

Name: _____ Date: _____

Loan or lease? Buying a car

Christina is buying a new Dodge Charger for 23,599. She has three different options, a purchase, a loan or a lease. After 3 years the projected sell back price of the car is 12,399



1. PURCHASE

- a. The purchase option is 0% down 0% APR for 2 years. What will her monthly payments be on this option?

N: FV:
I %: P / Y:
PV: C / Y:
PMT:

2. LOAN

- a. The second option is taking out a loan for 3 years at 5.99% APR. She must make a 10% down-payment on this option. What will her monthly payments be on this option?

N: FV:
I %: P / Y:
PV: C / Y:
PMT:

3. LEASE

- a. The third option is a lease where the monthly payment is \$349 per month for 3 years. You must make a one time balloon payment (or walk-away payment) of \$1200 when you trade in your car.

4. Comparing

| | PURCHASE | LOAN | LEASE |
|---|----------|------|-------|
| MONTHLY PAYMENT | | | |
| x (times) number of total payments | | | |
| + down payment and or balloon payments | | | |
| TOTAL MONEY SPENT ON CAR | | | |
| - Selling back car after it is paid off | | | |
| TOTAL COST (OVERALL) | | | |

Which option would you suggest for Christina to take and why?

5. Christina makes 42,350 annual salary. Let's find out if she can afford the option you selected. (assume taxes are 28.8%)

MONTHLY POST-TAX SALARY:\$ _____

| | | | |
|-----------------------------|---------------|----------------------------|---------------|
| RENT | \$ 600 | MEDICAL INSURANCE | \$ 150 |
| UTILITIES | \$ 125 | GAS | \$ 150 |
| FOOD/GROCERY | \$ 375 | MONTHLY CAR PAYMENT | \$ |
| CAR INSURANCE | \$ 100 | | |
| PHONE/INTERNET/CABLE | \$ 150 | TOTAL BILLS | \$ |

So how much money does she have left over after paying all her bills? So do you think she can afford the car payment you selected?

Wanda and her husband just found out they are expecting triplets so they decide that it is time to buy a minivan. They choose to buy a Chrysler Town and Country for \$34,650. They cannot afford the purchase option so they are looking at either taking out a loan or just leasing the car.

6. LOAN OPTION: The loan option is for five years at a 4.5% APR. They must make a 15% down payment.
- What are the monthly payments on the car?
 N: FV:
 I %: P / Y:
 PV: C / Y:
 PMT:
 - What is the total money that they will spend on the car (if they do not trade it in/sell back)
 - How much extra did they spend over the actual purchase price of the car? (this is due to the fact that they had to pay interest)
 - If they can sell it back for \$21,550 in 5 years what would be the total cost of the car?
7. LEASE OPTION: The lease option is \$459 per month with a \$990 walk away fee at the end of the five year lease.
- What is the total cost of the car under the lease?
8. Which option would you pick Wanda and her expanding family? Why?