**Activity 5.7.6 Financing Options**

**Situation:** Sydney is in the process of buying a new car. A Honda CR-V would be ideal – this SUV is not too big but large enough to use for moving and outings. The cost of the CR-V that she wants is $32,895. Unfortunately, Sydney does not have enough for a down payment so she will need to finance the entire amount through an auto loan. She found that Honda offers financing but the interest rate depends on how good her credit score is. She also found that her bank offers auto loans. Both the dealership and the bank require monthly payments and compound the interest monthly.

**Dealer Options:** The dealer offers the different APRs depending on the credit score of the buyer.

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| --- | --- | --- |
| **Financing Description** | **Annual Interest Rate** | **Length of Loan** |
| **Dealership – Very Poor Credit** | 12% | 5 years |
| **Dealership – Good Credit** | 2.5% | 5 years |
| **Dealership – Excellent Credit** | 0.9% | 5 years |

1. For each of these financing options, determine the monthly payment and also the total cost of the car over the lifetime of the loan.
2. How much more money does a person with very poor credit pay for this car than a person with excellent credit?
3. How much more money does a person with good credit pay for this car than a person with excellent credit?

**Bank Options:** Sydney’s bank also offers multiple loan options. The APR is different for loans with different time frames.

|  |  |  |
| --- | --- | --- |
| **Financing Description** | **APR** | **Length of Loan** |
| **Bank – 5 year** | 1.99% | 5 years |
| **Bank – 4 year** | 1.90% | 4 years |
| **Bank – 2 year** | 0.95% | 2 years |

1. For each of these financing options, determine the monthly payment and also the total cost of the car over the lifetime of the loan.
2. Assuming that Sydney has good credit, which financing option should she choose? Explain all of the factors that you considered when making your decision.