## Money Mini Task: Getting a Loan for a Car

### Setting the scene

Louis needs a car for his new job. He plans to take out a loan to buy a second-hand car.

In this task you will help Louis compare two loan options. You will help him find key information from a table and decide which loan to choose. You will also work out how much he would pay altogether for each loan.

In this task you will practise your skills to

- find information from a table
- make calculations with money
- compare decimals
- convert between months and years.

Louis wants to borrow £2 500.

He will pay interest on the £2 500 he borrowed. He will also pay some charges for taking out the loan.

He gets quotes for two possible loans. The APR interest rate shown for the loans takes into account all the costs.

## Source material

**Loan of £2 500**

|  | Interest rate (APR) | Loan term | Monthly payment | Total paid |
|---|---|---|---|---|
| **Loan 1** | 11.9% | 60 months | £56 | £3 337 |
| **Loan 2** | 17.8% | 120 months | £45 | £5 406 |

When you take out a loan you need to look closely at the interest rate and any charges.

The APR (Annual Percentage Rate) is one way to show the rate of interest on a loan. It can help you compare deals.

You must also make sure that you can afford the repayments.

## Example:

**Let's look at Loan 1.**

The interest rate is 11.9% (APR).

The monthly amount Louis would need to pay is £56.

*Check you can find this information in the table*

The number of years he will be repaying the loan is **5 years**.

*The 'Loan term' is 60 months*

*There are 12 months in a year.*

*So in 5 years there will be 60 months (12 x 5 = 60)*

The total amount he will pay is **£3 337**.

The 'Total paid' is the amount Louis would pay over the 5 years.

It includes paying back the £2 500 he borrowed + interest + charges.

*Check you can find this information in the table*

## Task A

**Use the Source material and the example to help you answer these questions:**

1.  **Which loan has the lower interest rate?**

2.  **Which loan has lower monthly payments?**

3.  **If Louis chooses Loan 2 how much will he pay per month?**

4.  **How many years would it take to repay Loan 2?**

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Louis will need to make sure he can afford to make the monthly repayment every month.

He also needs to think about how much the loan will cost him altogether.

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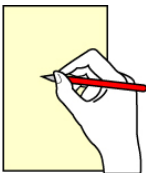
## Task B

**Use the Source material and the other information you have to help you answer these questions:**

5.  **What is the total amount Louis would pay if he chooses Loan 2?**

6.  **How much will he pay in interest and charges for each of the loan options?**

    *Tip: For each loan, think about how much he will pay altogether and how much he borrowed.*

7.  **Which loan would you recommend him to choose? Explain why.**

## How did you get on?

1. **Loan 1** has a lower interest rate.

*Interest rate **11.9% (APR)***
*i.e. just less than 12%*
*Loan 2 has a rate of 17.8%*
*(just less than 18%)*

2. **Loan 2** has lower monthly payments.

*Payment **£45** per month*
*Loan 1 has payments of £56 per month.*

3. If Louis chooses Loan 2 he will pay **£45 per month**.

4. It will take **10 years** to repay Loan 2.

*'Loan term' is 120 months.*

*There are 12 months in a year.*

*So in 10 years there will be 120 months (12 x 10 = 120)*

5. The total amount Louis would pay with Loan 2 is **£5 406**.

6. **Loan 1** will cost **£837** in interest and charges.

| | |
|---|---|
| £3337 | *Total paid (Loan 1)* |
| £2500 | *Amount borrowed* |
| – | |
| £ 837 | |

   **Loan 2** will cost **£2 906** in interest and charges.

| | |
|---|---|
| £5406 | *Total paid (Loan 2)* |
| £2500 | *Amount borrowed* |
| – | |
| £2906 | |

This information presented as part of the table would look like this:

| Interest rate (APR) | Loan term | Monthly payment | Total paid | Interest paid |
|---|---|---|---|---|
| 11.9% | 60 months | £56 | £3 337 | *£837* |
| 17.8% | 120 months | £45 | £5 406 | *£2 906* |

**7.** *Which loan did you recommend Louis to choose?*

*There is no right answer to this. The loan he chooses will depend on his own situation.*

*What reasons did you give for the choice you suggested?*
*Look at the ideas below. See if you agree:*

- *If he can afford to make payments of £56 per month, he might choose Loan 1. With this loan he would pay less money overall to borrow the £2 500 he needs. After 5 years his debt would be fully paid and the car would belong to him.*

- If he will find paying £56 a month **every** month difficult, he might choose Loan 2. It is important he makes sure he makes all the monthly payments. If he doesn't, the car might be re-possessed by the loan company.

## For further information and practice

To find out how much a loan will cost, try the *Money Matters to Me* **loan calculator** www.moneymatterstome.co.uk/Interactive-Tools/LoanCalculator.htm

## If you would like more practice on making calculations with numbers or money, visit these resources on this Learner Route:

**Hot Topics: Managing money**

**Hot Topics: Which Operation**

## For more practice on finding information in tables, try:

BBC Skillswise RAW: Express Unit on **Tables**
http://www.bbc.co.uk/raw/money/express_unit_tables/

## For more practice on calculating with money and buying on credit, try:

BBC Skillswise **Activities on Money**
http://www.bbc.co.uk/skillswise/numbers/measuring/money/index.shtml

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Adult Financial Capability Framework

B(f) 2  Understand that you need to pay to borrow money

B(h) 2  Be able to identify product information

Numeracy Core Curriculum

N2/E3.3  Understand decimals up to 2 decimal places

MSS1 /E3.3  Work with time (months and years)

HD1/E3.1  Extract information from tables

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