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

<table>
<thead>
<tr>
<th>Beginning Balance</th>
<th>Interest Due</th>
<th>Monthly Payment</th>
<th>Applied to Principal</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000.00</td>
<td>$83.33</td>
<td>$879.16</td>
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<td>879.16</td>
<td>850.45</td>
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<td>879.16</td>
<td>864.69</td>
<td>871.89</td>
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<tr>
<td>871.89</td>
<td>7.27</td>
<td>879.16</td>
<td>871.89</td>
<td>(0.00)</td>
</tr>
</tbody>
</table>
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
<table>
<thead>
<tr>
<th></th>
<th>5.00%</th>
<th>3.00%</th>
<th>2.75%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Price</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$50,000</td>
</tr>
<tr>
<td>Length of Lease (months)</td>
<td>42</td>
<td>42</td>
<td>42</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>5.00%</td>
<td>3.00%</td>
<td>2.75%</td>
</tr>
<tr>
<td>Monthly Payment (gross)</td>
<td>$425</td>
<td>$425</td>
<td>$425</td>
</tr>
<tr>
<td>Monthly Payment (net)</td>
<td>$401</td>
<td>$401</td>
<td>$401</td>
</tr>
<tr>
<td>Down Payment</td>
<td>$5,000</td>
<td>$5,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Estimated Residual</td>
<td>$25,000</td>
<td>$25,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>PV of Lease Payments</td>
<td>$15,421</td>
<td>$15,969</td>
<td>$16,039</td>
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<tr>
<td>PV of Residual</td>
<td>$20,994</td>
<td>$22,511</td>
<td>$22,708</td>
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<tr>
<td>Estimated Discount</td>
<td>$8,585</td>
<td>$6,520</td>
<td>$6,252</td>
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</tbody>
</table>
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?

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Term</th>
<th>Interest Rate</th>
<th>Payment</th>
<th>Total Repaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20,000</td>
<td>60 months</td>
<td>7%</td>
<td>$396</td>
<td>$23,761</td>
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<tr>
<td>$23,000</td>
<td>84 months</td>
<td>7%</td>
<td>$347</td>
<td>$29,159</td>
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</tbody>
</table>
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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