Moving Out on Your Own

National Financial Educators Council

Accredited Course

Student Guide

Moving Out on Your Own

How to Afford and Qualify to Live Independently

All young people want to move out of their parents' homes, get away from the rules that govern them there, have friends and partners visit whenever they want, and have the freedom to come and go when they choose. In this workshop, you will learn how to create a budget and find out what it takes to build the financial independence to get into that rental property where you want to live! After completing this workshop, you will have the tools you need to get the independence you desire.

KWR

The purpose of a KWR chart is to help you organize your thoughts about information. A KWR chart provides you with a method to organize and simplify your thoughts when reading complex information.

Education Reason – Research shows that, when you connect existing knowledge about a topic to a new topic you are learning, it is easier to pick up the new concept and increase your knowledge about the subject matter. By connecting previous experiences to new information as you learn it, it becomes easier to recall and retain the information you have learned.

How a KWR Works – Using a KWR chart will help you organize and clarify your thoughts. Let's dig deeper into how this type of chart works.

K stands for what you already know about a subject or topic. One way to approach using this column is to brainstorm any words, terms, or phrases you have heard or associate with that topic. For example, you might think about the term "finance" and associate words like money, wealth, happiness, rich, or vacation when you hear that term. This activity can be expanded by choosing a word that you wrote down, such as money, and asking yourself "What made me think of that word, and why do I associate it with wealth?" This activity can be extensive, and you should be open to writing down as much information as possible without worrying about whether it is right or wrong.

W stands for what you want to learn about a topic. Always be sure to remember that no question is stupid, so write down anything that comes to mind. Thinking about the term finance, you may have questions such as "What makes someone wealthy?" or "How do I start a savings account?" The list of questions could be endless, and that's ok. Each question will help strengthen your understanding of the topic and expand your knowledge.

Another great question to ask yourself is "What would I like to learn more about regarding this idea?" This way of thinking helps change your perspective and approach to the question.

Finally, **R** stands for how this information relates to your life. This column helps you sort your thoughts about how you can take information and immediately apply it to your life. For example, you may realize that you associate wealth with being bad or that being wealthy means others will suffer. These thoughts could then lead you to start thinking about how you approach money and why you are hesitant to make more money or appear wealthy to others. The R column allows you to expand on the first two columns, while making deeper connections to your current life status.

Instructions – Using the chart provided below, you will complete your KWR chart by listing what you currently know about this topic, what you want to know, and how this topic relates to your life. There are no right or wrong answers. Just reflect on the topic and write down whatever comes to mind for each question.

K

What I Know. Think about what you already know about this topic and make a list that includes all these ideas. Don't worry about whether it's right or wrong; give yourself the freedom to write whatever comes to your mind about the topic.

W

What I Want to Know. What questions do you have about this topic, and what do you want to know more about? List all your questions. Also, note any areas about which you may be unsure and that you would like to learn more about.

R

How It Relates to My Life. How does this topic relate to your life? List the ways in which you think this topic may affect your life and the personal reasons you have for picking up the information.

Share Additional Insight

Once you complete the lesson, answer the following questions.

1. What is one thing you learned about this topic that surprised you?

2. How could you share this knowledge to help others learn more about this topic?

3. What topic or idea do you feel you didn’t learn enough about and would like to expand your knowledge on further?

4. What is one habit or change you would like to make in your life, given the information you just learned?

5. How did learning about this information make you feel?

6. How will this information change your life in a more positive way?

7. How can I expand your learning once this class is done?

After completing this activity, rate your level of experience, on a scale of 1-10, about your understanding of this topic.

Rate:

____

1 – I understand little about this topic

10 – I feel confident in the content I have learned and would be able to share my knowledge with other

Next, make a list of all the topics or ideas about which you would be interested in learning more.

Savings, Expenses & Budgeting

Pre-Education Case Study:
Level – Financial Challenges & Recovery

A case study is essentially a story – it provides an illustration of how financial lessons can be put into action by real people in real-world situations. Case studies are engaging and relatable, and offer solid evidence of the practical value financial education has to help people solve problems and make sound life decisions.

Financial Challenges & Recovery

Pre-budgeting Case Scenarios

Meet Susana, age 20

Susana is 20 years old. She still lives with her parents. She has a new boyfriend with whom she would like to spend more time, but she finds it hard to do so at her parents' house. She also has a group of friends who like to take turns getting together at each other's houses, but she is never able to volunteer her place. She feels really bad when she stays out late or stays over at her boyfriend's place, but she doesn't like having to call home to tell her parents where she is either.

Susana works as a waitress at a local fast food casual sit-down restaurant. She makes $12.25 an hour and makes about $100 a shift in tips. She works four shifts a week and her shifts are about 6-7 hours each. Her employer takes about 25% out of her check for taxes, but nothing out of her tips. She also drives for a meal delivery service twice a week and makes an extra $300 per week. Nothing is taken out of these earnings for taxes. She will likely owe taxes at the end of the year for her tips and extra income.

Susana has about $1,500 in savings right now. She recently purchased a car and has been consistently making payments. She spent $25,000 on her car and her payments are $350 a month. She has two credit cards. She owes $1,000 on one card and pays the minimum payment of $40 a month on that card. She owes $400 on the other card and pays $50 a month on that one. Her credit score is 738, but she has no rental history.

Based on her situation and goals, answer the following questions:

Susana wants to move out on her own but isn't sure if she can.

1. What would be a good financial move for Susana to make before she moves out of her parents' house?

2. What advice/suggestions would you give her as she goes to search for a rental property?

3. If you were a landlord, how would you deal with Susana?

4. What are the key learning points from this case study?

Create Your Budget & Automate

The primary reason to create a budget is to build savings. That way you have money to spend on the things you want now, but also ensure that you have enough set aside to reach your long-term goals. In this topic, you will take the appropriate steps to create a workable budget and automate your financial accounting to make regular review and adjustment easy.

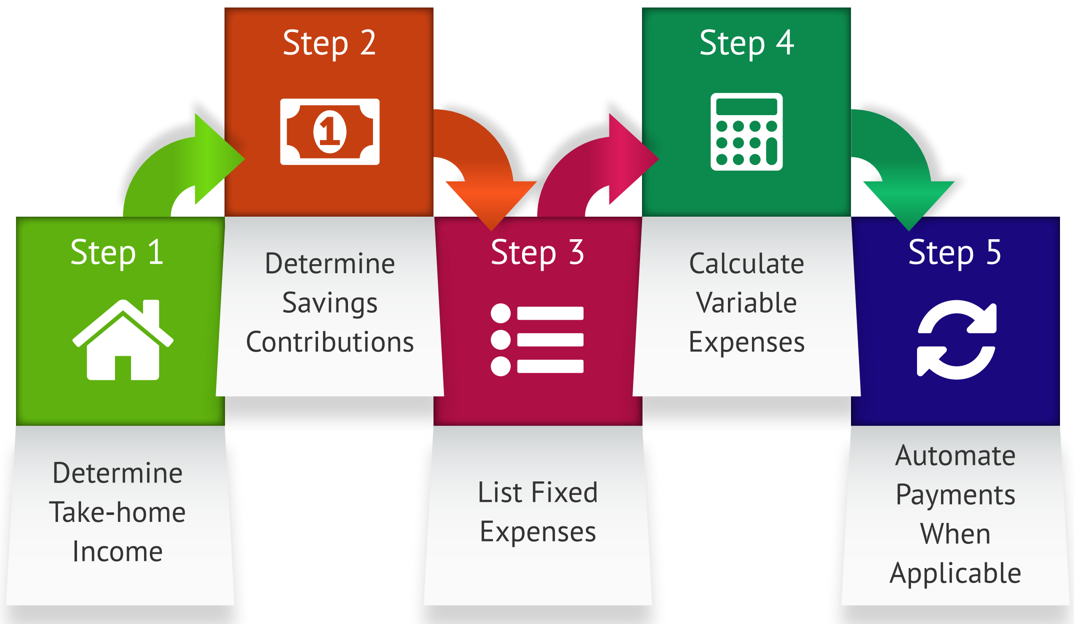
Time Investment
1 hour

Create Your Budget & Automate

Wouldn't it be nice to have money for the things you want now, while still making sure you have enough for later? That's the goal of creating a budget and savings plan. Saving money is the cornerstone of a financially secure lifestyle, and building a clear budget may help you save more.

Did you know that about 70% of lottery winners waste all of their earnings within just a few years? And the majority of people – not just lottery winners – are experiencing financial problems. Many of those people could have avoided financial problems if they simply had a budget in place and followed basic guidelines.

At the fundamental level, a budget is a plan for how to handle your money. Income, expenses, and savings are the essential elements of a budget. Let's walk through the process of creating a budget together.



Budgeting Steps

Your first step in creating a budget is to enter your take-home income. If you receive a paycheck, use the net pay – that is, the amount you receive after all the taxes and other fees are deducted. If you receive tips or any other compensation from additional sources, be sure to add that into your income as well.

Your next step is to plan out your savings. Remember that the key goal of creating a budget is to save money. It's important to build a budget where you put aside at least 10% of your money for long-term savings. This money should be set aside before you purchase any wants – items you don't absolutely need for survival – or pay for items that generate additional income.

Once you complete the income and savings sections of your budget, next move on to listing your fixed expenses. Fixed expenses are the bills toward which you pay the same amount each month like rent, car payment, and insurance. Next, account for the fixed expenses you pay annually: car registration, gym membership dues, or anything else you pay every year. Enter these expenses into your monthly budget by taking the annual payment and dividing it by 12. For example, if your gym membership costs $240 a year, you should be saving $20 a month toward that bill.

The next step is to calculate your variable expenses. Some variable expenses are obvious. Utilities are a prime example: the more water you use, the higher your water bill will be. The amount varies from month to month.

However, some expenses are harder to pin down. Most of us have cash that vanishes each month into unknown voids, like stops for coffee, movies, events, or extra groceries. These are small, possibly infrequent purchases that may not register in your memory when you sit down to do your budget review.

For the next month, set a goal to get a handle on your variable expenses. Identify some or all of the "voids" into which your funds are "disappearing."

There are several ways to track spending: save receipts, carry a small notebook, or tap into the variety of available cell phone apps and online money management tools. Another easy way to track day-to-day spending is by using only your credit or debit card to perform transactions. This way, all transactions show up on your monthly banking statement. If you are required to use cash at some point during the month, set yourself a calendar reminder to include X amount in cash purchase for Item Y when you do your budget check. You can manually add it to your budget tracking at that time.

It's important to get into the habit of budgeting before buying. This financial philosophy suggests that you should always budget and include all the costs associated with an item before you make a purchase decision. Consider what you can afford to spend on "wants" after you put money aside in savings and your needs are taken care of. Budgeting before you make a purchase helps you set clear spending limits to mitigate the possibility of becoming emotionally involved in purchase decisions. Emotional attachments often lead people to spend well beyond their budgets. Additionally, if you require yourself to set aside money each pay period in order to purchase the item you want, you give yourself time to consider the purchase. Is it still important to you a month or two later, after you have accumulated the amount you need for the purchase?

Each of us has a limited amount of money available to spend. Being able to manage our spending is critical to achieving financial success. More importantly, when you spend wisely you have more money available to save, and also to invest if you so choose.

Budget Step 1

Enter your income – Total net (take-home) pay, tips, and any other compensation.

Budget Step 2

Plan your savings – Set aside at least 10% of your income before you purchase any "wants."

Budget Step 3

List fixed expenses – Rent, car payment, insurance. Account for annual fixed expenses (gym memberships, auto registration, etc.) by dividing the annual payment by 12.

Budget Step 4

Calculate variable expenses – Coffee, movies, special events. Track variable expenses for a month and adjust accordingly.

Budget Step 5

Set up your budget to automate and organize your finances online. This step will ensure that you can accurately monitor your budget and make adjustments.

Setting Up Automated Accounts

1) Open Checking & Savings Accounts

If you do not already have checking and savings accounts open, shop around for the best financial institution to suit your needs. Banks and credit unions offer similar services such as checking and savings accounts, mortgages, and auto loans. However, they differ in that a bank is a company, and like most companies their primary aim is to maximize shareholder profits. A credit union, on the other hand, is a cooperative institution in which each member holds a share. There are pros and cons to choosing each type of financial institution, so you should investigate the differences before you decide which is best for you.

Further, banking products can have different benefits and terms from bank to bank and credit union to credit union. Be sure you understand exactly what your accounts offer and what they will cost you. Free checking, online banking, and savings account interest rates are common differentiators among banks and credit unions.

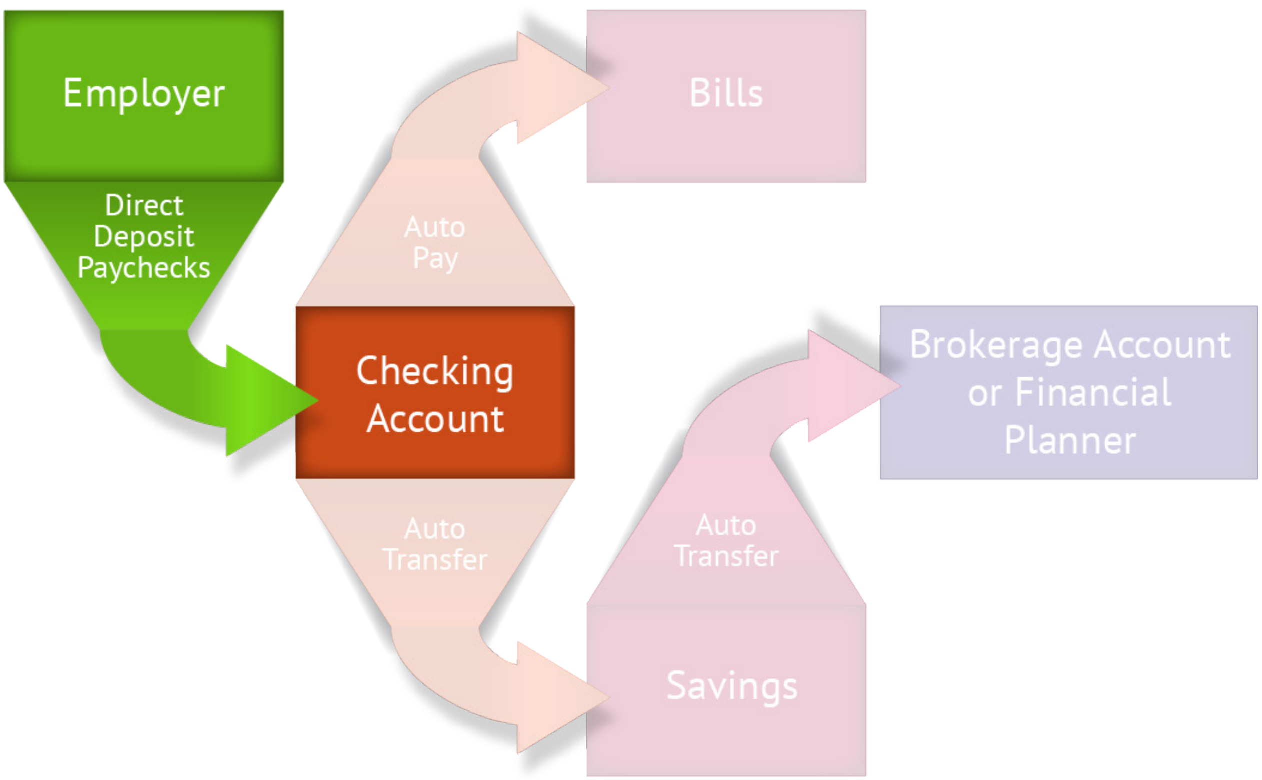
Many banks and credit unions offer online and automatic transaction services for paying bills, saving, and investing. These services are important to have in order to automate your budgeting system.

2) Set Up Direct Deposit

Have your employer directly deposit your paycheck into your account every pay period, if they offer that option. Direct deposit is safer than getting a paper check. You don't have to worry about losing your check, spilling coffee on it, or the dog eating it. You also don't have to worry about a mailed check taking a day or two longer to arrive due to a recent holiday when mail services are shut down.

Direct deposit also saves you time and money. You don't have to pay anyone to cash your check, or waste gas money and time driving around to get it cashed.

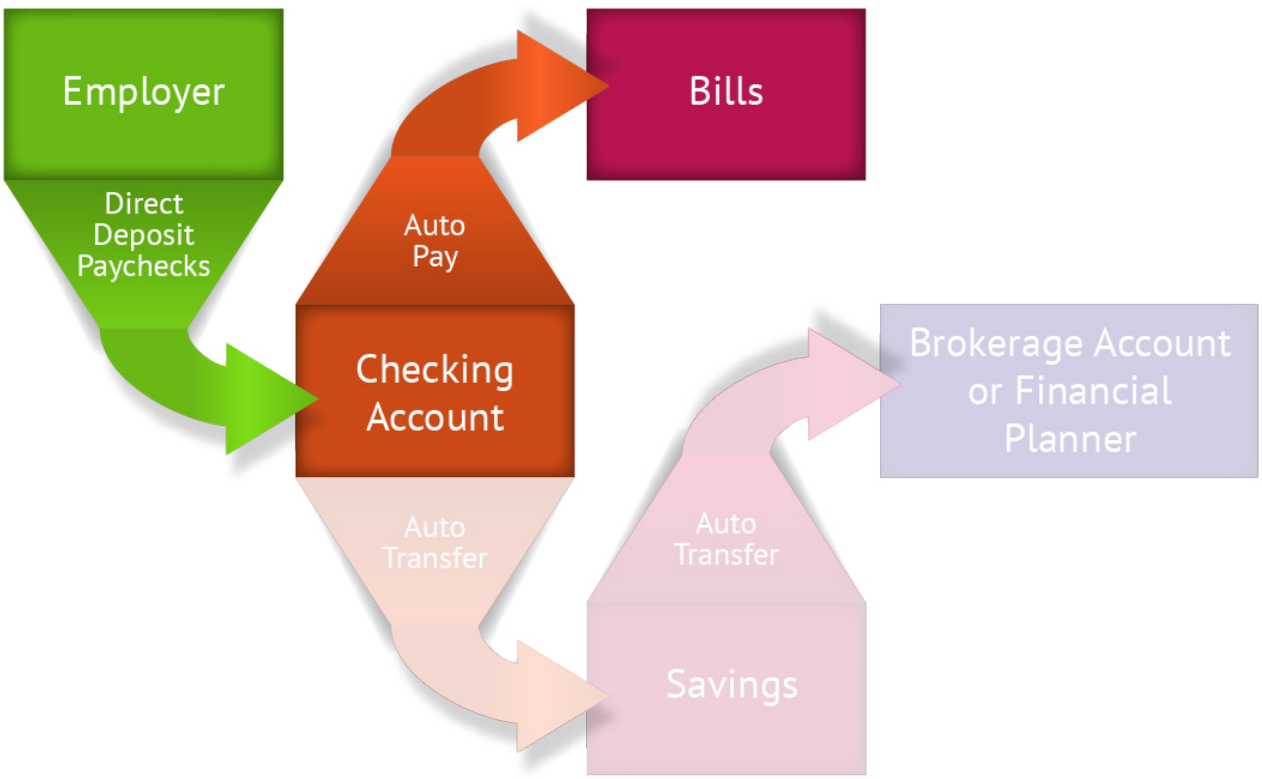
If your employer doesn't offer direct deposit, don't worry; your automation plan isn't automatically crushed. While you will still have to deposit your checks manually and face the associated risks, the rest of your automation plan can still be accomplished.



3) Automatically Pay Bills

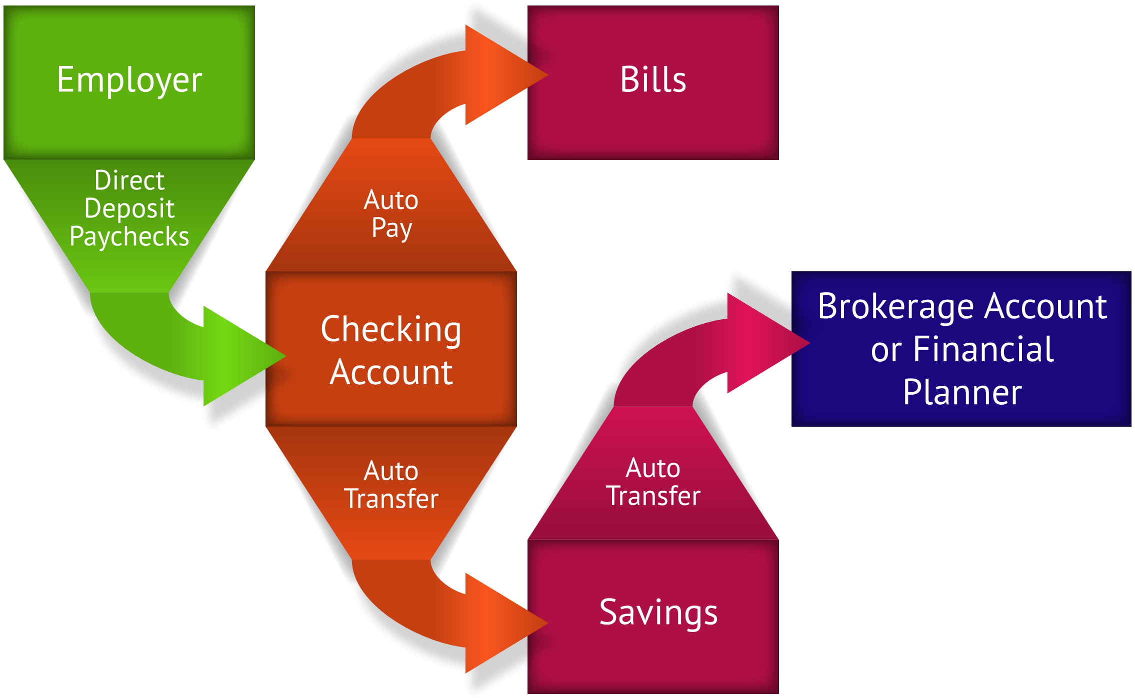
Set up your online banking to automatically pay all your bills each month. Automating your bill payments will save you time. It also saves you money, because if you accidentally pay your bills late, you also will be forced to pay a late fee on each late payment. Late fees can be as high as $40 or more, and really add up quickly. Can you really afford to waste money on late fees?

When you set up automatic bill pay properly, it also protects your credit by ensuring that all your accounts are paid on time every month. Even one late payment will hurt your credit score and, if you have several, your credit can be severely damaged.



4) Automate Savings / Investments

You also can set up your bank accounts to “pay yourself” first. Have your budgeted amount of savings or investment contributions automatically sent to the appropriate savings or investment accounts through automatic transfer. Some banks even waive account fees when you make an automatic transfer of at least a certain amount to your savings account each month. Be sure to find out whether your financial institution offers such a benefit.



5) What’s Left Over?

The remaining amount of money you have, after all your bills are paid and your savings contributions are made, is what you can use for “want” purchases, or to cover large spikes in variable expenses that may occur occasionally.

Using Third-party Financial Tracking Services

Third-party, online money management services allow you to connect all your online billing and banking accounts into a single dashboard; bringing all your financial accounts into one spot where you can view and track them. There are a number of online programs that allow you to do just that.

However, keep in mind that third-party online money management services pose two key risks:

1) Advertisements

If the service is “free,” then they probably are selling advertising that is targeted to you on the website. If you decide to use such a third-party service, keep in mind that not everything that appears on your dashboard may be the correct financial product for you.

Offers for obtaining your credit score, 0% interest credit cards, or high-interest savings funds are common ways in which advertisers attempt to reach you through the “free” service you are using. There may be nothing wrong with these services; they may be the perfect match for your needs. But on the other hand, they may not be.

Just keep in mind that “free” services are most commonly free because advertisers are paying the service provider to allow them to advertise to you.

2) Connecting Multiple Financial Accounts to a Single Location

When you link your online banking, car loan account, credit card account, utility company account, etc. to a single dashboard, there is a risk that these accounts may become compromised. That risk is especially high if you use a similar or identical user name and password for your financial accounts.

While it is unlikely that too much damage can be done directly from the dashboard, centralizing your accounts reveals critical information about those accounts. If your main dashboard account is compromised, the attacker can then see all the accounts you have linked to the dashboard. And say you used the same username – maybe even the same password – for each individual online account as you did for your central dashboard account.

If the attacker knows your credentials for the central dashboard and the online financial accounts you have linked to it, how many of those linked accounts could the attacker access with the same credentials you used on the central dashboard? Obviously, disciplined online security practices are important to mitigating your risk. Vary your user names and passwords. There are online random password generators you can use to come up with passwords that are hard to hack, and also secure password management systems you can use to organize and recall your passwords.

Conclusion

A budget comprises three essential elements: income, expenses, and savings. The primary objective of creating a working budget is to build up your savings, which in turn gets you closer to your long-range financial goals. This topic has laid out the steps for developing a budget and automating your accounts to help you stay within your budget parameters. Setting up, monitoring, and adjusting your budget over time forms an essential process toward securing your financial future.

Activity:
Completing Your Budget

This activity involves completing your initial budget plan. You are provided with a link to an Excel spreadsheet that lays out each component of your budget including income, savings, fixed and variable expenses. You can use this spreadsheet tool to create your initial budget, and return to review, evaluate, and adjust it over time.

Activity: Completing Your Budget

Complete the budget on the Excel spreadsheet linked below. If you are not entirely sure about the amount of a particular item, a rough estimate will work for now; the key is to at least get started.

Be sure to enter each amount as a monthly figure. Remember to divide your periodic bills (those paid annually, quarterly, etc.) so you enter the monthly amount of your bills and income.

Expenses

Home Renting Expenses	Current	Goal
Rent		
Renters Insurance		
Other		
Other		
Sub Total:		

Home Ownership Expense		
Fixed Rate Mortgage Payments		
Adjustable Rate Mortgage Payments		
Property Taxes		
Homeowner Insurance		
HOA Dues or Assessments		
Maintenance		
Other		
Sub Total:		

Utilities	Current	Goal
Electric		
Gas		
Water / Garbage		
Cable/Satellite		
Phone (cell)		
Internet		
Home Security		
Other		
Sub Total:		
Other Insurance		
Health Insurance		
Life Insurance		
Long-term Disability		
Umbrella Insurance		
Other Insurance		
Sub Total:		

Kids & Caregiving	Current	Goal
Children's Activities		
Child Care		
Child Support		
Alimony		
Caregiver		
Sub Total:		

Pets	Current	Goal
Pet Supplies		
Veterinarian		
Pet Insurance		
Grooming & Boarding		
Other		
Sub Total:		

Educational Expenses	Current	Goal
Professional Development		
School Tuition		
Books		
Other		
Other		
Sub Total:		

Transportation Expenses	Current	Goal
Vehicle 1 Payments		
Vehicle 2 Payments		
Insurance		
Registration		
Gas		
Maintenance		
Public Transportation		
Taxi / Ride Sharing		
Other		
Sub Total:		

Health & Fitness		
Gym Membership		
Alternative Medicine		
Supplements & Vitamins		
Doctor Visits		
Dentist Visits		
Prescriptions		
Eye Care		
Other		
Sub Total:		

Fees & Charges	Current	Goal
Banking Fees		
Credit Card Fees		
Mismanagement fees (late, overdraft)		
Other Fees		
Sub Total:		

Loans & Debt Expense		
Credit Cards		
Personal Loans		
Student Loan		
Tax Debt		
Appliance Loans		
Other		
Sub Total:		

Variable Personal Expenses		
Groceries		
Vitamins & Supplements		
Cell Phone		
Personal Items		
Subscriptions		
Other		
Sub Total:		

Entertainment	Current	Goal
Entertainment (movies, concerts)		
Eating Out & Drinks		
Hobbies & Recreation		
Random Purchases		
Other		
Sub Total:		

Personal Care		
Clothing		
Laundry / Dry-cleaning		
Personal Grooming (hair, nails)		
Skin Care (makeup, lotions)		
Other		
Sub Total:		

MSC		
Donations / Charity		
Other		
Sub Total:		

Monthly Savings Contributions	Current	Goal
Emergency Fund		
Short-term Fund		
Long-term Fund		
Other		
Other		
Sub Total:		

Total Current Expenses ____________________

Total Goal Expenses ____________________

Income

Employment Income	Current	Goal
Gross Income from Employment Source 1	+	+
Federal Income Tax	-	-
State & Local Tax	-	-
Social Security & Medicare	-	-
Sub Total:		
Gross Income from Employment Source 2	+	+
Federal Income Tax	-	-
State & Local Tax	-	-
Social Security & Medicare	-	-
Sub Total:		
Other Income		
Social Security	+	+
Pensions	+	+
Annuities	+	+
Other	+	+
Sub Total:		

Investment Income	Current	Goal
Interest Income	+	+
Taxes	-	-
Equity Investments Income	+	+
Taxes	-	-
Real Estate Investments Income	+	+
Taxes	-	-
Business Investment Income	+	+
Taxes	-	-
Other Investment Income	+	+
Taxes	-	-
Sub Total:		

Total Current Income ____________________	Total Goal Income ____________________
- Total Current Expenses ____________________	- Total Goal Expenses ____________________
= Net Current ____________________	= Net Goal ____________________

Set Goals & Prioritize

Now that you have a completed budget, it's time to create goals. As you think through where to allocate your money each month, ask yourself, "Which items are needs? Which items are wants?"

Create a Plan – this is the step where you actually allocate your available funds across all the various expense categories. The end result of any monthly budget is to:

a. Make sure all needs are accounted for.
b. Make sure money is being saved and is available for future and unexpected events.
c. Make sure the budget is flexible enough that the variable categories (restaurants, clothing, recreation) are present, but don't derail the overall budget goals.
d. Make sure that you're living below or within your means, and don't have a budget deficit after expenses are deducted from income.

Regular Budget Evaluation – a budget is intended to be reviewed. For some people, their budgets will remain relatively stable and unchanged for months, provided no major life events occur like job loss, disability, or emergencies. For others, their financial lives change frequently. Incomes rise; incomes fall. Expenses are eliminated, but new expenses emerge. Everyone's situation is different. The key is to get into a regular pattern of adjusting your budget at least quarterly, and possibly more often depending on what is happening with your individual

Quiz:
Create Your Budget & Automate

Quiz

1. The "net" pay indicated on your paycheck is the money you receive after taxes and any other fees are taken out.

   a) True

   b) False

2. When setting up your budget, you should always take variable expenses into account before fixed expenses.

   a) True

   b) False

3. Using your debit card for the majority of your purchases is a good way to keep track of expenses.

   a) True

   b) False

4. Banks and credit unions offer financial services that are quite different from each other.

   a) True

   b) False

5. Opting to receive your salary through direct deposit instead of a paper check can save you both time and money.

   a) True

   b) False

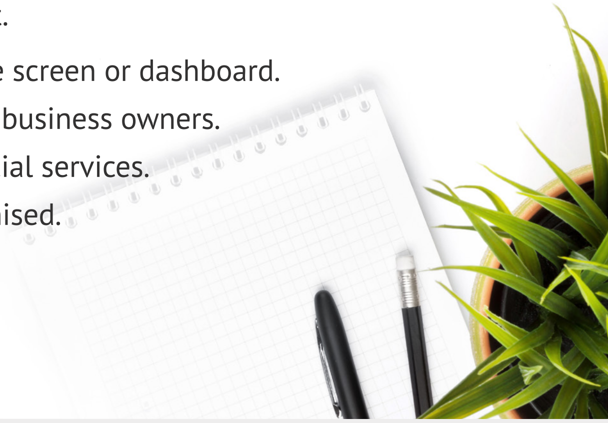
6. Which of the following statements is/are true with respect to third-party online money management services? More than one answer may be correct.

   a) These services allow users to see multiple accounts on one screen or dashboard.

   b) These services are mainly for high-income individuals and business owners.

   c) These services may display advertisements for other financial services.

   d) These services are risky since information can be compromised.



7. Zoey wants to start tracking her expenses in order to better manage her finances. Which of the following are ways she can track her expenditures? More than one answer may be correct.

   a) She can carry a small notebook and record all her purchases/expenses in it.

   b) She can use a cell phone or online app to track her expenses.

   c) She can use cash to pay for everything and monitor the amount she spends.

   d) She can use a debit card or credit card to pay for everything, which can help her monitor her expenditures.

8. Jett is setting up a budget. His net monthly pay is $4,700 and he just paid off his last debt. What is the minimum amount he should set aside each month as long-term savings goal?

   a) Since he has no debt, he can save any amount.

   b) 25% of his pay.

   c) 10% of his pay.

   d) Since he has no debt, he does not need long-term savings.

9. Brad's annual car registration costs $390. What is the minimum amount of money he should save each month to cover this fixed expense?

   a) $19.50

   b) $30

   c) $32.50

   d) $39

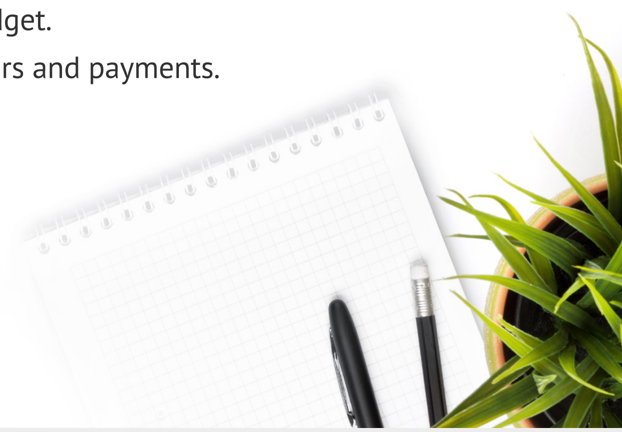
10. Brad has set up automatic payments for his fixed monthly expenses and automatic transfers to his savings account. However, he has been charged overdraft fees the past few months. All of the following except ______ are possible reasons for the overdraft.

    a) Brad could have been living above his means.

    b) Brad has been living below his means.

    c) Brad could have purchased items that were not in his budget.

    d) Brad could have miscalculated his total automatic transfers and payments.



Major Expenses - Automobile

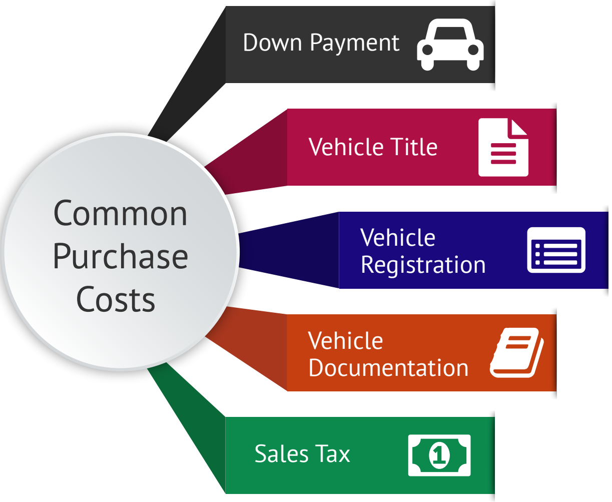
Knowing all the implications and planning carefully for a vehicle purchase has potential to save you huge amounts of money and time. This topic clarifies the vehicle buying process and all the expenses involved with vehicle ownership. Evaluating all the possibilities and developing a well-thought-out plan will ensure that any automobile purchase you make aligns with your long-term goals.

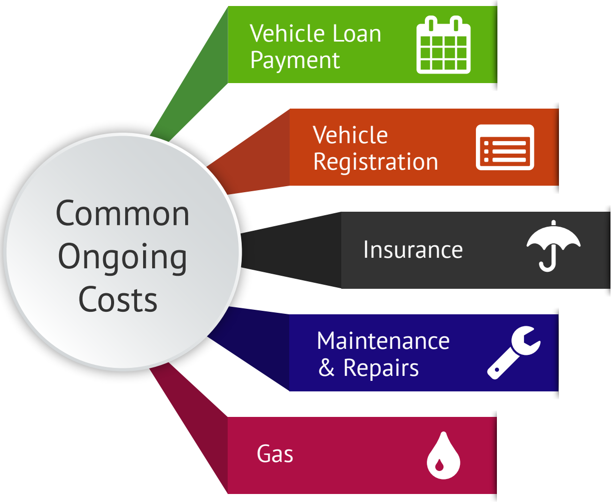
Time Investment
1.5 hours

Major Expenses - Automobile

This lesson will help you understand the process and expenses involved in buying a vehicle, so you know how to purchase an automobile that aligns with your long-term financial goals.

When purchasing a vehicle, many people just budget for the car down payment and monthly payments. They forget about the other costs of owning or leasing a vehicle – an oversight that gets them into financial trouble. Before any major purchase, it's important to budget before buying. So before you ever set foot onto a car lot, you need to know how much you can afford and have a clear budget in place.





When you purchase or lease a vehicle, there are a variety of fees in addition to any down payment you make before you drive off. Fees include title, registration, and license fees. Some states also charge sales tax. When you lease a vehicle, there may be a few other fees that you should consider – security deposit, acquisition fee, re-acquisition fee, and first month's payment.

Once you've purchased the vehicle, you will have to pay ongoing expenses in addition to your monthly car loan payment including registration, insurance, maintenance, and gas. All these amounts vary based on the automobile you choose, so be sure to research all the costs prior to buying or leasing any vehicle.

After you set a budget, you can start looking for a vehicle that fits what you can afford. Few vehicles are good investments – that is, they will not increase in value over time. Look for an affordable vehicle that meets your needs to produce income or care for your family; anything beyond that must be weighed carefully with your other lifestyle choices and the goals you have set for your future. Once you have money saved and are on track toward your retirement goals, you can splurge a bit more on a nicer vehicle – but always make sure it fits your budget and that you can still save toward your future.

It's also important to remember that brand-new vehicles lose value immediately. Most vehicles lose 10% to 30% of their value the minute you drive them off the lot. Make sure you weigh this "cost" through lost value against your financial decisions related to other parts of your lifestyle. Many people who buy new vehicles find themselves "upside down" on their loans – meaning they owe more than the vehicle is worth. If you financed a brand-new vehicle and get into an accident very early in the loan term, your insurance company may pay you less than the amount you owe on the loan. That means you could be stuck paying for a loan for a vehicle you don't even have anymore! There are special types of insurance called "Gap" insurance that you can purchase to cover this type of risk.

A general rule is the 20-4-10 guideline to keep your vehicle within your financial means. This rule suggests that you put at least 20% down and keep the financing term to 4 years or less. It further suggests that you keep your total monthly vehicle expenses (loan payment, registration, insurance, repairs, gas) under 10% of your gross income. However, rules like this just give us a guideline to use for planning – your target and what you can afford is unique to you.

It's also important to evaluate financing options. Finding the best auto loan helps reduce the overall expense of your vehicle. Many people just go to the lender at the car dealership, and don't shop around for the best loan rates. The loan interest rate is an important aspect of the vehicle purchase decision in the same way that the total cost of the vehicle is important. Be sure to look at other financing options with your bank, credit union, and other institutions that provide auto loans. Even a 1% lower interest rate may save you thousands of dollars.

There are many examples of people who go to a vehicle lot just to look, and end up driving home in a vehicle that later gets towed away by the loan company when the person can't make the monthly payments. It's important to note that vehicle salespeople are highly trained to convince you to make an emotional buying decision, and they typically earn larger commissions when they sell higher-priced vehicles with more features. Just because you qualify for a certain loan amount does not mean that you can afford the loan payments.

Set a clear budget and stick to it. If you feel yourself getting emotionally worked up and stretching your budget far outside of your target, leave. Come back when you once again feel able to make a logical decision that aligns with the budget you set. Remember, you have all the power in the buying decision. Vehicles are a common item for sale in the economy. There is never some "amazing time-sensitive" deal that you must agree to in that very moment that will not be available again in the future or from another dealer.

Time is on your side only if you give yourself enough time. Waiting until the last week before your lease is up gives you no time to shop around. If you own your current vehicle and are in a financial position to purchase another vehicle, begin shopping for a new car before your vehicle breaks down. Otherwise, beef up your emergency fund if you feel your vehicle is likely to need repairs in the near future. Some break-downs are impossible to predict, but often we have a general feeling about when an older vehicle is "about to go." Prepare for it. The pressure of needing a vehicle right away removes much of your leverage when negotiating a vehicle purchase.

Selecting a vehicle that meets your needs, understanding all the costs of vehicle ownership, and setting a clear budget will help you avoid buying a vehicle you can't afford.

Things to Consider when Making the Purchase Decision

Immediate Loss of Value

New vehicles lose between 10% and 30% of their value immediately after purchase. Buying used is the best in most cases.

Financing is a Product Too

Evaluating financing options to find the best possible auto loan and terms helps reduce the expense.

Does the Purchase Match Your Goals?

Consider how the auto purchase fits into your budget and also how it aligns with your long-term and retirement goals.

Plan It

Don’t wait until the last minute to go car shopping. Time is only on your side if you give yourself time. Start researching weeks – if not months – in advance.

Be Sure to Budget Before Buying

It’s critical to budget before buying when considering any major purchase.

More Than Just the Payment

Remember to budget for all the fees involved in the purchase as well as registration, insurance, maintenance, and gas.

Lease or Purchase?

Lease

- A lease is essentially renting a vehicle for a longer term.
- You do not build equity and will not own the vehicle at the end of the agreement.
- Typically, a lease involves a lower down payment and lower monthly payments.
- There are mileage restrictions and potential excess wear charges.
- You sometimes are required to pay "reacquisition fees" at the end of the lease.

Purchase

- A purchase is buying a vehicle to own.
- You can own the vehicle outright after the loan is paid off and will have no monthly loan payments.
- There are no mileage or wear restrictions, but mileage and wear will affect the vehicle's value.
- Typically, you will make a higher down payment and higher monthly payments.

So, buy or lease? For individuals looking to reduce their auto expense long-term, purchasing a vehicle is preferable. It is suggested that you never purchase a brand-new vehicle. Instead, buy a used vehicle (new vehicles lose 10% and 30% of value once you drive them off the lot). Keep your vehicle as long as possible to maximize time without loan payments; put the money you save in vehicle payments toward your savings.

There are a few cases when leasing makes sense, but the benefits are most often realized by business owners looking to capitalize on tax advantages. Leasing may seem attractive because you can get a nicer vehicle with a smaller down payment and monthly payments, but you are simply renting the vehicle for several years. You will have to return it or come to an agreement to purchase it once the lease contract is completed. If you decide to purchase your leased vehicle, you have now effectively made this single vehicle purchase last seven or more years. For example, you might have made three years of lease payments followed by four years of loan payments.

Lastly, lease agreements sometimes have a “lease closing” or “vehicle reacquisition” fee in which a final payment, usually two to four times the amount of your normal payment, must be paid to the dealer at the end of your lease. This amount will be listed in your lease contract. The reacquisition fee is a useful negotiation tool for dealerships, because they can waive the fee if you agree to renew a lease or purchase a vehicle from them. When you need a new down payment for a vehicle purchase or lease, having this fee waived can seem like free money. But it was always designed as a negotiation tool for the dealer when you completed your lease and returned the vehicle.

Comparing Vehicle Buying Experiences

When determining the affordability of a new (or used) vehicle, the primary factors to consider are:

- Purchase price – This is the offered price from the dealership or seller; it is not necessarily the Manufacturer Suggested Resale Price (MSRP).
- If financing, the monthly cost and interest rate. A good rule of thumb is to keep any vehicle financing to four years (48 months) or less. Dealerships and their lenders now offer extended loan terms to extreme durations to keep vehicles “affordable” on the monthly scale – sometimes as long as 96 months!
- Cost to insure – You can contact most insurance companies, provide them a Vehicle Identification Number (VIN), and receive a quote right away.
- Fuel costs – understand the fuel efficiency of the vehicle you’re considering.
- Maintenance costs (older vehicles are likely to have higher maintenance costs).

Use the information provided in the two scenarios below to consider the differences between having no clear plan and having a carefully thought-out plan to prepare for buying a vehicle.

The Average Vehicle Buying Experience

You see an advertisement and decide to go visit a car dealership.

You check out a few vehicles on the lot, find one you like, and decide to purchase it.

You have some negative marks on your credit report, which takes your interest rate from 5% all the way up to 12%, increasing your payment by $150 per month through interest alone.

You decide to finance the vehicle over 72 months to bring the monthly price down; even though the payment is still higher than you were hoping for.

You decide to buy it anyway, and drive off happy.

A few months later, you realize you can't afford the vehicle you bought – and you're surprised about the insurance cost.

A year later, you are shocked by the cost to register the vehicle, and you don't have the money saved.

You decide to sell the vehicle but are "upside down" (you owe more on the loan than the vehicle's current value).

The dealer gives you a deal you can't pass up, sells you a new vehicle, and waives the upside-down portion of your loan.

The cycle continues.

Planned Vehicle Buying Experience

One year prior to purchase: Get an idea about how much you need to save by looking at vehicles you may want in the future and find out how much you'll need for a down payment that will get the total monthly cost (payment, gas, maintenance, etc.) for your vehicle down to an affordable figure.

One year prior: Create a savings plan to set aside money each month to meet your savings goal.

Six months prior: Review your credit; challenge or resolve any negative credit marks if feasible. Do not take out any new loans or lines of credit.

Five months prior: Research the vehicle. Look at Consumer Report articles, talk to friends with vehicle expertise, and talk to your mechanic.

Three months prior: Pre-qualify for a loan.

Three months prior: Reevaluate the decision to purchase the vehicle; make sure it still aligns with your goals. If it does, begin searching for a vehicle by shopping at several dealerships and deciding on features.

One month prior: Enter into a longer-term negotiation strategy. Court more than one dealership offering your vehicle. Pit them against the others' offers. Make them compete for your purchase. There are 20 dealerships within driving distance that all have the same vehicle.

Purchase date: With a soft agreement with the dealer already established, go to finalize the deal. Do not get upsold for any other items. If the soft agreement you had with the dealer begins to fall apart or the terms that were discussed begin to change, walk away.

Tips for Purchasing a Vehicle

Budget first. Before you ever set foot onto a vehicle lot, know how much you can afford. Be sure to consider not just the loan payment, but also the associated costs: registration, insurance, maintenance, and gas.

Consider the features you need in a vehicle, and find a vehicle that best fits your personal needs.

Once you decide on a make and model, do your research. Get the value to find out the dealer's cost you can expect to pay for your chosen vehicle. There are several resources online to help you do so – search 'car value estimate' or similar phrase to locate them.

Buy used. New vehicles lose between 10-30% of their value the minute you drive off the lot.

Buy fuel-efficient vehicles. Not only is this choice good for the environment, you may save money as fuel prices increase.

Vehicle financing is important. Check out auto loans with your bank or credit union before going to the vehicle lot. Get pre-qualified for a four-year (or shorter) loan, and look for vehicles that fit your budget based on what the bank is willing to lend.

Ask about the vehicle's past history and the dealer's warranties. Have the vehicle inspected by a mechanic independent of the dealership.

Negotiate. Whether you're purchasing from a private party or a dealer, work toward lowering the cost or adding other benefits. Don't just take the first offer by default.

Get insurance immediately after purchasing the vehicle. Some dealerships have insurance policies that are extended over the vehicle for a short period of time after the sale. If you are switching from one insured vehicle to your new vehicle, many insurance companies also offer short-term coverage as long as you add the new vehicle with them within a short period of time. Be sure to ask the dealership and your insurance company to verify this coverage in writing; do NOT assume that this is automatically the case; do NOT just take the telephone representative's word for it.

Conclusion

Most of us will buy several vehicles over our lifetimes. Auto purchases can bring up a lot of emotions, and getting a new vehicle can be exciting. But the “budget before buying” rule should come into play long before you ever set foot in a dealership. There are multiple expenses involved in buying a vehicle, far beyond just the monthly payments. This topic has provided some tips for comparing vehicles and vehicle purchase experiences to help you make the best possible decision when you need to invest in transportation.

Activity:
Transportation Worksheet

This activity provides a worksheet and step-by-step instructions to plan your major vehicle purchase. First you will evaluate your reasons for buying a vehicle. Then you will prepare a budget estimate, search for and compare vehicles, calculate all the monthly costs associated with the purchase, and consider alternative options.

Of course, many people dream of having a beautiful Ferrari parked in their driveway, but take a moment to think about what you need for transportation. What attributes do you honestly need in the vehicle you select? Consider not just the car's features, but the purpose of transport itself. Do you even need a vehicle? Let's explore.

Why Do You Need a Vehicle?

Some reasons are obvious – like getting to work – while others might be more subtly hidden in your emotions.

Primary Reasons

- [ ] Getting to Work
- [ ] Transporting Work Clients
- [ ] Family Needs (Kids to school, daycare, shopping, daily errands)
- [ ] Health Appointments (Doctor, dentist, exercise, personal care)
- [ ] Transporting Family with Special Needs (Baby care seat, wheelchair accessibility)

Other ____

Secondary Reasons

- [ ] I do not have time to spare to wait
- [ ] It is more convenient and reliable than public transport
- [ ] I feel it's safer than public transport
- [ ] It gives me more options for conveying shopping and heavy items
- [ ] I feel it's a key aspect of my independence and freedom
- [ ] I feel it's an important part of my public appearance

Other ____

Budgeting the Cost of Your Vehicle

Vehicle Features & Attributes

Let's figure out what you will be looking for before we begin searching. Take a few moments to brainstorm the important things you want in a vehicle. Is there a particular type of vehicle you really want? Do you want to make sure you get above a certain number of miles per gallon? Are you primarily focused on getting the best deal for what you can afford? Will you be using your vehicle for things other than just commuting (i.e., hauling, towing, skiing, etc.)? Do you want to buy new or used?

Attribute	Critical	Important	Like-to-Have	Not Important
Safety	○	○	○	○
Reliability	○	○	○	○
Fuel Economy	○	○	○	○
Handling / Performance	○	○	○	○
Styling	○	○	○	○
Features / Technology	○	○	○	○
Comfort / Accessibility	○	○	○	○
Size / Number of Seats	○	○	○	○
Purchase Price	○	○	○	○
Maintenance Costs	○	○	○	○
Environmental Impact	○	○	○	○
Utility (Hauling / Towing)	○	○	○	○
Other	○	○	○	○
Other	○	○	○	○

Vehicle Search & Compare

Now that you have defined what you are looking for in a vehicle, you can begin comparing options. Let's start with the most obvious: price.

Many sites offer vehicle payment estimate calculators. Simply entering "Car Payment Estimator" into a search engine will yield thousands of results. For example, take a look at Car.com's calculator here:

[Visit: Monthly Payment Calculator](https://www.cars.com/car-affordability-calculator/)

https://www.cars.com/car-affordability-calculator/

With this calculator, you get to work a bit in a "backwards" direction by entering in your desired monthly payment along with other financial aspects of your purchase such as down payment, sales tax (if applicable), interest rate, and loan term. The output of this calculator gives you the total cost of the vehicle you can afford given the numbers you entered.

When gauging the affordability of a vehicle, always remember that there are costs beyond just the loan payment: insurance, gas, maintenance, and registration always need to be factored into your decision.

1. You will need a down payment (especially if you don't have superb credit).
2. You will need to pay documentation, title, registration, and license fees; some states also charge sales tax.
3. You will have to pay interest on the loan you take out.
4. You must qualify for the loan.
5. You must have full coverage insurance on any vehicle that is financed.
6. You will have other ongoing fees including registration, maintenance, and gas.

Now that we have a general starting price estimate for a vehicle, let's begin comparing easily quantifiable vehicle attributes such as fuel economy, safety ratings, horsepower, and estimated vehicle maintenance costs. There are many tools online that allow you to compare three or more vehicles side-by-side at the same time.

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Vehicle Search & Comparison

Visit: Cars.com

Start Search

https://www.cars.com/

Visit: AutoTrader.com

Start Search

https://www.autotrader.com/

If you do not have any makes or models in mind, it may be best to simply start with your price estimate and browse vehicles that fall at or under that price. Once you find a few that you like, you can begin comparing them according to the other vehicle attributes you listed above.

Used vehicles typically cost less, require lower insurance coverage, and hold their value better over time. Your new vehicle will be worth a lot less the second you drive it out of the dealership, because it isn't "new" anymore.

You can use websites such as those linked above to specify your search to used vehicles only. You can also search for your local dealership's website to check if they have a "used inventory" section within their website.

Quantifying Your Purchase

Now that you have narrowed down your purchase decision to a vehicle or two, let's do a final in-depth financial comparison.

	Vehicle 1	Vehicle 2
Upfront Costs		
Listed Price		
Sales Tax*		
Vehicle Title**		
Vehicle Registration**		
Vehicle License**	$ ____________	
	Total Upfront Costs Sum the above items in this column $ ____________	**Total Upfront Costs** Sum the above items in this column $ ____________

*If Applicable. Not all states charge sales tax.

To calculate sales tax, enter the listed price of the vehicle on your calculator, click the multiply, "*" or "x" symbol and then enter the decimal form of your state's sales tax rate (see examples below). Then click the equal "=" symbol. This number is the amount of tax you must pay in addition to the cost of the vehicle.

Examples of percentages in decimal form:

7% = 0.07 7.5% = 0.075 9% = 0.09 9.2% = 0.092 11% = 0.11 11.3% = 0.113

**Vehicle title, registration, and license fees also vary state-by-state. Visit your state's Department of Motor Vehicles (DMV) website to determine your estimated costs.

	Vehicle 1	Vehicle 2
Available Funds & Assets		
Available Cash for Purchase		
Estimated Value of Trade-in*		
	Total Down Payment Sum the above items in this column $ ____________________	**Total Down Payment** Sum the above items in this column $ ____________________

*A "trade-in" is just a purchasing term that means you will sell the vehicle you currently own to the seller at the same time you purchase the new vehicle.

Similar to researching fair prices for the cost of the vehicle you want to buy, you can research the fair price for any vehicle you plan to include as a "trade-in" when you purchase your new vehicle.

Using your current vehicle's specifications (make, model, year, features, mileage) you can get an estimated range of your vehicle's worth.

Now that we know the full up-front cost of what you want to buy and how much you have available for a total down payment, subtract your down payment from the total cost to calculate the amount you will need to finance.

	Vehicle 1	Vehicle 2
Financing		
Amount Needed to Finance*		
Estimated Interest Rate**		
Loan Term (Months)		
	Monthly Loan Payment $ ____________________	**Monthly Loan Payment** $ ____________________

*Using your preferred loan payment calculator, enter the total amount you need to finance, an estimated interest rate, and the term of the loan.

Simply entering "Auto Loan Calculator" into any search engine will give you thousands of options. Remember: you have already factored in the down payment, trade-in value, and sales tax in previous calculations.

**Interest rate is just another part of the cost of your vehicle. You can shop around for financing offers. Vehicle dealers try to simplify the purchase by combining all purchase elements into a single, easy-to-understand, monthly payment; and there is nothing inherently wrong with that. It is just important for you to remember that the cost of the vehicle, your trade-in value, and your interest rate can be separate parts of the negotiation for buying your vehicle.

	Vehicle 1	Vehicle 2
Total Monthly Expenses		
Monthly Loan Payment (Same as above)		
Annual Vehicle Registration Cost divided by 12		
Monthly Insurance*		
Fuel		
How many miles do you drive per day? (A)		
How many miles per gallon (MPG) does your vehicle estimate? (B)		
Estimated average cost of 1 gallon of fuel in your area (C)		
Calculate Your Monthly Fuel Costs** (A/B*C)*30		
Monthly Maintenance***		
	Total Down Payment Sum the above items in this column $ ____________________	**Total Down Payment** Sum the above items in this column $ ____________________

*If you are financing a vehicle, in most cases you will be required to purchase full insurance coverage and not just liability. Most insurance companies can provide estimates on the spot if you have the vehicle's VIN.

**To calculate monthly fuel costs, enter the estimated number of miles you drive per day on your calculator, click the divide, "÷" or "/" symbol, then enter the estimated miles per gallon (MPG) of your vehicle. Then click the multiply, "*" or "X" symbol, and enter the average cost of 1 gallon of fuel in your area. Click the multiply, "*" or "X" symbol again, and enter 30. Then click the "=" symbol. This number is your estimated monthly fuel costs.

***For newer vehicles, maintenance will be the basics: car washes, oil changes, air filters, tires, brakes. Many of these items can be roughly estimated according to the amount of mileage expected before they need replacing.

For example, many tires start to show need for replacement after around 12,000 miles. If you drive 500 miles a month, then you will need to replace your tires every 2 years. If a set of 4 new tires costs $400, then you will need to budget $16.66 per month for tires ($400 / 24 months = $16.66 per month).

For older vehicles, you will need to prepare the same maintenance budget, while also increasing your emergency fund to accommodate more significant repairs. If the radiator goes out, do you have $500 available to replace it in a short amount of time?

What Other Options are Out There?

Sometimes having your own vehicle is not necessary, especially in large cities where there are a lot of transportation options. Maybe you live in a city that has an amazing bus/train/subway system that will take you straight to work. Maybe you would enjoy riding a bike to work if there is a safe route. Maybe something like ZipCar – where you rent a "public" vehicle for short periods of time – would best fit your needs. Maybe you can work remotely from home, and simply order an Uber or Lyft ride to run your weekend errands.

This is a difficult decision for some people who feel that having a vehicle is a major aspect of their independence and standard of living. Simply take a moment to explore the idea. Small adjustments to your lifestyle may free you from the costs and worries of vehicle ownership; it is a very personal decision for you to explore in earnest.

If you discover that you may be able to adapt to a combination of alternative transportation options, the time and convenience opportunity costs are not too great, and you would reap large savings in monthly expenses by using alternative transport compared to vehicle ownership, you may want to give the concept a test run for a few weeks.

If after all this research you discover that you don't really need a vehicle, you can now enjoy a good percentage of your income that everyone else places into vehicle ownership. Where else in your lifestyle or future financial situation would you like to invest this new-found money?

Quiz:
Major Expenses - Automobile

Quiz

1. Vehicles are considered profitable long-term investments.
   a) True
   b) False

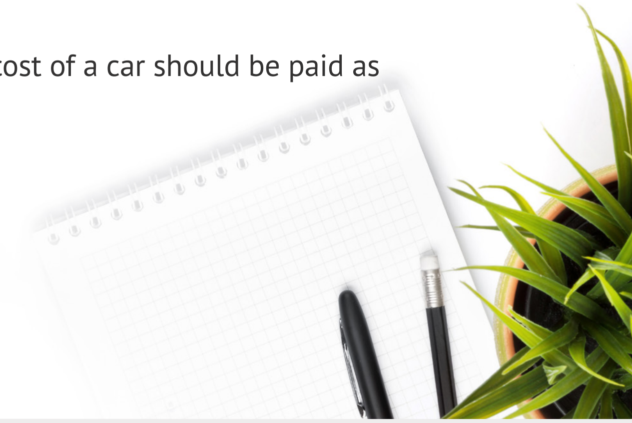
2. On average, what percentage of a new vehicle's value is lost as soon as it is driven off the lot?
   a) 10-30%
   b) 35-45%
   c) 50-60%
   d) 75-90%

3. A vehicle's purchase price is the same as its Manufacturer Suggested Resale Price (MSRP).
   a) True
   b) False

4. One of the common mistakes people make when buying or leasing a vehicle is failing to consider expenses other than just the down payment and monthly payments – such as insurance, vehicle registration and inspection fees, fuel costs, etc.
   a) True
   b) False

5. You should not take out any new loans or lines of credit within 6 months of purchasing or leasing a vehicle.
   a) True
   b) False

6. According to the 20-4-10 guideline, what part of the total cost of a car should be paid as down payment while purchasing the vehicle?
   a) 4%
   b) 10%
   c) 20%
   d) 25%



7. If Ellyn's monthly gross income is $3,200, her monthly car expenses should not exceed
   a) $320
   b) $640
   c) $1,000
   d) $1,600

8. How can you get the best possible price on a vehicle you like?
   a) By picking one dealership as your favorite and loyally sticking to it.
   b) By making friends with the sales agents at different dealerships and doing them personal favors.
   c) By visiting several dealerships and having them compete with each other to do business with you.
   d) By quickly buying a vehicle when it is available on an amazing, time-sensitive deal.

9. Interest rates are an extremely important factor to consider while financing the purchase of a vehicle, because even a 1% difference in the interest rate can create a difference of thousands of dollars in the total price you end up paying for the car.
   a) True
   b) False

10. Recently, Daniel was involved in a car accident that damaged his car beyond repair. At that point, he still owed $18,500 on his auto loan, but his car was only worth $13,000. Therefore, he used his gap insurance to cover the difference. What does this tell you about gap insurance?
   a) It covers the difference between the damages you need to pay for and the money you have in your bank account.
   b) It covers the difference between what you owe on a vehicle and what it is worth.
   c) It covers the difference between what your new monthly car expenses are and what your previous monthly car expenses used to be.
   d) It covers the difference between the current value and purchase value of a vehicle.