

A LOAN AT LAST: ROLE PLAY ACTIVITY

FEDERAL RESERVE BANK of KANSAS CITY—MICHELE WULFF AND TINA M. ELLSWORTH

LESSON DESCRIPTION:

This role play activity introduces students to the loan process involved in buying a car. They learn about credit history and reports, as well as the importance of being a credit worthy consumer.

GRADE LEVEL: 7 - 12

CONCEPTS:

APR, budget, credit bureau, credit history, credit report, credit worthy, debit card, finance charge, interest, loan, profit

MATERIALS:

- Handout 1---“A Loan at Last script”, one copy per student
 - Handout 2---“A Loan at Last: Consider Costs of Different Cars” worksheet
 - Internet access
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PROCEDURE:

1. Ask students to raise their hands if they would like to own a car once they get their driver’s licenses. Call on a few volunteers to share which make/model of car they would choose to buy. (*Answers will vary.*)
2. Tell students that there are many financial decisions they will need to make before they can purchase their vehicle. If they are able to save enough money to buy their car with cash, they will simplify the decision process, as they won’t need to borrow money.
3. Explain that many car buyers don’t have enough money to make this purchase, so taking out a loan from a bank, credit union or car dealer is necessary. Tell them that this process includes the following steps:
 - Applying for the loan through a financial institution
 - Undergoing a credit check to see if they (or their parents) have good credit
 - Receiving approval of the loan, which includes interest added for use of the money
 - Determining a schedule to pay back the loan
 - Budgeting money, usually monthly, for their payment until the loan is paid off



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PROCEDURE (CONTINUED):

4. Tell students that they will learn more about the loan process through participating in the role play about a teenager buying his first car. Distribute copies of Handout 1, A Loan at Last script to each student. Ask them to read through the script and decide if they would like to play a character in the presentation. (All characters' names are male, but can easily be changed to female when needed.)
5. Assign script roles and act out the role play.
6. Review the contents of the play. Tell students that there are more costs than simply the cost of the car plus interest. Introduce the various costs associated with different cars: total cost, gas mileage, type of gas, tire replacement, etc. Tell students they will investigate these costs as they pertain to three top car choices.
7. Hand out "A Loan at Last: Consider Costs of Different Cars." Read the directions as a class. Then, model one example for the class using any car of its choice.
8. Tell students they need to complete the chart using their three top choices for a car.
9. Have students report out their findings, and describe which car choice seems best for them and why.
10. When finished, check students' knowledge of the financial concepts discussed by asking the following questions:
 - Why do financial institutions charge interest on loans? (Answers will vary, but may include that these institutions use this extra money, or profit, for bank operations.)
 - What does it mean to be credit worthy? (Answers will vary, but could include that credit worthy consumers have developed a good credit history by making payments on time, which leads to a good report from the credit bureau.)
 - What does APR mean? (Annual percentage rate, which is the loan interest rate plus fees for money useage)
 - Why is budgeting an important part of the loan process? (Answers will vary, but could include that budgeting for a monthly car payment keeps the owner on track to successfully pay off the loan on time.)
 - On the comparison chart, you considered several different aspects to the cost of a car. What other costs might you need to consider that were not listed here? (Answers may include: cost for other types of services like a tune-up, how well it retains its resale value, if there is a trend of a certain part going bad on that car—i.e. transmission)
 - What do you think is the most important thing(s) to consider when purchasing a car and why? (Answers will vary)

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HANDOUT 1- SCRIPT

“A Loan at Last”

Scene 1: In the Neighborhood

Brian: Hey Jason, what's up? Where are you going in such a hurry?

Jason: Hi, Brian. I'm pumped! My mom and dad just said I could buy my first car! I'm going to Otto's Auto Sales lot and pick out my dream car!

Brian: Wow, that's so cool! Can I tag along? I'd like to check out the vehicles too.

Jason: Sure, come on!

Scene 2: At Otto's Auto Sales lot

Brian: Man, there're a lot of great cars to choose from here. That 2012 Mustang is tight!

Jason: Yeah, but I can't afford the price tag. Too many bucks for my wallet!

Brian: How are you going to pay for your car? Are your mom and dad helping you?

Jason: They're helping me by co-signing for a car loan. I have to borrow the money to buy my vehicle, and then pay it back in monthly payments, or installments. Plus I have to pay interest on the loan to the bank or lender.

Brian: Interest? I thought that's what the bank paid YOU for depositing money! How can they charge you interest?

Jason: My dad says banks charge interest to borrowers for the privilege of using their money. It's how lenders make their profit.

Brian: Oh, I get it. Hey, look at that 2010 Chevy pick-up! What an awesome vehicle!

Jason: Yeah, it's cool, but still too expensive for me. My parents say I have to stay under \$5000 for my first car.

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Brian: So the pick-up is out. Shoot! I could just picture myself riding along side you in that baby! So where do you go to get the loan money you need?

Jason: I can apply for a loan with my parents at our bank, or go to my dad's credit union. I might even get the money through a lender that works with Otto. Hey, check out that 2008 Dodge Charger. We're getting closer to my price range!

Brian: Speaking of price range, how do you know what your loan payment will be each month? I mean, how do you know you'll have enough money to make the payment?

Jason: Good question. I guess we could ask Otto for the loan details.

Otto: Hello, guys! Can I put you behind the wheel of this baby today?

Jason: Uh, we're just looking over your lot. I'm not quite ready to buy yet. But I do have a question. How do you figure out what my monthly payment will be if I buy a vehicle?

Otto: Well, if you borrow through my lenders, they'll give you a low interest rate and APR. That is, if you're credit worthy.

Brian: Huh? What's an APR?

Jason: And what do you mean, if I'm credit worthy?

Otto: Okay, one question at a time. An APR is an annual percentage rate, which is the loan interest rate plus a couple of necessary fees.

Brian: So the APR gives the total cost of the loan with fees and everything.

Otto: That's right. And your monthly payment is also based on the number of months you need to pay off the loan. It's lower each month if you decide on a 5-year loan, instead of a 3 or 4-year loan, but you're making payments for a longer period of time.

Jason: Wait a minute. So am I paying more interest if I stretch the payments out to 5 years?

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Otto: Um, maybe a little more. But we can figure that all out later. So what do you think of the Charger?

Jason: You forgot to answer my question. What's the deal about being credit worthy?

Otto: Oh, no worries. We just check your credit record to see that you pay your bills on time. We want to make sure that you're responsible and will make your monthly payments. The credit bureau can give us that information.

Jason: Okay, I'm only 18 and don't really have bills. Do I have a credit record? My dad says he'll need to co-sign for a loan with me.

Otto: Then we'll check your dad's credit record. But this is a good way for you to establish your own credit history so you can get credit and loans in the future.

Brian: Just curious—what if my friend had a bad credit record? Would he still get the loan?

Otto: Depends on how bad his credit was. He might get the loan, but it would be at a higher APR than someone with a good credit record.

Jason: Wow, I didn't know that a credit report was that important. Thanks for the info. I'm going to talk to my parents about the Dodge. We'll be back!

Scene 3: In the Neighborhood

Brian: Man, I learned a lot about cars and loans today. I can't wait until I can buy a vehicle.

Jason: Yeah, once I get the loan, I'll be cruising! All I'll have to worry about is gas, maintenance and car insurance.

Brian: Whoa! How are you going to pay for all that on top of your loan payment? Get ready to be poor!

Jason: No, my parents and I talked about it. I make \$150 a week at the pizza shop. So I can use that income for payments. They said I could use their gas charge card and pay them back if I get short of cash. But they said using my debit card is the best way to take care of my car upkeep. Since my debit card takes money directly from my checking account, it's not a loan and I won't have to pay interest. I just need to make sure I have enough dollars in my account to cover my costs. Otherwise, there's a fee.

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Brian: Hey, why don't you just get your own credit card? Then you won't have to bug your parents.

Jason: Yeah, I thought about that. But because of the new credit card rules, my parents would have to co-sign anyway, since I'm under 21. And my mom said I have to be careful about credit cards, because they're short-term loans that can charge high interest rates. If I don't repay the loan, or at least make the minimum payment each month, a finance charge is added to the unpaid amount. And it can add up really fast! Then I guess I could become "uncreditworthy" and be in debt.

Brian: That's scary! I don't want to be one of those people that owes everybody money. How can I keep that from happening?

Jason: My mom says I'll need to set up a budget, which is a plan to afford everything. She's going to help me figure out my income and expenses so I can make payments each month. And she's going to increase my income by paying me for driving my little brother to games and practices.

Brian: That's great! So let me know when you have your dream car. I can't wait to hang out and drive around with you!

Jason: Uh, sure, but bring money for gas. I'll need all the help I can get!

A LOAN AT LAST:

CONSIDER COSTS OF DIFFERENT CARS WORKSHEET

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Directions: Using the chart below, compare the various costs associated with your top three car picks. Use the links, where provided. For subsequent questions, try to price compare from a single location, if possible. For example, compare the tires for all three cars from a single car tire store. However, if the store you chose does not carry all three types, then note that in the box provided. Upon completion, answer the question at the bottom of the chart.

A Loan at Last: Consider Costs of Different Cars

	Car Choice #1	Car Choice #2	Car Choice #3
How much is the car worth? (www.kbb.com)			
Total cost of car (if you need a loan, calculate the total cost of the car at www.bankrate.com)			
If you take out a loan what will the monthly payment be on a 5 year note?			
Gas mileage and type of gas			
Cost to replace a tire (Try to use one store for all cars)			
How much would it cost to replace this car's battery? (Try to use one store)			
How much would it cost to get an oil change in this car? (Try to use one location)			
Insurance rate (liability and full coverage, deductibles)			

Based on the information you've gathered so far, what car seems to be the best choice for you and why?