

Professional Certificate in Automotive Finance and Insurance Management

# Introduction to Automotive Finance

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In the Professional Certificate in Automotive Finance and Insurance Management, the Introduction to Automotive Finance course covers key terms and vocabulary related to the financing of automotive purchases. Here, we provide a comprehensive explanation of these terms and concepts, including examples, practical applications, and challenges.

### ### Financing Basics

- \* \*\*Loan:\*\* A sum of money borrowed from a lender, usually a bank or credit union, that must be repaid over a set period with interest.
- \* \*\*Interest rate:\*\* The percentage of the loan amount charged by the lender for the use of their money.
- \* \*\*Term:\*\* The length of time over which a loan must be repaid.
- \* \*\*Down payment:\*\* The initial payment made by the borrower toward the purchase price of the vehicle.
- \* \*\*Principal:\*\* The original amount of money borrowed, excluding interest.

### ### Loan Types

- \* \*\*Direct loan:\*\* A loan obtained directly from a bank or credit union, where the borrower works with the lender to establish terms and repayment.
- \* \*\*Indirect loan:\*\* A loan obtained through a dealership, where the dealership acts as a middleman between the borrower and the lender.
- \* \*\*Balloon loan:\*\* A loan with low monthly payments and a large final payment, or "balloon," due at the end of the term.
- \* \*\*Simple interest loan:\*\* A loan where interest is calculated only on the outstanding principal balance.
- \* \*\*Precomputed interest loan:\*\* A loan where interest is calculated at the beginning of the term, based on the full loan amount.

### ### Credit Scores and Reports

- \* \*\*Credit score:\*\* A three-digit number, typically between 300 and 850, that reflects a borrower's creditworthiness based on their credit history.
- \* \*\*Credit report:\*\* A detailed record of a borrower's credit history, including loans, credit card accounts, and payment history.
- \* \*\*FICO score:\*\* The most widely used credit score, developed by the Fair Isaac Corporation.
- \* \*\*Credit bureau:\*\* A company that collects and maintains credit information on individuals, including

Experian, TransUnion, and Equifax.

### ### Financing Terms and Calculations

\* \*\*APR (Annual Percentage Rate):\*\* The total cost of borrowing, including interest and fees, expressed as a yearly percentage.

\* \*\*Payment-to-income ratio:\*\* The percentage of a borrower's income allocated to loan payments.

\* \*\*Debt-to-income ratio:\*\* The percentage of a borrower's income allocated to debt payments, including housing, automotive, and other loans.

\* \*\*Loan-to-value ratio (LTV):\*\* The ratio of the loan amount to the vehicle's value, expressed as a percentage.

### ### Leasing Basics

\* \*\*Lease:\*\* A contract between a borrower and a lessor, typically a dealership or financing company, where the borrower pays for the use of a vehicle over a set period.

\* \*\*Residual value:\*\* The estimated value of the vehicle at the end of the lease term.

\* \*\*Capitalized cost:\*\* The total cost of the lease, including the vehicle's purchase price, taxes, and fees.

\* \*\*Money factor:\*\* The interest rate used in leasing calculations, typically expressed as a decimal.

### ### Leasing Terms and Calculations

\* \*\*Depreciation:\*\* The decrease in the value of a vehicle over time.

\* \*\*Lease payment:\*\* The monthly payment required to lease a vehicle.

\* \*\*Acquisition fee:\*\* A fee charged by the lessor to cover the costs of setting up the lease.

\* \*\*Disposition fee:\*\* A fee charged by the lessor to cover the costs of selling the vehicle at the end of the lease.

\* \*\*Mileage allowance:\*\* The number of miles a lessee is allowed to drive during the lease term, typically expressed in miles per year.

### ### Insurance Basics

\* \*\*Insurance:\*\* A contract between an insured party and an insurance company, where the insurer agrees to pay for specified losses or damages in exchange for a premium.

\* \*\*Premium:\*\* The amount paid by the insured to the insurance company for coverage.

\* \*\*Deductible:\*\* The amount the insured must pay out of pocket before the insurance company covers the remaining costs.

\* \*\*Policy:\*\* A contract between the insured and the insurance company outlining the terms and conditions of the insurance coverage.

### ### Insurance Terms and Calculations

\* \*\*Liability insurance:\*\* Insurance that covers damages or injuries caused to others in an accident where the

insured is at fault.

\* \*\*Collision insurance:\*\* Insurance that covers damages to the insured's vehicle in an accident, regardless of fault.

\* \*\*Comprehensive insurance:\*\* Insurance that covers damages to the insured's vehicle from non-accident-related events, such as theft, vandalism, or weather-related damage.

\* \*\*Underinsured/uninsured motorist coverage:\*\* Insurance that covers damages or injuries caused by a driver with insufficient or no insurance.

\* \*\*Gap insurance:\*\* Insurance that covers the difference between the vehicle's value and the outstanding loan balance in the event of a total loss.

### Challenge: Applying Automotive Finance Knowledge

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To apply the knowledge gained in this course, consider the following scenario:

A borrower is interested in purchasing a new vehicle with a sticker price of \$30,000. They have a credit score of 720 and a monthly income of \$5,000. The dealership offers a direct loan with a 4.5% APR for a term of 60 months, or a lease with a capitalized cost of \$28,000, a money factor of 0.002, and a residual value of \$14,000.

1. Calculate the monthly loan payment for the direct loan, assuming a 20% down payment.
2. Calculate the monthly lease payment, assuming a mileage allowance of 12,000 miles per year.
3. Compare the monthly loan and lease payments.
4. Analyze the borrower's debt-to-income ratio for both financing options.
5. Recommend the best financing option based on the borrower's credit score, income, and preferences.

By understanding the key terms and vocabulary in automotive finance, professionals in the field can make informed recommendations for their clients and provide exceptional service in the automotive finance and insurance management industry.