MoneyWise Workshop Module 5: Major Purchases and Buying on Credit:

The Home and Auto Decisions

Introduction

This chapter discusses major purchases including buying on credit, the home and auto decisions. These are likely two of the larger purchases you will make in your lifetime. As such, it is important that we understand the key topics relating to these areas. The topics include financial perspectives, building credit, protecting your identity, the home decision and the auto decision.

Objectives

This chapter will discuss five topics. They are:

1. Financial Perspectives: Avoid Debt
2. Building Credit
3. Protecting Your Identity
4. The Home Decision
5. The Auto Decision

1. Financial Perspectives: Avoid Debt

There is both productive, or good debt, and unproductive, or bad debt. Elisha counseled nearly four thousand years ago to "pay thy debt and live."[i] It is wise counsel today as much as it was then. 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.[ii] Notice that consumer, auto, and credit card debt are not included in that short list of acceptable debt.

Financial Perspectives: Look to the Condition of Your Finances

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.[iii]

Note the statement "Pay off debt as quickly as you can and free yourself from bondage." There are a number of times in the scriptures where debt and bondage are connected. The connection there is noteworthy. I like how our modern leaders can distil things that seem overly complicated down to its most simple form. If we pay off our debt, live debt free to the extent possible, and have a reserve, there is not much that can negatively impact our families.

2. Building Credit: Your Credit Score

The word 'credit' comes from a Latin word that simply means "trust". When you look at things like credit scores, think of that as a trust score. A credit report is a report for how trustworthy you are and how likely you are to pay back your borrowings.

Some think credit scores are only for mortgages, but that is not the case. If you are renting an apartment, getting a new job, or getting insurance, people are likely checking your credit score. Your score affects your ability to get everything from a cellphone to the cost you pay for insurance. Since credit scores are becoming vital for so many different areas of our lives, we need to take control and understand what it is.

A credit score is a numerical score designed to provide a quick and easy look to how trustworthy you have been with money. Companies which calculate credit scores take credit report data from the major credit reporting agencies and calculate your score. The three largest credit reporting agencies are Experian, TransUnion, and Equifax. The largest and most used credit score is called a FICO score, and it is calculated by Fair Isaac Corporation. Since it is the score most used in the industry, we recommend people obtain a FICO score instead of the many other scores available.

Your credit score is a personal credit rating, a grade on how you managed credit in the past. It may impact whether you are able to get loans on different types of assets or expenses you pay. The system is simple. Credit reporting agencies gather information on how well you have managed credit and prepare your credit report. They then provide this information to a credit scoring company (such as FICO) to who puts it through their proprietary numerical process to calculate your score, which is your credit score. They also may add additional information on what you can do to improve your score and put it together in a credit score report. Then lenders and others review your score to decide if they should lend you money. So you have your credit report, the credit reporting agencies, the credit scoring company, and your credit score itself. These are the factors we will be discussing next.

Building Credit: What's On Your Credit Report?

While your credit score is not free, you can get free copies of your credit report each year. If you go to www.annualcreditreport.com, you can get one free credit report from each of the three major credit reporting agencies (or credit bureaus) each year (three total). We recommendation you use this website three times each year to download your free credit report from one of the three credit reporting agencies and then just rotate through. Check the information on your credit reports to ensure that it is correct. You can request changes and dispute items on your credit report, and there are specific ways this is done.

When you go and actually look at the report, you're looking for errors and inconsistencies. No matter how particular and meticulous you are in managing your finances, the majority of Americans find an error or an inaccuracy on their credit report. You might look for things like aliases, an extra name that's not yours, perhaps an indication that somebody has accessed your information. There could be a credit card you are not familiar with, and from time to time we find people who have mortgages and loans that they didn't sign up for. You should be looking every couple of months at your credit report to make sure there's no red flags or problems.

To get your FICO credit score, go to www.myfico.com. It will cost you money but it is not a bad thing to check once every few years. If you are getting close to buying a house, I would check my FICO score. If I was just interested in seeing roughly what my score was, I would use one of the free credit scores available, such as at www.Kreditkarma.com or other free scoring sites. I would not pay for any report other than the FICO score. Also watch out for any other offers that come up from time to time when you go and check the website. There will be offers for things such as credit monitoring but these are generally not needed.

Building Credit: Scores

As far as building your scores, the average FICO credit score in the country now is 678, although the high score goes to 850. Your goal should be in the Excellent category, which is anything above 750. For those who are just getting started, it will take time and effort to do things to build your credit, but your score can rise. However, when mistakes or errors happen or you have late payments, your score will fall.

Your FICO score is divided into five areas with their relative weight in percent. As you understand each area, it will help you understand what to do to improve your credit score. *Payment history is weighted* 35% of your credit core. This is how well you made payments on your loans. Ideally you have never been late, but if you have been, resolve to improve. *Amounts owed*: 30%. This is the amount owed as a percentage of your available credit. Ideally this number should be less than 15%. *Length of credit history*: 15%. This is how long you have had your oldest account. Ideally this is very long. *New credit*: 10%. This is how long ago you got your most recent credit. Ideally it should be longer than a year. Finally, *types of credit used*: 10%. Don't open too many of the same types of credit.

Building Credit: How to Start

To build your credit, start building your credit history now. It takes at least seven years to have a full credit history so start building now before you need a top score to buy a home.

Opening up a no-annual fee credit card may help you. This could increase your credit limit and reduce your utilization rate. We recommend using that card to pay for recurring expenses such as gas or groceries. Ensure you are not paying any annual fees and make sure that you pay it off in full every single month.

Realize that your debit card does not build credit. If you cannot get a credit card, we recommend going to your local bank or credit card for a secure credit card. This is a card where you put a specific amount on the card each, and you can use it until the card value is zero. Then you can put more money on the card. Credit reporting agencies cannot tell the difference between a regular credit card and a secure credit card.

Finally, the best way to ensure your credit card is paid off every month is to have your emergency fund in place. Never spend more on the credit card than you can afford to pay off in any given month.

3. Protecting Your Identity

We have heard a lot these days about identity theft. This is where people steal a person's identity and make purchases using stolen data. It is happening all the time and is a major crime. Five suggestions to protect your identity are:

a. Go to www.optoutprescreen.com and stop all preapproved credit card offers. The credit reporting agencies sell your information to third parties and they use that information to send you preauthorized credit card offers, free cruises, and things like that in the mail. Optoutprescreen locks your information so that it can't be given or sold to a third party without your permission. While you can still request credit cards and information, they cannot send you preapproved offers, which is where most fraud comes from.
b. Pull a free credit report every four months at www.annualcreditreport.com and check it for accuracy.
c. Pay for a FICO credit score (www.myfico.com) every two years to check for areas of concern. If your score is below where it should be, check it to determine why it declined and do the things necessary to bring it back up.
d. Know where your credit cards are at all times. Call your credit card company before you go on vacation so they will know that bills will be coming from that destination
e. When you purchase items on the internet, it is critical that you purchase it from a secure website. To ensure that it is secure, look for an "https" in the upper left-hand corner—the "s" indicates secure. There will be a little lock on the bottom right. These two symbols indicate you are purchasing from a secure internet site.

Protecting Your Identity: Avoiding Fraud Video[iv]

As far as identity's concerned, download and watch that small Office video. Someone commented with the scriptures and select clips from "the Office", you can teach almost any financial principle that you'd need.[v] While we all laugh, we all have received many of these scam-type emails. Hopefully they get filtered out and they get caught, but apparently some are falling for them because we are still receiving them.

Protecting Your Identity: No Shortcuts to Financial Security

M. Russell Ballard commented on the importance of getting our finances securely under control. He said:

> 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.[vi]

Protecting Your Identity – Avoiding Scams and Fraud

We need to be wise stewards over the things God has blessed us with. While we could spend hours on this area, let us share a few questions and ideas to help you avoid scams and fraud.

a. If the returns seem too high, it is likely a scam! Think it through. If the returns were actually that high, the promoters would not share them with anyone else, but would invest themselves and get rich.
b. Do the facts and the investment check out? Above market returns are unlikely. Realize the word "guarantee", a promise of a guaranteed return, is another big tip-off that it's a scam. Markets don't work that way. Go to www.Google.com and search on the investment product or name of the person selling the product. Go to your state's Division of Securities, at www.securities.utah.gov (for Utah), the Securities and Exchange Commission (www.investor.gov) to look people up, as well as check them out with the Better Business Bureau and FINRA (www.saveandinvest.org). These are required places to start with any investment.
c. Are the sellers licensed and from reputable companies? Is there a prospectus? Always ask about state licenses. If they're selling a registered investment product here in Utah, they need to be Series 7 licensed. If it's an insurance product, they need the Series 63. Also be aware that if they only have one license, that is all they can sell. If you only have a hammer, everything is a nail.
d. Is the product significantly above (or below) the market price? Remember the market price is what people are willing to buy a product for. If you are getting a 50% discount off the market price, that should raise red flags. Why would they be willing to sell it to you for 50% off when they could sell it for full price to someone else and make a huge profit? There is a problem here.
e. Does the sale require pressure tactics? You will hear: "You have to buy now, it's your one and only chance, if you don't buy it from me today this opportunity's going to leave". There will always be another opportunity tomorrow. You don't have to jump on board, especially if your finances aren't in order. It used to be housing, then gold, before that it was something else. You don't have to buy today. Don't ever feel pressured to buy.
f. Does the seller emphasize "affinity", e.g., BYU or Church connections? Watch out for people who use the names of church leaders or church positions to push a specific financial or insurance product. The key word is "affinity". Affinity fraud is someone who's coming to sell to you directly because of a family or closely trusted relationship, such as through church or school. We have a rule of thumb among the authors that says anytime you hear a request for money and a church position or leader's name, run.

g. Are products purchased by end users or other distributors? In the extension of the classic pyramid scheme where you buy something and then sell it to somebody else. Eventually you realize you will run out of "somebody else's" to buy your product.
h. Avoid day trading--it is not investing. Day trading is trying to make money, after all costs and fees, by buying and selling individual assets every day. This is not investing but gambling, and only works, if at all, when markets are going up.
i. Avoid trading rules. They do not work consistently. Trading rules are rules where you supposedly can determine a right time to buy and sell a security. If it really worked, the promoters would not sell you the trading rules but would make millions on them and retire rich!
j. Watch the "I did it and you can too" pitch. Most haven't done it. It is selective stocks over selective time periods with selective memory.
k. Finally, watch the hidden costs of trading. These include things such as taxes, expenses for computers and data fees, office space, etc. Most do not take those hidden costs into account when determining their profit and loss accounts.

These are things that are indicative of scams. Be wise, do your homework, and keep your money for yourself. Remember the law of the harvest. Investing and good returns take time.

4. The Home Decision: Preparing for Home Ownership

Housing is an important goal for most readers. King Benjamin gave good counsel regarding all areas of our lives when he said: "And see that all these things are done in wisdom and order; for it is not requisite that a man should run faster than he has strength. And again, it is expedient that he should be diligent, that thereby he might win the prize; therefore, all things must be done in order."[vii]

As far as the home buying process is concerned, most people do things backwards. Most go into a bank or a credit union, fill out the forms, then ask "how much will you lend me?" That's the price range where they start looking for their home. It is backwards for a number of reasons. Don't start with the dream house, or how much the bank will lend! Start with your needs and how much you can actually afford.

First, determine what you can actually afford. Review your family budget. How much income can you generally count on? What are your expenses for your family? Take into account additional costs for birthdays, Christmas, auto repair and maintenance, insurance payments, etc. Realize budgets vary differently from family to family. Come together, sit down with your family, and budget. Plan it out and see what you can actually handle. How much can you reasonably pay for mortgage payments each month? Remember you will likely be paying this amount for the next 30 years! There are a number of different learning tools on the website to help you determine what you can afford.[viii]

Second, look to your balance sheet. How much will you need for a down payment, to cover closing costs, and possibly to eliminate private mortgage insurance (PMI) if possible?

Finally, once you know that information, the challenge then is to find a home in an area that you like that is in your price range.

The Home Decision – Rent or Buy

The rent versus buy decision is important. There are a number of good online tools that can help. The New York Times has a great rent vs. buy calculator that you can use.[ix]

A general rule of thumb if you are going to be in some place for at least five years or more, then buying is an option that you might want to consider. If you're only going to be there for one to four years, we would recommend you rent.

Realize it is not as simple as looking at payment for rent versus a mortgage. The mortgage could be $700, the rent is $700, so some might suggest the decision is either one. Yet some fail to consider that within the cost of your rent is property taxes, maintenance, upkeep, and property insurance on the structure. If you actually buy a home, you have to deal with insurance, property taxes, and maintenance in addition to the mortgage payment. There are also additional costs in purchasing including points, application appraisal fees, inspections, and all of the relevant moving costs. Buying a home is not cheap. In addition, there is the risk that when you need to leave that you will not be able to sell it at the price you want.

Realize too that it is not cheap to sell a home. Real estate agent commissions typically run 6% when you sell the property and are covered by the home owner. As you're actually looking through the costs, property needs to appreciate about 8-12% to compensate for all your expenses.

Let's use an example. You buy a home for $200,000. Let's assume when you actually purchased that $200,000 home, you paid 2 points or $4,000 in points, other fees of $500, and you spent $1,500 in landscaping expenses, not unreasonable estimates ($206,000 total). Now assume the housing market stays where it is, and you sell the house for the same $200,000 in one year, and you pay the 6% real estate agent's commission. You only receive $188,000, or $200,000 less the $12,000 commission. While the price of the house didn't change, you lost 8.7% on the deal (you received $188,000 versus a cost of $206,000). The house would have to appreciate by nearly 10% for you to break even. This does not mean that you don't buy a home. But it does mean you need to plan for the costs, to understand the math, and to prayerfully make the decision as to the right time for you and your family to buy a home.

The Home Decision: Determining What You Can Afford

There is a tradeoff between what you can afford for your mortgage payments and your other personal goals. Spend too much on mortgage costs, and you may not have sufficient to save for your other goals, including retirement, vacations, children's college and mission expenses, etc. Anecdotally, buying too big a home has been one of the single, largest constraints on families saving for personal goals that the authors' have heard.

There is wisdom in starting small. Consider a "starter home." You do not need everything that took your parents 40 years to acquire. There are savings as you let the house grow with you.

Do not let your lender tell you what you can afford. In addition to your credit score, there are two common bank affordability ratios the bank will calculate. These are the front end ratio, or housing expense ratio, and the back end ratio, or debt obligations ratio. The housing expense ratio says not more than 28% of your monthly income should go for mortgage principle and interest and property insurance and taxes. The debt obligation ratio says that no more than 36% of your monthly income should go towards mortgage principle and interest, property insurance and taxes, and your other long-term debts.

There other factors that influence these ratios. First, since LDS and many other Christians are full tithe payers, this means we donate 10% of our income to our Church for tithing and other contributions. By definition, we are working with a slightly smaller pie and so 28% and 36% may not be appropriate for you and your family. Christians also give to help the poor and other charitable contributions. But if we're going to give to charities, there's not as much to spend for other things--it's just a simple trade-off.

Other goals are also important. Are you saving enough to meet your retirement goals? What about your emergency fund? How much money do we want to spend on vacations and for travel? Are we willing to curb our expenses in order to meet a large mortgage payment and other housing costs? And if we have this large housing expense, how much of our children's college, mission, and wedding expenses are we willing and able to help? These are important questions to ask when we determine how much we can spend for a home.

The Home Decision: PMI and Your Down Payment

Private mortgage insurance (or PMI) is an added expense for those who have not put a sufficiently large down payment on their house. The theory behind this is if you borrow 100% of the value of the home, and then you don't maintain it and you walk away, the bank has increased costs and risks. To offset that risk, the bank forces borrowers to take out private mortgage insurance to make the bank whole should the borrower default on the loan.

Banks and lending institutions ideally want you to have 20% ownership in your home before you borrow. For a $200,000 house, that would be $40,000. However, not everyone has 20% to put down on a home. Therefore, all borrowers who have less than a 20% down payment on a home are required to pay PMI. PMI can be between $75 and $200 per month, depending on the value of the loan.

The Federal Housing Administration and Utah Housing offer some below market rates and some standardized rates on fixed rate mortgages for first-time homebuyers. This has to be a property that you live in and cannot be an investment property. Borrowers only have to put down 3-3.5% and so you could in theory buy the same $200,000 home with about $6-7,000 down. You will still have to pay the PMI; however, it's wrapped up inside the product and you will have to pay it over the entire life of the loan. But these loans may be a useful tool for those that are just starting out and need to get a home.

Finally, 100% financing is something to avoid. While you may find this type of loan, the increased interest rate costs are substantially. If you have nothing saved up, you are probably not ready.

The Home Decision: Preparing to Get a Loan

For home and lending decisions, note that your lender may use a slightly different score or some slightly different metrics to determine whether to lend to you. They won't just use your credit score but they will most certainly use it.

They will likely also look at your housing expense ratio, or front end ratio. This is your total mortgage principle and interest and property taxes and insurance costs, which should be less than 28% of your total gross monthly income.

The will also look at your debt obligations ratio, or back-end ratio. This is your total monthly mortgage principle and interest, property taxes and insurance, and debt obligations costs, which should be less than 36% of your total gross monthly income. They may also look at the loan to value ratio, with is the ratio of the loan divided by the market value of the home. Most lenders will give you the lower of your front- and back-end ratio amounts.

They also will look at your recent credit history. Realize that your payment history is counted twice, once in the credit score and also once in the lender's score.

Just a final thought as you go to purchase a home. If you are seeking to get a home loan, we recommend that you limit your other purchases on credit, stop other major purchases, consolidate what you can and make sure you have enough for your down payment. Keep your emergency fund in place, get everything set, and perhaps pause on funding your other goals for a while, at least until you finalize your loan.

The Home Decision: Get Pre-approved

Get pre-approved for a mortgage. This is different from getting pre-qualified. Pre-qualified means you talked with a lender and they gave you a rough estimate on how much you would be approved for. Pre-approved means your lender has viewed your necessary information (include past tax forms), pulled your credit, and has approved you for a specific amount of a loan. It is a good sign as it shows the seller that you are a serious buyer if you like the property.

Monitor your credit reports and credit score as discussed earlier. Make sure that mistakes have been corrected. Be up front about your problems, and work to resolve them.

Then shop around, shop banks, credit unions, and online lenders for rates. www.Bankrates.com is can give you a good idea of what interest rates could be.

The Home Decision: Mortgage Considerations

There are three main types of mortgages you should consider. The preferred mortgage for most is the fixed rate mortgage. It has an interest rate that is fixed for the life of the loan and the interest rate never changes. It comes in varying maturity or terms of 10, 15, 20, 30 years or more (do you really want to be paying debt on your home for more than 30 years?). These loans are the most budget friendly as your interest rate won't change, although insurance rates and property taxes which can be bundled in from time to time might.

An adjustable rate mortgage is a loan where the interest rate on the mortgage can change. It is generally fixed for a short period, usually 1 to 5 years, but after that the interest rate changes periodically to take into account changes in interest rates. This type of loan is better for a lower interest rate initially; however, you are subject to interest rate risk over time. Sometimes you hear of these loans as a 5/1 or 3/1 ARM. A 5/1 ARM means it is an adjustable rate mortgage, with the "teaser" or initial interest rate fixed for the first five years, and after that the rate readjusts every year. Be very careful of these loans as your payments could increase substantially after the fixed period is over. The term on these loans are similar to the other loans, with terms of 15, 20 and 30 years.

The final type of loan is an interest only option on a fixed or adjustable rate loan. Some think of these loans as similar to the minimum payment on a credit card, but they are not. Avoid these loans all together. These loans have an interest only period over which the lender charges only interest, which is usually for 3, 5, or 10 years. During this period, the borrower pays only interest and no principle. However, after the interest only period is over, the loan changes to a fully conforming loan where borrower must payback both principle and interest. With a 10 year interest only option, the borrow pays interest only for the first 10 year. However, in year 11 the borrower has to pay not only interest, but principle as well. And now the payments are larger as the borrow must pay back 30 years of principle payments but in 20 years.

5. The Auto Decision: Key Issues

Another large expense for most families is the auto decision. Develop the habit of saving for your automobiles so you do not have to pay the interest expenses on borrowing. Some cannot think of a car without a car loan. We cannot think of a car with one.

There are three parts to the auto decision. *Choosing a ve*hicle relates back to your goals and your budget. You decide how much you can afford and still accomplish your other goals and budget—don't let others tell you what you can afford. What are your needs, what are your priorities, and do not try to keep up with others. Look to your needs, what type of car do you need? Look to safety, to trustworthy sources (www.consumerreports.com), and look to the cost of insurance.

Before you go looking, look for new and used vehicle prices. Go to Kelly Blue book (www.kbb.com), the National Auto Dealers Association (www.NADA.com), and talk to a professionals that you trust. Understand holdback, vehicle warranties, service contracts, and lemon laws. These are all important areas to help you in your decision.

After you have found the car, make sure you look at the vehicle's history (www.Carfax.com). We recommend you not buy anything that has a salvage title, which means it's been in a major accident or had extensive damage and then subsequently repaired. For used cards, have them checked by a mechanic, preferably one from a dealer who fixes that brand of car. Finally, look for maintenance records which can help you understand how well a car has been operated and maintained.

The Auto Decision: General Guidelines

There are a few final guidelines for the auto decision. Know the terminology. If you are spending this much money, you should understand the process of buying or leasing a vehicle. We do not have sufficient time or space for everything to know, so we will share a few highlights.

Be careful with leases. Generally leases allow you to have newer cars but they are more expensive over the long-term. Understand MSRP (manufacturer suggested or silly retail price—it really just is a suggestion), capitalized cost (this is your negotiated price), residual value (the bank determined value of what the car will be worth after the lease), and your total cost of car ownership (the cost of the vehicle including gas, maintenance, insurance, and other costs). There are a number of great websites you can find online that help you understand the total cost and the ongoing cost of owning a car.

Narrow your choices and pick your vehicle. Comparison shop, which includes price, product features, and quality. Look to the total cost of ownership and compare this across vehicles. Higher fuel costs, lower insurance costs--these are all part of the total costs that you want to balance out for each vehicle.

Know your choices before you go, pick the car that works for you and your family and determine the price you are willing to pay for the car before you enter the dealership. Begin with the end in mind and go in knowing what you want and how much you will pay for it. Fit the car into your budget—don't make your budget fit your car. Also, watch for dealer pushed options which are mostly unneeded. Seat protection, vehicle under-coatings, including your vehicle in theft databases, etc. are generally unneeded and have huge profit margins for the dealer.

Determine your total price and negotiate for it. For new cars, I like to determine which car I want with the options I require. Then I send requests to 4-5 different dealers for their best price "out the door" which includes taxes, tags and license. Then I take the best price to my favorite dealer and ask them to beat it by $200 and I will go with them. Having dealers compete against other dealers is a good strategy.

We recommend you pay cash for you vehicles. If you pay cash for a vehicle, you not only do not have to pay interest costs, but you will find you are willing to spend less money for the vehicle. If you must finance your first vehicle, be very careful. Again, paying cash is the preferred option.

Finally, enjoy your purchase and keep it well maintained. Clean your car when you can, change the oil and other liquids as recommend by the manufacturer, rotate your tires and maintain the safety of the vehicle. Develop an automobile strategy. In our family, our strategy is to keep vehicles a minimum of 10 years or 200,000 miles. To hit that goal, we try to take good care of our vehicles and maintain them well.

Summary

We have discussed many important topics in this chapter. With financial perspectives, we need to avoid debt. Remember that except for the purchase of a modest home and education, debt is to be avoided.[x] This includes consumer credit, credit cards we cannot pay off each month and auto loans.

Just as we manage our assets through investing, we should manage our liabilities through building credit. You should know what's on your credit reports and you can get that by going to www.annualcreditreport.com and checking one credit report for you and your spouse every four months. Know your credit score, know how to build it, and know that the best thing to build credit is to pay your bills on time and in full every single month. Also, start building credit when you are young so you can have a good score when you are older.

Protect your identity by avoiding fraud. Be proactive in protecting your identity. Pull your credit report every four months. Avoid fraud—there are no shortcuts to financial security. If something seems too good to be true, it probably is. Getting something for nothing is not the Lord's way. A funny poster summed it up well when it said "Don't do dumb things".[xi] Be a wise steward over the things God has blessed you with and you will avoid a lot of the fraud that goes on.

Prepare for home ownership. Understand renting vs. buying because there are a lot of differences in costs in that relationship. Don't let the bank tell you how much you can afford. Look to your budget, calculate your front and back-end ratios, get your credit score, understand your personal and family goals, and with that information determine how much you can afford. Understand PMI and save for your down payment and other fees. Understand the different mortgage types, and know we recommend the fixed rate mortgage for most borrowers.

As far as the auto decision, buy the car that's right for you and your family. Understand your needs and your budget. Make your car fit your budget, not your budget fit your car. Make sure that you know the costs beforehand so that you'll make the right decision. These costs include cost of the vehicle, resale value, maintenance costs, insurance, operating costs including miles per gallon. Then determine your price and negotiate for it. Pay cash for the vehicle if at all possible.

Making major purchases and buying on credit can be challenging decisions for many. However, if we do our homework, understand our budget and our goals, and seek Heavenly Father's help in these decisions, we can do so with the assurance that we are doing it in the right way and working toward our personal and family goals.

[i] 2 Kings 4:7.
[ii] James E. Faust, "Doing the Best Things in the Worst Times," Ensign, Aug. 1984, 41.
[iii] Gordon B. Hinckley, "to the Boys and Men," *Ensign*, Nov. 1998, p. 51.
[iv] See video at http://www.youtube.com/watch?v=yzl1cIgLz3A
[v] Jacob Sybrowsky, February 2013.
[vi] M. Russell Ballard, "Keeping Life's Demands in Balance," *Ensign,* May 1987, 13.
[vii] Mosiah 4:27
[viii] See for example, Learning Tool 11: Maximum Mortgage Payments for LDS at http://personalfinance.byu.edu/?q=node/310.
[ix] See the calculator at http://www.nytimes.com/interactive/business/buy-rent-calculator.html?_r=0.
[x] James E. Faust, "Doing the Best Things in the Worst Times," Ensign, Aug. 1984, 41.
[xi] Anonymous.