

NAME: _____ CLASS PERIOD: _____

Getting the Best Deal on Your Auto Loan

Jill Winston shopped carefully for a new car.

She found the model she wanted and negotiated a price of \$22,000. She applied her old car's trade-in value to the down payment, which came to \$5,000. Jill had to borrow \$17,000 to buy the car.

Jill knew she should shop for credit just as she had shopped for the car. She took the following steps:

- **Checked her credit rating:** Jill made sure her credit rating was good and that there were no mistakes in her credit report.
- **Made comparisons:** She checked interest rates at her bank and at one other bank. She also checked the rate the car dealer offered. She checked the rates at a finance company that advertised easy terms. Finally, she checked online for car loans offered at several websites.
- **Compared loans for the same time period:** Jill found an array of rates for different time periods. She decided that she should compare the rates for loans for the same time period. She chose a three-year loan because longer loans mean higher total finance charges over the life of the loan. She also thought she might buy a new car in three years, and she wanted the loan to be paid off by then.

What Jill found.

The Last National Bank, where Jill has her checking account, offered her a loan with a 6.65 percent APR and a finance charge of \$1,799. An online lending site offered Jill a loan with a 5.27 percent APR and a finance charge of \$1,416.17. The car dealer offered her a loan with an APR of 7.24 percent and a finance charge of \$1,964.01. Finally, the Friendly Finance Company offered her a loan with an APR of 13.95 percent and a finance charge of \$3,901.85.



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Shopping Online for an Auto Loan

Now it's time to shop online for a loan. Assume you want a loan to buy a new car. You will search for car loans and visit several websites. Your new car costs \$20,000. Your trade-in and down payment total \$5,000. Therefore, the principal of the loan is \$15,000. The payment period is four years. Find four different online offers for a four-year new-car loan and identify the APR for each. You may wish to start by going to www.bankrate.com and checking new-car loans in your area, but check offerings in other areas as well.

Kind of loan: _____ Principal: _____ Repayment period: _____

Website	APR

Questions:

- Which loan has the lowest APR?
- How do the APRs on new-auto loans compare to APRs for used-auto loans?
- Are the loan rates the same in all areas?
- Are the loans quoted only in terms of their interest rate, or are there other costs involved?