

Successful Start, Sponsored by the Office of Student Services, Presents:

HOW TO PLAN FOR MAJOR PURCHASES

MAJOR PURCHASES

- ✘ Borrowing money
- ✘ Car Options*
 - + Leasing (or do you want to own a “wasting” asset)
 - + Buying
- ✘ Other major purchases
 - + When to finance (matching use with payment)
- ✘ Insurance for major purchases
- ✘ Purchase guidelines

*We will focus on purchasing a car because this is generally the first major purchase college grads will budget for

BORROWING MONEY

BORROWING MONEY

- ✘ Words that describe borrowing
 - + Borrow
 - + Finance
 - + Credit
 - + Loan
- ✘ All mean the same thing
 - + Upfront cash
 - + Repay borrowed amount over time
 - + Pay interest and fees (see sample to follow)

BORROWING MONEY

LOAN AMORTIZATION TABLE						
Amount of loan		\$10,000.00				
Annual Interest Rate		10.00%				
Number of months		12				
Monthly Payment		\$879.16				
	Beginning	Interest	Monthly	Applied to	Ending	
	Balance	Due	Payment	Principal	Balance	
1	\$ 10,000.00	\$ 83.33	\$879.16	\$795.83	\$ 9,204.17	
2	9,204.17	76.70	879.16	802.46	8,401.72	
3	8,401.72	70.01	879.16	809.14	7,592.57	
4	7,592.57	63.27	879.16	815.89	6,776.69	
5	6,776.69	56.47	879.16	822.69	5,954.00	
6	5,954.00	49.62	879.16	829.54	5,124.46	
7	5,124.46	42.70	879.16	836.46	4,288.00	
8	4,288.00	35.73	879.16	843.43	3,444.58	
9	3,444.58	28.70	879.16	850.45	2,594.12	
10	2,594.12	21.62	879.16	857.54	1,736.58	
11	1,736.58	14.47	879.16	864.69	871.89	
12	871.89	7.27	879.16	871.89	(0.00)	

PLACES TO BORROW MONEY

- ✘ Most common options
 - + Banks
 - + Credit Unions
- ✘ Most expensive options
 - + Finance companies
 - + Payday loans
- ✘ Family

CAR OPTIONS

CAR OPTIONS

- ✘ Paying Cash

 - + About 12% of cars

- ✘ Leasing

 - + 15%-20% of new cars are leased (see FX35 lease)



- ✘ Buying with a car loan

- ✘ Limit payment to 15% of your income

LEASING

	<u>5.00%</u>		<u>3.00%</u>		<u>2.75%</u>
Purchase Price	\$50,000	Purchase Price	\$50,000	Purchase Price	\$50,000
Length of Lease (months)	42	Length of Lease (months)	42	Length of Lease (months)	42
Interest Rate	5.00%	Interest Rate	3.00%	Interest Rate	2.75%
Monthly Payment (gross)	\$425	Monthly Payment (gross)	\$425	Monthly Payment (gross)	\$425
Monthly Payment (net)	\$401	Monthly Payment (net)	\$401	Monthly Payment (net)	\$401
Down Payment	\$5,000	Down Payment	\$5,000	Down Payment	\$5,000
Estimated Residual	\$25,000	Estimated Residual	\$25,000	Estimated Residual	\$25,000
PV of Lease Payments	\$15,421	PV of Lease Payments	\$15,969	PV of Lease Payments	\$16,039
PV of Residual	\$20,994	PV of Residual	\$22,511	PV of Residual	\$22,708
Estimated Discount	\$8,585	Estimated Discount	\$6,520	Estimated Discount	\$6,252

LEASING

✘ Advantages

- + Lower monthly payments
- + Drive newer car more often

✘ Disadvantages

- + You don't own the car- you rent it
- + Possible penalties at the end of the lease
- + You could possibly be responsible for maintenance
- + Very expensive to get out of lease early

LEASING TERMS

- ✘ Capitalization or Drive-off Costs
 - + Similar to down payment when buying a car
 - + Up-front cash needed to lease a car
- ✘ Monthly payment
 - + Monthly “rent” to use the car
 - + Terms are 24 to 48 months
- ✘ Other fees
 - + Refundable security deposit
 - + First and/or last month’s payment

POSSIBLE LEASING FEES

- ✘ Excess mileage fee
 - + 10,000 to 15,000 mile annual limit
 - + 12 to 25 cents per mile over limit fee
- ✘ Excess wear and tear
 - + Tires, body damage, etc.
 - + Outlined in lease
- ✘ Residual
 - + Cost at the end of lease to purchase vehicle

CAR BUYING CONSIDERATIONS

✘ Advantages

- + You own the vehicle
- + A quality car can last 10 years or more

✘ Disadvantages

- + Depreciation- many new cars lose 50% of their value over the first three years

BUYING A CAR

- ✘ Consider a used car
 - + Lower cost than a new car
 - + Afford more car and higher quality than if you went for a new model
 - + Look for low mileage
- ✘ Treat each transaction separately
 - + What's the price of the car?
 - + How much for your trade-in?
 - + What is the car loan interest rate?
 - + Cost of extended warranties and other add-ons?

BUYING A CAR

- ✘ Get pre-approved before you car shop
 - + Know how much car you can afford
- ✘ What's the price of the car?
 - + MSRP- Manufacturer's Suggested Retail Price
 - + Focus on the total cost, not the payment
 - + A lower payment may cost more

BUYING A CAR

- ✘ How many months is the loan term?
- ✘ What is the loan interest rate?

Loan Amount	Term	Interest Rate	Payment	Total Repaid
\$20,000	60 months	7%	\$396	\$23,761
\$23,000	84 months	7%	\$347	\$29,159

BUYING A CAR

- ✘ If you have a car to trade...
 - + Visit www.kbb.com
 - + Determine your trade-in value
- ✘ Extended warranties and add-ons
 - + Are they needed?
 - + How much is the total cost with interest?

YOUR NEXT CAR

- ✘ Consider a used car
 - + Online
 - + Newspaper
 - + Car dealers
- ✘ Compare leasing vs. buying
 - + Visit online calculators
- ✘ Take time to understand your contract
- ✘ Buy quality and keep for a long time

OTHER MAJOR PURCHASES

OTHER MAJOR PURCHASES

- × Appliances
- × Computer
- × Furniture
- × Car repairs
- × Electronics
- × Real Estate/Home

WHEN TO FINANCE

- ✘ When the loan is paid off will...
 - + I remember what I bought?
 - + The item have value?
 - + The total cost (item + interest) be worth it?
- ✘ Yes to all three = Good loan
- ✘ No to one = Save for it

INCENTIVES

- ✘ 10% off when you open a credit account
 - + Watch out for high interest rates
- ✘ Same as cash
 - + Usually 6 to 12 months to repay
 - + Interest accumulates during repayment
 - + If loan repaid on time, interest is removed
 - + If not repaid on time, interest is added to amount owed

INSURANCE FOR MAJOR PURCHASES

INSURANCE TYPES

- × Auto
- × Renter's
- × Credit Protection
- × Extended warranties

INSURANCE

- × Premium
- × Deductable
- × Payment
- × Do I need insurance?
 - + If I lost (major purchase) would my life significantly change?
 - + If I lost (major purchase) could I afford to repair/replace it?

AUTO INSURANCE

- ✘ Comprehensive
- ✘ Collision
- ✘ Many state laws require auto insurance
- ✘ Reduce auto insurance costs
 - + Increase deductible
 - + Choose an older car
 - + Re-consider owning a sports car



My 1988, 35th Anniversary, Limited Edition Corvette

RENTER'S INSURANCE

- ✘ For a house or an apartment
- ✘ Protects your personal property
 - + Fire
 - + Theft
 - + Vandalism

CREDIT PROTECTION

- ✘ Offered with:
 - + Credit cards
 - + Auto loans
 - + Home loans
- ✘ Pays monthly payments in event of:
 - + Illness
 - + Unemployment
- ✘ Can be expensive
 - + Monthly costs up to \$9 per \$1,000 owed

EXTENDED WARRANTIES

- ✘ For electronics and appliances
- ✘ Repair or replacement of item
- ✘ Covers a specific period of time
- ✘ In addition to warranty
- ✘ Can be expensive
- ✘ Prevent this cost by buying quality goods

PURCHASE GUIDELINES

GENERAL PURCHASING GUIDELINES

- ✘ Borrow wisely
- ✘ Treat all transactions separately
- ✘ When the loan is paid off will...
 - + I remember what I bought?
 - + The item have value?
 - + The total cost (item + interest) be worth it?
- ✘ Insurance guidelines

QUESTIONS???

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