

## TRANSPORTATION DECISIONS

# Comparing Auto-Loan Offers

*Detailed practice, calculation, decision-making, and assessment*

|                                                                                                                                                               |                           |                                      |                         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------------------------|-------------------------|
| <b>GRADES</b><br>9-12                                                                                                                                         | <b>TIME</b><br>2 x 42 min | <b>GROUPING</b><br>I / pairs / whole | <b>PRODUCT</b><br>Brief |
| <b>YOUR CHALLENGE</b> Calculate amount financed, compare APR, term, payment, finance charge, and full transportation budget, then audit a fictional contract. |                           |                                      |                         |

## Transportation Costs Include Money, Time, Access, and Risk

A low monthly payment can hide a longer term and higher total borrowing cost. A fair comparison holds the amount financed constant and examines APR, term, payment, finance charge, total of payments, optional add-ons, and the full vehicle budget.

| Term                                                                                                                                                                                                               | Student-friendly meaning                                                       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| Amount financed                                                                                                                                                                                                    | Principal amount of credit provided.                                           |
| APR                                                                                                                                                                                                                | Yearly measure of credit cost including applicable charges.                    |
| Finance charge                                                                                                                                                                                                     | Dollar cost of credit shown in the disclosure.                                 |
| Term                                                                                                                                                                                                               | Number of months scheduled for repayment.                                      |
| Total of payments                                                                                                                                                                                                  | Sum of scheduled payments under the disclosure.                                |
| Negative equity                                                                                                                                                                                                    | Amount owed above a trade-in vehicle's value that may be rolled into new debt. |
| <b>CLASSROOM USE</b> All people, employers, figures, brackets, and documents in this packet are fictional. Never place a real Social Security number, employer ID, bank number, or tax document in classroom work. |                                                                                |

# Part 1 - Calculate Amount Financed

Use the fictional purchase and loan worksheet.

| Item                       | Amount   | Add / subtract | Result |
|----------------------------|----------|----------------|--------|
| Out-the-door price         | \$20,172 | Start          |        |
| Down payment               | \$3,000  | Subtract       |        |
| Trade-in credit            | \$1,500  | Subtract       |        |
| Old loan balance rolled in | \$2,200  | Add            |        |
| Optional service contract  | \$1,100  | Add            |        |
| Amount financed            |          |                |        |

Calculate with and without the service contract. Explain how rolled-in debt affects the new loan.

## Part 2 - Compare Two Loan Disclosures

Use disclosure totals rather than estimating interest.

| Term              | Offer A     | Offer B     | Why it matters |
|-------------------|-------------|-------------|----------------|
| Amount financed   | \$17,872    | \$17,872    |                |
| APR               | 7.2%        | 8.1%        |                |
| Term              | 48 months   | 72 months   |                |
| Monthly payment   | \$429.67    | \$315.96    |                |
| Finance charge    | \$2,752.16  | \$4,877.12  |                |
| Total of payments | \$20,624.16 | \$22,749.12 |                |

Which offer has the lower payment? Which has the lower borrowing cost? Calculate the difference in finance charges.

### Part 3 - Add the Full Monthly Transportation Budget

Use operating cost of \$483/month from the fictional ownership analysis.

| Cost                         | Offer A  | Offer B  |
|------------------------------|----------|----------|
| Loan payment                 | \$429.67 | \$315.96 |
| Operating cost               | \$483    | \$483    |
| Monthly transportation total |          |          |
| Budget limit                 | \$950    | \$950    |
| Cushion / shortfall          |          |          |

Calculate the totals. Which offer fits with a useful cushion? Is fitting the limit enough to approve the purchase?

## Part 4 - Audit the Contract Before Signing

Compare the negotiated worksheet with the final contract.

| Contract item    | Expected  | Final contract | Action |
|------------------|-----------|----------------|--------|
| Vehicle price    | \$18,200  | \$18,200       |        |
| Service contract | Declined  | \$1,100        |        |
| GAP product      | Declined  | \$795          |        |
| APR              | 7.2%      | 8.0%           |        |
| Term             | 48 months | 60 months      |        |

Identify every mismatch. Write a pause-and-correct sequence; do not sign first and fix later.

Part 5 - Write an Auto-Loan Decision Brief

Lee values lower total cost and has a \$950 transportation limit.

| Decision check                 | My evidence |
|--------------------------------|-------------|
| Amount financed                |             |
| APR                            |             |
| Term                           |             |
| Monthly payment                |             |
| Finance charge                 |             |
| Full monthly cost              |             |
| Contract mismatches            |             |
| Recommendation with limitation |             |

Write 150-200 words with at least five figures and three lender/dealer questions.