



Deal or No Deal: Understanding Car Loans

LESSON 3: STUDENT ACTIVITY SHEET

Down payment, interest rate, loan term—the lingo involved with buying a car can seem overwhelming. Find out more about the car-buying process and terminology by following the steps below.

STEP 1: Decide on a make and model. Visit truecar.com or Edmunds.com to find the price of the car you would like to buy; then record it here.

Total purchase price: \$ _____.

STEP 2: Determine how much money you will need to borrow. Subtract the money you have for a **down payment** (the amount you give to the dealer on the day of purchase) from the total purchase price. For this exercise, imagine you have saved \$5,000 for a down payment. The resulting total is the loan principal; record that amount here and in the chart below.

Loan principal: \$ _____.

STEP 3: Get quotes from several lenders. The term and interest rate of the loan will vary and both of these factors will affect your monthly payment. (For this exercise, pretend that you have received the rates below.)

STEP 4: Calculate your monthly payments and total amounts paid. Use the formula for loan amortization below to figure out how much each payment will be. “Amortization” means paying off the loan in a series of equal installments. You’ll need to know the amount of the loan, the monthly interest rate, and the number of months you’ll be making payments in order to make the calculation.

$$A = P * (r(1+r)^{\{n\}}) / ((1+r)^{\{n\}} - 1).$$

A = monthly payment

P = the principal

r = interest rate per month, or the yearly interest rate divided by 12

n = number of months

More Questions to Ask When Buying a Car:

What's the gas mileage? Cars with a higher gas mileage require less fuel.

Why do you need a car? A long commute or a big family could affect your choice.

What's the resale value? Some used cars are more desirable than others—visit kbb.com to find the resale value of yours.

How long do I plan on needing a car? This may influence how much debt you decide to take on.

Can I find a better price? Costs vary—do your research to get the best price.



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Lender	Loan Principal	Loan Term	Interest Rate	Monthly Payment	Total Amount Paid
Scenario 1		36 months	6.75%		
Scenario 2		48 months	4.75%		
Scenario 3		48 months	5.99%		
Research your own					
Research your own					

STEP 5: Decide which loan makes the most sense for you. Which do you think is the best option above? Why?
