Donna's New Car

Donna Hart graduated from South Suburban Community College with an associates degree in business and has begun her first full-time job. The office where she works is about twenty miles from her apartment. Since gas at times has cost as much as $3.29 a gallon, she has decided to trade in her old car for a new small hybrid. She's going to finance the car at her bank with a $15,500 car loan. The loan officer explained that she could take up to 72 months to repay the loan and that the finance charge would be based on an interest rate of .75% a month on the unpaid balance.

1. Complete the following chart to see what her total of payments and finance charge will be if she takes 3, 4, 5 or 6 years to repay the loan.

This times This   =   This   Finance Charge = Total Payment - Yellow Number

Term of the Loan	Monthly Payments	Total of Payments	Finance Charge
36 Months	$492.90		
48 Months	$385.65		
60 Months	$321.76		
72 Months	$279.40		

The total of payments equals the monthly payment multiplied by the number of payments.

The finance charge equals the total of payments minus the amount financed.

2. Donna decided on a four year loan with monthly payments of $385.65. The first four months of her payment schedule is shown below. Complete the payment schedule. Round all amounts to the nearest cent. Month 1 is done for you as an example.

Blue Number x 0.75% = Interest Payment (green number)

Payment Schedule	Unpaid Balance	Interest Payment	Principal Payment
Month 1	$15,500.00	$116.25	$269.40
Month 2	$15,230.60		
Month 3			
Month 4			

Each month her payment is divided between an interest payment and a principal payment. The interest payment is calculated by multiplying the unpaid balance by the monthly interest rate (.75%). The remainder of her payment is applied against the principal.

Pink Number minus Green Number = Purple Number

3. What is the annual percentage rate Donna is paying for the loan? _____%

4. What is the advantage of using a short term loan rather than a longer term loan?

5. What is the advantage of using a long term rather than a shorter term loan?

6. Other than her bank, where else could Donna get the money to buy her new car?

Name: _____   Period: _____   Date