

Big Purchases & Borrowing

Compare the total obligation behind a car payment or mortgage before deciding what is affordable.

BY THE END, YOU SHOULD BE ABLE TO

- Distinguish interest rate, APR, finance charge, principal, and term.
- Compare loans using total cost instead of monthly payment alone.
- Add insurance, taxes, maintenance, and fees to the decision.
- Stress-test the payment against a realistic monthly budget.

THE TRAP

A seller can lower a monthly payment by stretching the loan. The payment falls while the total cost and the time spent owing money can rise.

1. The five numbers to compare

PRINCIPAL

Amount borrowed before interest and future charges.

INTEREST RATE

Price paid to the lender for borrowing the principal.

APR

Broader annualized cost that includes the interest rate and certain mandatory fees.

TERM

Number of months or years scheduled for repayment.

FINANCE CHARGE

Total interest and certain fees paid over the loan if payments are made as scheduled.

2. Car-loan comparison

Same amount borrowed, two offers. The longer loan has the lower payment but the higher borrowing cost.

	APR	TERM	MONTHLY	TOTAL PAID	INTEREST
Offer A	6.5%	48 months	\$593	\$28,458	\$3,458
Offer B	8.5%	72 months	\$444	\$32,001	\$7,001

WHAT CHANGED

Offer B lowers the monthly bill by extending repayment, but it leaves the borrower in debt two years longer and increases total interest. A real comparison must also include down payment, taxes, registration, insurance, fuel, maintenance, and optional add-ons.

Decision questions

1. Which offer has the lower payment? Which has the lower total cost?

2. If a dealer focuses only on 'What monthly payment do you want?', which numbers should you request before agreeing?

3. Mortgage payment is more than principal and interest

A housing decision can include principal, interest, property taxes, homeowner's insurance, mortgage insurance, association dues, repairs, utilities, and closing costs.

COST	WHERE IT APPEARS	QUESTION
Principal + interest	Loan payment	Fixed or adjustable? What happens after a reset?
Property tax	Escrow or direct bill	Could the assessed value or tax rate change?
Insurance	Escrow or insurer	What coverage and deductible are required?
Mortgage insurance	Loan estimate/payment	When can it end, and under what rules?
Closing costs	Loan Estimate/Closing Disclosure	Which costs are lender-controlled and which can be shopped?
Maintenance + dues	Household budget	What happens when the roof, HVAC, or association assessment arrives?

4. Affordability stress test

Monthly take-home income:

Essential bills before the new purchase:

Emergency and irregular-expense contribution:

Full monthly ownership cost - payment, insurance, taxes, fuel/utilities, maintenance, dues:

Money left after all four lines:

What changes if income falls 15% or the largest variable cost rises 20%?

What part of the purchase can be delayed, reduced, or negotiated?

Answer key & negotiation checklist

Car comparison: Offer A has the higher monthly payment but lower total interest and a shorter obligation. Offer B has the lower monthly payment but higher total cost. The best choice still depends on the borrower's budget, alternatives, reliability needs, and whether either purchase is affordable.

- Get financing offers before entering the dealership when possible.
- Compare APR to APR, term to term, amount financed, finance charge, and total of payments.
- Separate the vehicle price from financing and optional products.
- Read the Truth-in-Lending disclosure before signing.
- For a mortgage, compare official Loan Estimates and the five-year borrowing cost, not only the headline rate.
- Leave room for insurance, taxes, maintenance, and an income shock.

SOURCES AND NEXT STEPS

CFPB - Auto loan Truth-in-Lending disclosure: consumerfinance.gov/ask-cfpb/what-is-a-truth-in-lending-disclosure-for-an-auto-loan-en-787/

CFPB - Compare auto loan offers:

consumerfinance.gov/ask-cfpb/how-do-i-compare-auto-loan-offers-what-should-i-look-at-besides-the-monthly-payment-en-753/

CFPB - Compare Loan Estimates: consumerfinance.gov/owning-a-home/compare/compare-loan-estimates/