE STUDENT BUDGET VIDEOS FOR DETAILED INSTRUCTION](#)