

Name: \_\_\_\_\_ Date: \_\_\_\_\_

### The Cost of a Car Loan

Use the bank's example for a \$10,000 new car loan at 7.99% APR with 48 monthly payments of \$269.34 to answer the following questions.

1. Using the present value formula, what did you arrive at for the monthly payment without the insurance?

\_\_\_\_\_

2. What is the monthly discrepancy between your figure and theirs?

\_\_\_\_\_

3. IF you could choose not to take the insurance, how much would you save over the course of the 4 years?

\_\_\_\_\_

4. If you could substitute your own life insurance at a cost of \$12.50 per month, what would your overall savings be?

\_\_\_\_\_

5. Suppose you took that savings each month (with the life insurance) and invested it at 6% interest compounded monthly. At the end of 4 years, how much would you have in the account?

\_\_\_\_\_

Let's recap then. If you were to get your own insurance, at the end of 4 years, you would have a car (albeit a used one), life insurance, and \_\_\_\_\_ in cash. Remember, this does NOT provide for the possibility of becoming disabled & unable to make car payments.

- A. List 1 reason why the bank might put the insurance in the payment.
- B. Would you choose to buy the car with this loan EVEN IF you had to pay the insurance? Why or why not? (Think like it's your money and your car!)
- C. How does state automobile insurance laws work with this requirement?

Discuss A, B, and C with your team.