

A Lot to Consider

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

A major purchase is a big decision, but it does not have to be a big deal if you have your financial house in order. Consider how this purchase fits into the rest of your financial situation, including your goals for the future.

Be Smart

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

Think First

Stop major purchases from becoming major problems.



- **Use logic over emotion.** Be smart; don't let fancy marketing or fear of missing out suck you in.
- **Consider additional costs.** What else will you have to pay? Consider associated costs like maintenance, repairs and insurance.
- **Picture your future.** Your life may be completely different in a year or two. Will your major purchase make sense then, or will you regret it? For example, it may not make sense to buy a car if you will not be able to take it with you to your next duty station.
- **Shop around.** Do research and find the best option that meets your budget and needs. Shopping around forces you to slow down. Use this time to review your spending plan to ensure you can cover the purchase plus any additional costs.
- **Decide: Cash or credit?** Using cash is often smarter than using credit. However, avoid taking cash from your emergency fund to pay for a major purchase. Experts recommend keeping 3-6 months of living expenses set aside for emergencies.

Avoid Trouble




- **Want or need?** Be honest when you ask yourself if this purchase is absolutely necessary. For example, you may legitimately need a car, but you probably don't need the most expensive 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.** Talk with a trusted friend or family member and ask them to be a sounding board regarding your major purchase. Just be sure to find a helper and not an enabler.
- **Too good to be true?** Things that seem wonderful on the surface can sometimes include hidden costs or contractual obligations. Make sure you read the fine print and understand all of your short- and long-term responsibilities when making any major purchase.

Buying a Vehicle

Most vehicles decline in value rather quickly, making it easy to owe more than the vehicle is worth.

Assess Your Needs

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

	Potential Upside	Potential Downside
 Buying a New Vehicle	<ul style="list-style-type: none"> • Lower loan interest rates • Latest safety features and technology • New warranty • Less maintenance 	<ul style="list-style-type: none"> • Higher payment • Rapid depreciation • Longer commitment • Higher insurance premiums
Buying a Used Vehicle	<ul style="list-style-type: none"> • More affordable • Less depreciation • Lower registration and licensing fees • Lower insurance premiums 	<ul style="list-style-type: none"> • Higher interest rates • Higher maintenance and repair costs • Limited warranty
Leasing a Vehicle	<ul style="list-style-type: none"> • Lower payments • Lower maintenance costs 	<ul style="list-style-type: none"> • No ownership • More expensive in the long term

Identify Your Priorities

- **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

How Much Can You Afford?

Evaluate your spending plan and determine how you will pay for your vehicle. If you don't have a spending plan, now is a great time to set one up. To avoid interest costs, try to save up and pay in cash. If that isn't feasible, you may need to get a loan. Like credit cards, vehicle loans vary depending on many factors including the lender and your credit score. When shopping for a loan, compare the following:

- **Annual percentage rate (APR)** — the rate of interest you will pay per year
- **Loan term (or length)** — the period of time you have to pay the loan in full
 - Longer-term loans generally have higher interest rates and lower monthly payments
 - Shorter-term loans may have lower interest rates and higher monthly payments
- **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

Vehicle Loan Debt Multiplier

It can be tempting to commit to a longer loan term to keep your payments down, but be sure to compare the total amount of interest over the entire life of the loan before deciding. Remember, you typically pay more in 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 a good idea to keep auto loans five years or less.

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

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

Summary

You will likely make many major purchases throughout your life. But remember, you don't have to risk your financial future if your financial house is in order.

- Plan ahead and take the time to carefully consider your purchase.
- Honestly evaluate your needs and budget.
- Educate yourself so you can make prudent financing decisions.

The decisions you make today can make a big difference for your financial future.