

Handout 4.1: Cars: The Time Option

You are buying a car, and the dealer has offered several options for the length of the contract. The dealer has computed the amounts in the first three columns but has left the last two columns blank. Complete the last two columns.

Total price of car—\$20,000

Down payment—\$0

CHART A: Amount Financed \$20,000				
APR	Length of Contract	Monthly Payment	Total Price of Car	Total Finance Charge
9.75%	24 months	\$921		
9.75%	36 months	\$643		
9.75%	48 months	\$505		
9.75%	60 months	\$422		
9.75%	72 months	\$368		

Answer the following questions by referring to the completed Chart A above:

1. How much money would you save if you chose to finance the car for 36 months instead of 60 months?
2. How much money would you save if you chose to finance the car for 48 months instead of 72 months?
3. How much more in finance charges would you pay if you chose to finance the car for 72 months instead of 24 months?
4. What is the difference in the monthly payment between 36-month financing and 72-month financing?

Handout 4.2: The Down Payment Option

Making a down payment on the car will reduce your monthly payments. You decide to make a down payment of \$2,000 on the \$20,000 car. Complete the last three columns in the table below. Remember to include the \$2,000 down payment in the total price of the car in the last column.

CHART B: Amount Financed \$18,000					
APR	Length of Contract	Monthly Payment	Total Cost of Payments	Total Finance Charge	Total Price of Car Including Down Payment
9.75%	24 months	\$829			
9.75%	36 months	\$579			
9.75%	48 months	\$454			
9.75%	60 months	\$380			
9.75%	72 months	\$331			

Answer the following questions by comparing Chart A on Handout 4.1 and Chart B above:

1. If you finance the car for 36 months, how much would you save by making the \$2,000 down payment?
2. If you finance the car for 48 months, how much would you save by making the \$2,000 down payment?
3. If you finance the car for 60 months, how much would you save by making the \$2,000 down payment?
4. If you finance the car for 72 months, how much would you save by making the \$2,000 down payment?

Handout 4.3: The Income Test

Easy financing can be tempting, especially when you get caught up in the excitement of buying a new car. But before you drive that car off the dealer's lot, make sure you can afford it. Cars should be purchased based on your wants AND your wallet! The bottom line is that car payments should fit your budget.

Rule of thumb: Your vehicle payment should be no more than 20 percent of your net pay after subtracting monthly bills such as credit card payments and home equity payments.

The charts below have options for length of contract and monthly payments based on the amount financed. If your monthly car payment is 20 percent of your net pay, calculate the minimum net pay you should have for each payment in the charts below.

Amount Financed: \$20,000		
Length of Contract	Monthly Payment	Minimum Monthly Net Pay
24 months	\$921	
36 months	\$643	
48 months	\$505	
60 months	\$422	
72 months	\$371	

Amount Financed: \$18,000		
Length of Contract	Monthly Payment	Minimum Monthly Net Pay
24 months	\$829	
36 months	\$579	
48 months	\$454	
60 months	\$380	
72 months	\$331	

Problems:

1. You work an average of 170 hours a month at \$20 per hour. Approximately 15 percent of your gross income is withheld for taxes and other deductions. What is your monthly net pay?
2. If your other monthly bills are \$850, which options in the charts above can you afford, based on your income?