**How much car can you afford?**

**It's generally recommended that your monthly car payment not be more than 20% of your monthly income (though some people recommend it not be more than 10%). Your actual limit depends on your exact monthly expenses. For this activity we will use 15% of your monthly income.**

**According to the recommendation above, if your monthly income is $1,750, how much money can you afford to pay monthly for a car?**

**Use this formula to help:**

***☞ Formula: Monthly Income x 15%***

 ***­­­­answer:***

**Buying Your Car**

**Most people can't afford to pay the full price of the car up front. To figure out your monthly payment, you'll need to determine how much more you'll need to pay after the down payment has been made and maybe a discount acquired. This amount is called the capitalized cost, or cap cost. Combined with monthly interest fees, this is what you'll pay for your car.**

**You are going to buy a new car. The sticker price of the car is $22,000. The car salesman gave you a $1,500 discount. You paid $1,200 up front as a down payment. Your interest rates will 7%. You are going to pay off the car in 36 months. How much will you pay every month to pay off your car?**

**What is the approximate sticker price (MSRP) of the car you'd like to buy?**

**­­­­**

**How much of a discount do you think you can negotiate with the dealer?**

**How much money can you pay up front as a down payment?**

**What is the interest rate for your car loan?**

**How much time do you want to pay off your car?**

***☞Formula*: Sticker Price – Discount – Down Payment x rate(%) x Time(years) = Monthly Car Payment answer:**

**Solution**

***Monthly Income x 15%***

***­­­­answer: $262.50 / monthly***

***Sticker Price – Discount – Down Payment x rate(%) x Time(years) = Monthly Car Payment***

***answer: 22,000; 1,500; 1250; .07(7%); 36 months = $112.58***