

MoneyWise Module 5

Major Purchases and Buying on Credit: The Home and Auto Decisions

Personal Finance Essentials:
8 Financial Priorities

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Major Purchases and Buying on Credit:
The Home and Auto Decisions

Module 5

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Discussion Topics

1. Perspectives: Your finances
2. Building Credit: Your credit score
3. Protect Your Identity: Recommendations
4. The Home Decision: Prepare for ownership
5. The Auto Decision: Key issues



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1. Perspectives: Your finances

- President James E. Faust stated:
 - Over the years the wise counsel of our leaders has been to avoid debt except for the purchase of a home or to pay for an education. I have not heard any of the prophets change this counsel.
(James E. Faust, "Doing the Best Things in the Worst Times," Ensign, Aug. 1984, 41)
 - Consumer and credit card debt are not included in that short list of acceptable debt

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Financial Perspectives: Your Finances

- President Gordon B. Hinckley said:

Look to the condition of your finances. I urge you to be modest in your expenditures; discipline yourself in your purchases to avoid debt to the extent possible. Pay off debt as quickly as you can, and free yourself from bondage. . . . If you have paid your debts, if you have a reserve, even though it be small, then should storms howl about your head, you will have shelter for your wives and children and peace in your hearts. That's all I have to say about it, but I wish to say it with all the emphasis of which I am capable.

(Gordon B. Hinckley, "to the Boys and Men," Ensign, Nov. 1998, p. 51)

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2. Building Credit: Your Credit Score

- It's not just for mortgages anymore
 - Landlords, employers, and lenders also check
- What is a credit score?
 - A grade on how you manage credit
 - Score providers use credit report data from the major credit bureaus (Experian, TransUnion, and Equifax)
 - Many different credit score providers, with FICO® being the recommended credit score provider
 - Ideally want your FICO credit score of 750+

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Building Credit: Getting Credit Reports and Scores

- Obtain free credit reports and FICO scores online
 - Get a copy of your credit reports each year from
 - <http://www.annualcreditreport.com>
 - Be careful of other sites/pop-up ads offering free reports
 - Can obtain one each year from each bureau (3 total)
 - Good idea to check your credit reports annually for errors
 - Only gives transaction history, no actual score
 - Obtain your FICO credit score from <http://www.myfico.com>
 - Some credit cards give you a free FICO score each year
 - Get a one-time "Bureau Credit Report" and a FICO Score for \$19.95 from Myfico.com
 - Also includes use of credit simulator for 30 days
 - Get a free (non-FICO) credit report from CreditKarma.com

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Building Credit: Starting out

- Start building a credit history now
 - A key factor in your FICO® score is time—the average length of credit history
 - Open a no-annual-fee credit card
 - <http://www.creditcardgoodies.com/>
 - Use for monthly purchases and pay off each month
 - Don't carry a balance!
 - If you cannot get a credit card
 - Get a secured credit card from your bank or credit union
 - Most importantly, have an emergency fund to ensure you *never make a late payment*



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3. Protect Your Identity: Recommendations

- Go to www.optoutprescreen.com to stop all preapproved credit offers which is a major source of fraud
- Pull one free credit report every year at www.annualcreditreport.com and check for concerns
- Pay for a FICO credit score (www.myfico.com) every two years to check for areas of concern
- Know where your credit cards are at all times, call your credit card company before you go on vacation
- Only purchase items on the internet where you see the "https:" at the top or the lock symbol at the bottom. This indicates the site is secure

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Protect Your Identity: Avoiding Fraud



<http://www.youtube.com/watch?v=yzn0rjz0v14>

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Protect Your Identity: No Shortcuts

There are no shortcuts to financial security. There are no get-rich-quick schemes that work. Perhaps none need the principle of balance in their lives more than those who are driven toward accumulating "things" in this world. Do not trust your money to others without a thorough evaluation of any proposed investment. Our people have lost far too much money by trusting their assets to others. In my judgment, we never will have balance in our lives unless our finances are securely under control.

(Elder M. Russell Ballard, "Keeping Life's Demands in Balance," Ensign, May 1987, 13.)

Exhibit 3.1: How to Spot a Ponzi Scheme

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Protect Your Identity: Avoiding Scams


- If the returns seem too high, it is likely a scam!
- Do the facts and the investment check out?
- Are the sellers licensed and from reputable companies?
- Is the product significantly above (or below) the market price?
- Does the sale require pressure tactics?
- Does the seller emphasize "affinity", e.g., BYU or Church connections?
- Watch the "I did it and you can too" pitch. Most haven't done it!

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4. The Home Decision: Prepare for Ownership

- Mosiah 4:27: "And see that all these things are done in wisdom and order"
- Don't do the home-buying process backwards!
 - Don't start with a "dream house" already in mind
 - Determine your affordable price range (from your budget)
 - Save up for your down payment
 - *Then* find a house that fits your criteria



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The Home Decision: Rent versus Buy

- Assess your timeline
 - At least 5 years, then consider buying
- Know what it really costs
 - Not as simple as comparing rent and mortgage payments. Understand:
 - Insurance, property taxes, maintenance
 - Points, application, appraisal fees, inspection, moving costs, real estate agent commissions, title insurance
 - Realize your property needs to appreciate about 6-10% to compensate just for the costs incurred during purchase

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The Home Decision: Recommendations

- Prerequisites before buying a home
 - Live on a budget and save
 - Build an Emergency fund: 3-6 months expenses
 - Eliminate consumer debt
 - Plan to be in the home at least 5 years (or more)
 - Capture your full 401k employer match
 - Save for a down payment and other fees
 - Understand the finding, funding and financing process

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The Home Decision: What can you afford

- Be wise and start small or “modest”
 - Consider a “starter home”
 - Buy at the bottom of the price range for the neighborhood
- ⚠ Don't let the lender tell you what you can afford!
 - Understand your credit score and front/back-end ratios
 - Save enough to reach our retirement goals
 - Know how much you want to spend on fun things such as travel and entertainment
 - Be willing curb expenses to meet your mortgage and other housing costs
 - Set aside savings for children's college expenses, missions, and weddings if desired

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The Home Decision: PMI and Down Payment

- Private mortgage insurance (PMI)
 - About \$40/month on \$100,000 home with 10% down
Source: www.ftc.gov
 - 20% down avoids PMI
- FHA and Utah Housing offer below-market-rate loans with only 3.5% down
 - <http://www.fha.gov>
 - <http://www.utahhousingcorp.org>
 - Does not avoid PMI though
- Avoid 100% financing alternatives
 - Nothing down is probably a good sign you're not ready for home ownership

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The Home Decision: Preparing to Get a Loan

- More than just a FICO® score
 - Lenders use their own scoring system to approve loans and determine what interest rate to offer
- Lenders look at:
 - Housing expense ratio (front-end ratio)
 - Total mortgage principle and interest and property taxes and insurance is less than 28% of gross monthly income
 - Debt Obligations Ratio (back-end ratio)
 - Total monthly mortgage principle and interest, property taxes and insurance, and debt obligations is less than 36%
 - Loan to value
 - Recent credit history

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The Home Decision: Get Pre-Approved

- Get pre-approved
 - Shows seller you are a serious buyer
 - “Pre-approved” is different from “pre-qualified”
- Clear up credit report problems
 - Don't apply for any new credit before shopping for mortgages
 - Be upfront about problems
- Shop bank, credit union, online for rates
 - <http://www.bankrate.com>

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The Home Decision: Mortgage Considerations

- Fixed rate mortgages
 - Safest and best for long term
- Adjustable rate mortgages
 - Avoid the transfer of interest rate risk from bank to you
- Interest only option mortgages
 - Avoid these loans altogether!



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5. The Auto Decision: Key Issues

1. Choosing a vehicle
 - Goals and budget
 - Safety reports
 - Automobile reports (Carfax.com)
 - Insurance
2. Before You Go Looking
 - Know new/used vehicle prices (kbb.com, edmunds.com)
 - Holdbacks and rebates
 - Warranties
 - Service Contracts
3. After You Have Found It
 - Vehicle History
 - Checked by a mechanic
 - Maintenance records



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The Auto Decision: General Guidelines

- Understand the auto purchase process
 - You will get a better deal with cash
- Buy a "late model" (fairly new) used car
 - New cars lose value when they leave the lot
- Don't lease cars
 - Leases are very expensive
- Determine your total price and NEGOTIATE for it
 - Understand where to find new/used prices
- Enjoy your purchase and keep it well maintained
 - Maintain it and drive it for a long time

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Major Purchase Take Aways

1. Perspectives: Your finances
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FHE Suggestions

- Open an emergency fund account
- Go to annualcreditreport.com to get your free credit history
- Consider getting your FICO® score at myfico.com or a free score at Creditkarma.com
- Discuss with your spouse any current credit challenges
- Talk about ways you plan to improve or build your credit history

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Resources

***All Resources are Online at <http://personalfinance.byu.edu>

Readings

- Reading 5.1 William E. Berrett, "I Have a Question," Ensign, Oct. 1979, 29.
- Reading 5.2 Ned Hill, "How to Spot a Ponzi," Marriott School Magazine, Fall 2007, pp. 8-13.

Tools

- Exhibit 5.1 Home Loan Comparison with Prepayment and Refinancing
- Exhibit 5.2 Maximum Mortgage Payments for LDS

Websites

- BYU Personal Finance Website: <http://personalfinance.byu.edu>
 - Videos and Chapters: The Home Decision I & II, The Auto Decision
- Food storage, <http://providentliving.com>
- Emergency funds, <http://smartmoney.com/pi/>
- Credit cards and credit scores, <http://www.myfico.com>
- Home buying, <http://smartmoney.com/home/>, <http://fha.gov>
- Automobile Reports, www.consumerreports.org, www.edmunds.com, www.autosite.com, www.kbb.com

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