What is Auto Loan Structure?

Worksheet

Auto loan structure consists of the loan amount (principal), annual percentage rate (APR), term (in months), and monthly payment. The car secures the loan.

Questions

1. What role does collateral play in an auto loan?
A) Sets the interest rate
B) Guarantees loan repayment
C) Allows the lender to repossess if unpaid
D) All of the above

2. In early months, where does most of your payment go?
A) Principal
B) Interest
C) Fees
D) Taxes

3. What is a secured auto loan?
A) A loan guaranteed by the federal government
B) A loan backed by the vehicle as collateral
C) A loan at a fixed rate
D) A loan with no fees

4. Auto loan term of 72 months means...
A) 72% interest
B) 72 annual payments
C) 6 years of monthly payments
D) Loan matures in 72 days

5. A car costs $25,000. Loan terms: 6% APR, 60 months. What is the monthly payment?

6. A borrower has a $15,000 loan at 4.5% APR for 48 months. Calculate interest paid.

7. A $30,000 auto loan at 5% APR over 72 months. How much interest?

8. Define: What is APR in an auto loan?

9. Define: Why is the car collateral?

10. Define: What is amortization?

Answer Key

1. D) All of the above — Collateral (the car) secures the loan, influences APR, and permits repossession.

2. B) Interest — Amortization front-loads interest; later payments favour principal.

3. B) A loan backed by the vehicle as collateral — The car is collateral; if you default, the lender repossesses it.

4. C) 6 years of monthly payments — 72 months = 6 years; you pay monthly for 72 periods.

5. Using standard auto-loan formula: M ≈ 483 Total paid over 60 months:483 × 60 = 28,980 Total interest:28,980 − 25,000 =3,980

6. Monthly payment ≈ 340 Total paid:340 × 48 = 16,320 Total interest:16,320 − 15,000 =1,320

7. Monthly payment ≈ 465 Total paid:465 × 72 = 33,480 Total interest:33,480 − 30,000 =3,480

8. Annual Percentage Rate — includes base interest plus fees, shown as a yearly rate.

9. If the borrower defaults, the lender repossesses the car to recover the loan.

10. The process of paying down a loan gradually with fixed monthly payments; early payments go mostly to interest.