

Budgeting 300

MAJOR PURCHASES



First Major Purchases

- **Borrowing money**
- **Car Options**
 - Leasing
 - Buying
- **Other major purchases**
 - When to finance
- **Insurance**

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

Places to Borrow Money

- **Most common options**
 - Banks
 - Credit unions
- **Most expensive options**
 - Finance companies
 - Payday loans
- **Family**

Car Options

- **Paying cash**
 - About 12% of cars
- **Leasing**
 - 15% to 20% of new cars are leased
- **Buying with a car loan**
- **Limit payment to 15% of your income**

* Source: www.edmunds.com – an online car buying guide

Leasing

- **Advantages**

- Lower monthly payments
- Drive newer car more often

- **Disadvantages**

- You don't own the car – you rent it
- Possible penalties at end of lease
- You are responsible for all maintenance
- Very expensive to get out of lease early

Leasing Terms

- **Capitalization or drive-off cost**
 - Similar to down payment when buying a car
 - Up-front cash needed to lease 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 Tips

- **Advantages**

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

- **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 new car
 - Afford more car and higher quality than new car
 - 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

- **Appliances**
- **Computer**
- **Furniture**
- **Car repairs**
- **Electronics**
- **Ways to pay**
 - Cash
 - Credit card
 - Loan

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 six to 12 months to repay
 - Interest accumulates during repayment
 - If loan repaid on time, interest is removed
 - If not repaid, interest is added to amount owed

Insurance

- **Types of Insurance**
 - Auto
 - Renters
 - Credit protection
 - Extended warranties

Insurance

- **Premium**
- **Deductible**
- **Payment**
- **Do you need insurance?**
 - If I lost _____ would my life significantly change?
 - If I lost _____ could I afford to repair/replace it?

Auto

- **Collision**
- **Comprehensive**
- **Many state laws require auto insurance**
- **Reduce auto insurance costs**
 - Increase deductible
 - Choose an older car
 - Reconsider that sports car

Renters

- **For a house or apartment**
- **Protects your personal property**
 - Fire
 - Theft
 - Vandalism

Credit Protection

- **Offered with**
 - Credit cards
 - Auto loans
 - Home loans
- **Pays monthly payments**
 - Illness
 - Unemployment
- **Can be expensive**
 - Monthly cost up to \$9 per \$1,000 owed

Extended Warranties

- **Electronics and appliances**
 - Repair or replacement of item
 - Specific period of time
 - In addition to warranty
 - Can be expensive
 - Prevent this cost by buying quality goods

Purchase 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**



Building Futures™ Financial Literacy

P.O. Box 419045
Rancho Cordova, CA 95741-9045
www.edfund.org

Toll-free Numbers
Schools/Lenders
1.888.22FFELP (1.888.223.3357)

Borrowers/General Information
1.877.2EDFUND (1.877.233.3863)