

## Be Smart

Spending on a major purchase doesn't mean you have to risk your financial future in the process. It is possible to spend a lot and still be smart about it.

What do you consider to be a major purchase? A new gaming system? A new car, truck or motorcycle? A home? In truth, any of these could be a major purchase depending on your financial situation at the time you buy.

But they might also be no big deal if you have your financial house in order. In short, it all depends on how the purchase compares to the rest of your financial situation.

## Think First

Stop major purchases from becoming major problems by keeping these things in mind:

**Logic beats emotion.** Be smart. Don't let fancy marketing suck you in.

**Additional costs matter.** What else will you have to pay? As an example, cars require maintenance, repairs, gas and insurance. Other big purchases are often similar.

**Things change.** Your life can be completely different in a year or two. Will today's purchase still make sense then or could you regret it?

**Shopping around is smart.** It forces you to slow down the purchase decision and be more levelheaded about what you are purchasing.

**Cash or credit?** Paying cash is often smarter than financing so you avoid paying extra on interest. Just don't use all of your cash, keep some for emergencies. On the flip side, using a credit card (if you pay it off entirely) will offer some consumer protections.

## Avoid Trouble

**Ask yourself, "want or need?"** Is this purchase you're considering absolutely necessary? Be honest. For example, you may legitimately need a car, but you probably don't need the nicest one available. You should be just as excited about making a smart purchase as you are about what you want to buy. If not, you could be headed for trouble.

**Wait.** One of the best ways to bypass an emotional buying decision is to implement a cooling-off period before you pull the trigger. Sleep on it - maybe for a couple of days - and see if it still seems like a good move.

**Ask someone else.** Ask a parent, family member or friend to be a sounding board on major purchases. Just be sure to find a helper and not an enabler. In addition, try to avoid keeping up with others as everyone's situation is unique.

## Buying a Vehicle

Buying a vehicle is a major financial move that will factor significantly into your financial planning and your monthly budget. It is important that you assess your needs, identify your priorities, and understand the available financing options before you decide on the most appropriate vehicle for you.

## Assess Your Needs

It's easy to rationalize that you need more in a vehicle than you really do, but resist that urge.

Limit your total auto expenses to 15% – 20% of your gross pay. Be sure to include the cost of gas, insurance, maintenance and repairs.

Consider your personal situation. Will you PCS or deploy anytime soon? Will your household income be decreasing for any reason? A lot can change over a few years so it is important to think about your purchase not only in terms of whether you can afford the vehicle today, but also whether you will be able to afford it in the future. Most vehicles decline in value rather quickly, making it easy to owe more than the vehicle is worth. And keep in mind, you still owe the loan balance even if you don't have the vehicle through a sale, accident, etc.

## Identify Your Priorities

### If you are buying:

- **A New Vehicle:** May have lower loan rates, latest safety features and technology, new warranty, less maintenance
- **A Used Vehicle:** Can be a better buy, less depreciation, lower expenses on registration, licensing fees, insurance premiums, may have more maintenance and repair costs

### Decision Factor:

- **Vehicle Price:** Rebates, discounts, option package discounts, trade-ins, available financing
- **Affordability:** Monthly payments, fuel, insurance, maintenance, repairs, taxes, registration, license fees - It's not just the loan payment.
- **Resale Value:** Future marketability: automatic transmission, air conditioning, leather upholstery, anti-theft system, safety features, other accessories
- **Gas Mileage:** EPA estimates, engine size, transmission, air conditioning, load capacity, road conditions, driving habits, advantages and disadvantages of hybrids
- **Safety:** Crashworthiness, safety ratings, safety features
- **Maintenance:** Costs vary greatly depending on car make/model

## Vehicle Loans

Like credit cards, vehicle loans vary depending on the institution offering them. It's wise to get pre-approved BEFORE you begin shopping. And keep in mind, you don't have to spend the full amount you are approved for. When shopping for a loan, compare the following:

**Annual percentage rate (APR)** — the rate of interest you will pay annually

**Loan term (or length)** — the amount of time you have to pay the loan in full. This affects the total amount of interest you will pay. Longer term loans generally have higher interest rates and lower monthly payments, but you will pay more interest over time

**Prepayment penalties** — a fee for paying the loan in full before the due date

**Lender's reputation** — service reputation and financial strength of the lender



# MAJOR PURCHASES

## Vehicle Loan Multiplier

It is easier to commit to a loan with a longer term when a low monthly payment looks advantageous. Compare the total amount of interest over the entire life of the loan before deciding. Remember, you pay more total interest when you select a loan with a longer term. Be sure to ask questions and read the contract carefully before you sign. It's usually not a good idea to take out an auto loan longer than five years.

## Vehicle Loan Multiplier Graph

Interest Rate	Term	Payments	Loan Amount	Total Interest Paid	
<b>6% APR</b>	<b>3</b> Years	\$456 x 36	\$15,000	\$1,428	\$16,428
	<b>4</b> Years	\$352 x 48	\$15,000	\$1,909	\$16,909
	<b>5</b> Years	\$290 x 60	\$15,000	\$2,400	\$17,400

Interest Rate	Term	Payments	Loan Amount	Total Interest Paid	
<b>10% APR</b>	<b>3</b> Years	\$484 x 36	\$15,000	\$2,424	\$17,424
	<b>4</b> Years	\$380 x 48	\$15,000	\$3,261	\$18,261
	<b>5</b> Years	\$319 x 60	\$15,000	\$4,122	\$19,122



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