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.