

Till Debt Due Us Part How to PLAY?

There are a few significant lessons in this game and as you learn to play it they will become apparent. Number 1 and foremost is the ability to layout the transaction and understanding the Operational Definitions. This game will make that step easy.

When a transaction is being contemplated, the first item to complete is to layout the material terms. The first question or main concern is the SP or Sales Price and you will want to post this. If there are any other added items such as sales tax, delivery, closing costs, and due diligence this should be accounted for. In the example in our game the purchase is for a car and the SP is \$25,000.00

The next material term is the **DP** or the Down Payment. Let us assume that the downpayment is 20% or \$5,000.00. This should be the next line item in your transaction layout.

This leaves a balance of \$20,000.00 due which you will borrow from the bank and is called the PV or Present Value of the loan that you must qualify for and get approved. Your credit rating and 20% downpayment means that you have skin in the game and should make the qualifying a bit easier.

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The next item on your transaction is how much is the annual interest you will be charged and what are the terms of the loan. Usually for a car loan the terms will be monthly payments and be amortized or paid in full in five years or sixty (60) installments. This called the N and stands for the time the loan is issued for.

In many cases the N time will fully payoff the loan balance. In other cases, there may still be a balance on that loan that is due and payable. More on this in future chapters.

The next step is to establish the interest rate per period. In our case let us assume the annual interest rate 12% called the APR or “Annual Percentage Rate” Because we have monthly installments, we will divide this by 12 and establish that the monthly rate is one (1%) and called the INT.

Next is to determine the monthly payment and from this we can establish what will be owing on the automobile at any point. This is referred to as the PMT or Payment.

Finally, the FV is the Future Value of the loan as it is diminishing from our periodic installments. This is the important data point! How much do we owe

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on the loan at a given time in the future. AND more importantly what will be the value of the Asset at that time creating the equity on our balance sheet.

Now that we know to create the transaction with all the pertinent information let us create the Amortization table. In a future chapter I will home in on doing this on an Hp12c on your phone in seconds!