

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

# HOW TO PLAN FOR MAJOR PURCHASES

# MAJOR PURCHASES

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- ✘ 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

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- ✘ 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				
	<b>Beginning</b>	<b>Interest</b>	<b>Monthly</b>	<b>Applied to</b>	<b>Ending</b>	
	<b>Balance</b>	<b>Due</b>	<b>Payment</b>	<b>Principal</b>	<b>Balance</b>	
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

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# CAR OPTIONS

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- ✘ 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

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## ✘ 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

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- ✘ 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

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- ✘ 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

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- ✘ 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

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- ✘ 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

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- ✘ If you have a car to trade...
  - + Visit [www.kbb.com](http://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

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- ✘ 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

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



# WHEN TO FINANCE

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- ✘ 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

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- ✘ 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

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

# INSURANCE

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- × 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

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- ✘ 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, 35<sup>th</sup> Anniversary, Limited Edition Corvette



# RENTER'S INSURANCE

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

# CREDIT PROTECTION

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- ✘ 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

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- ✘ 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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- × [successfulstart@bc.edu](mailto:successfulstart@bc.edu)
- × [www.bc.edu/successfulstart](http://www.bc.edu/successfulstart)
- × <http://twitter.com/#!/SuccessfulStart>