

### Using a Credit Calculator to Figure a Car Payment (Key)

We are going to use an auto loan calculator to compare how much we pay in interest and the length of the payments. You will look for an auto payment calculator on the Internet. Although there are many others, you might use [www.bankrate.com/creditcards](http://www.bankrate.com/creditcards) or <http://www.autoloancalculator.com/>.

You will create the following chart comparing interest rates and lengths of loans. Let's pretend you are purchasing a new car, and you are going to borrow \$25,000.00 for it. We will compare loans for four years, five years and six years. Since we know that people with higher credit scores get lower interest rates, we will compare three percent interest with five percent interest. Complete the following chart, and then answer the questions below.

Loan Amount	Length of Loan	Rate of Interest	Payment	Interest Paid
25,000.00	four years	3%	\$553.36	\$1561.19
25,000.00	five years	3%	\$449.22	\$1953.04
25,000.00	six years	3%	\$379.84	\$2,348.62
25,000.00	four years	5%	\$575.73	\$2,635.15
25,000.00	five years	5%	\$471.78	\$3,306.85
25,000.00	six years	5%	\$402.62	\$3,988.88

How much can you save in interest by buying a car on a:

Four-year loan at three percent interest versus a five-year loan? **\$391.85**

Four-year loan at three percent interest versus a six-year loan? **\$787.43**

If you can save so much in interest by using a four-year loan, why would someone want to buy on a six-year loan? **He or she cannot afford the larger payment of a four-year loan.**

Now let's compare the payment of the three percent interest rate versus the five percent interest rate. Are your payments on the five percent loan higher or lower than the three percent loan? **Higher**

How much more in interest will you pay on the six-year loan at five percent than the six-year loan at three percent? **\$1,640.26**

What could you buy with the amount of money in the previous questions?

**Answers will vary**

Write a paragraph about what you can conclude from this lesson. **Answers will vary, but might include: People with mediocre or poor credit will almost always pay more in interest, which means they will have less spendable income. To maximize your income, be sure to pay your bills on time so you can enjoy lower interest rates and have more money.**