

**Taking Out a Vehicle Loan**

When you find a vehicle you wish to buy, and you know the total price, you must decide how you will pay for it – cash or financing.

You can finance a vehicle with a loan from a bank, credit union, or through the dealership.

**Examples**

- 1) You wish to take out a loan for \$15,500 to purchase a used truck. Your monthly payment is \$364 for a four-year loan.

$12 \times 4 = 48$

- a) Calculate the total paid.

$$\begin{aligned} \text{Total paid} &= \text{monthly payment} \times \# \text{ of months} \\ &= \$364 \times 48 \quad \leftarrow (12 \times 4) \\ &= \$17,472.00 \end{aligned}$$

- b) Calculate the <sup>finance</sup> financing charge. (amount of interest paid)

$$\begin{aligned} \text{Finance charge} &= \text{amount paid} - \text{actual loan} \\ &= \$17,472 - \$15,500 \\ &= \$1,972.00 \end{aligned}$$

- 2) Travis makes a down payment of \$5000 on a new mid-sized vehicle he purchases for \$20,703.54. To finance the remaining amount, he takes out a three-year loan at a fixed rate of 4.25% annually.

- a) Calculate the principal for the loan he requires.

Amount he requires/needs to borrow

$$\begin{aligned} \text{Principal} &= \text{cost of vehicle} - \text{down payment} \\ &= \$20,703.54 - 5000 \\ &= \$15,703.54 \end{aligned}$$

EM40S

Lesson 9

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b) Calculate his monthly payment for the loan.

$$\begin{aligned} \text{monthly payment} &= \frac{15703.54}{1000} \times \$29.64 \\ &= \$465.45 \end{aligned}$$

↖ chart value

c) Calculate the total paid for the loan.

$$\begin{aligned} \text{Total paid} &= \$465.45 \times 36 \\ &= \$16756.20 \end{aligned}$$

← (12 x 3) months yrs

d) Calculate his finance charge for the loan.

$$\begin{aligned} \text{Finance charge} &= \$16756.20 - \$15703.54 \\ &= \$1052.66 \end{aligned}$$

← amount borrowed

e) Calculate the total cost of the vehicle, including his down payment.

$$\begin{aligned} \text{Total cost} &= \text{total paid for loan} + \text{down payment} \\ &= \$16756.20 + \$5000 \\ &= \$21756.20 \end{aligned}$$

Vehicle Finance