

Name(s):

Avoiding the Lemon

It's time for Henry to purchase a new (used) vehicle. His current car has served him well, but is over 20 years old and Henry has been putting more and more money into repairs lately. Since his current vehicle is paid off, Henry created a budget to determine how much he can afford. Since he cannot afford to pay cash for the vehicle, he will have to finance it and pay a monthly payment. Below is the transportation portion of Henry's budget.

Exhibit 1: Henry's Transportation Budget

Transportation:	
Auto Loan Payment	\$350.00
Driver's Insurance	\$110.00
Gasoline	\$85.00



Exhibit 2: Henry's Current Car → →

Answer This:

1. What additional monthly transportation expenses is Henry missing in his budget?

Henry has done some research and has found two cars he likes and wants to look at. The first is a 2016 Honda Civic being sold at a dealership. The second is a 2015 Ford Focus being sold by a private party. He has decided to take his dad along to look at both vehicles. His father has purchased several cars over the years and always gives Henry good financial advice. On the ride there, Henry's father asks why he has chosen these two particular vehicles.

"I'm looking for a reliable car that is low on miles. Both of these are in good condition and within my monthly budget." Henry explains. Henry pulls out the printed materials to show his father both vehicles. He knows he wants to buy a used vehicle, but also questions if he should be looking at lease options since he saw a commercial advertising \$229.00 per month.

Exhibit 3: Dealership Information

Certified 2019 Honda Civic EX-L
 \$16,804 42,005 miles
 Engine: 1.5L I4 16V GDI DOHC Turbo
 Transmission: Automatic CVT
 Drivetrain: FWD
 Vehicle History Report: Free CARFAX 1-Owner Report
 Interior Color: Black
 Exterior Color: Silver
 MPG: 31-35
 Warranty: Balance of original 7-year/100,000-mile powertrain warranty



Exhibit 4: Private Party Information

Ford Focus For Sale
 \$13,000 Mileage: 39,000
 Car: Ford Focus
 Year: 2017
 Condition: everything is perfect



Answer This:

2. What differences are there between buying from a dealership and a private party?

3. What differences do you see between the cars in the advertisements above?

4. Henry is also considering a lease rather than buying. What are the advantages and disadvantages of leasing a vehicle?

5. According to [this article](#), what are additional fees and costs of lease agreements?

6. The Honda Civic at the dealership comes with a free CARFAX report (SGI also provides a Sask car report & you can access a Canada-wide report <https://www.sgi.sk.ca/new-and-used-vehicles>) . What information in this report would be useful to Henry?

Henry and his father arrive at an agreed location to inspect the 2015 Ford Focus being sold by a private party. Henry is a bit nervous. He wants to make sure he is asking the right questions and inspecting the right aspects of the car. He has read about many scams via private party transactions. He asks his Dad for some advice before they get out of the car.

Answer This:

7. Which items should Henry's Dad advise him to inspect on this vehicle? Create a checklist below.

8. If you were Henry's dad, what 5 questions would you encourage Henry to ask the current owner of this vehicle?

Henry likes the car being sold by the private party, but notices some obvious wear and tear. The owner said he would drop the price as low as \$12,500 if Henry is interested.

Henry and his father continue on to look at the car being sold at the dealership. The car salesman was very nice taking Henry on a thorough tour of the vehicle. It is apparent this vehicle has more premium features. He then offers Henry a test drive of the vehicle.

Answer This:

9. Should Henry's Dad encourage him to take the test drive? Why or why not?

10. What features should Henry pay attention to when test driving the vehicle?

Henry is really excited and liked both vehicles he viewed. It is really important that Henry gets a reliable vehicle, but also stays within budget. When Henry arrives home, he creates a comparison list of both vehicles.

Exhibit 5: Henry's Comparison List

Certified 2019 Honda Civic - Dealership	2017 Ford Focus - Private Party
<ul style="list-style-type: none">● Price: \$16,804● Certified● Engine: 1.5L Turbo● MPG: 31-42● Backup camera, Bluetooth, Brake Assist, Remote Start● Leather seats● Drivetrain: FWD● Sunroof● Warranty	<ul style="list-style-type: none">● Price: \$12,500● Less miles● Engine: 2.0L Flex Fuel● MPG: 26-36● Drivetrain: FWD● Backup camera, Bluetooth, Brake Assist, Stability control● Cloth seats

Answer This:

11. Based on his Comparison List, which car do you think Henry's Dad should advise him to purchase? Explain your rationale.

Henry was glad he had his father along with him to inspect both vehicles. He is excited to have a new car, but nervous about making such a large purchase. After much discussion, he and his father agree that the Honda Civic from the dealership is a better buy for Henry. Although it is a bit more expensive, it is a certified vehicle and comes with a warranty. The mile difference is negligible, but it has more features that are important to Henry. The next day, both Henry and his father go back to the dealership to speak with the salesman and get the best price possible.

Answer This:

11. List strategies Henry can use to "haggle" the best price possible.

12. The salesman agrees to a purchase price of \$16,000. Henry has \$3,000.00 saved and will get \$2,000.00 as a trade-in for his current vehicle. Henry has great credit and will finance at a 3.25% interest rate over 60 months. Using [this calculator](#), what will Henry's monthly payment on this loan be?

Henry decides to purchase the vehicle and finance it over 36 months, since the payment is still slightly under his budget amount. He calls his insurance agent to set up insurance on the vehicle and is pleasantly surprised that his rate will be \$101.00 per month. Henry is excited and feels he is prepared to purchase the vehicle. Henry's dad, however, reminds him that there are additional expenses when Henry signs his paperwork and officially purchases the vehicle.

Answer This:

16. What other fees should Henry be prepared to pay when he closes the car sale? *Hint:* see [this article](#) for help.

17. Buying a car is a big financial decision. What did Henry do well throughout the car buying process? What should he have done differently throughout the process to be better informed and make better decisions?