



Don't Rent, Buy

How Loans **Work For You**

Loans can turn a daunting purchase price into much smaller more manageable payments. In some case, purchasing an asset such as a home using debt can be cheaper than renting.

In other situations, such as a car, it's a little more complicated...



Buying Your First Car... **Used**

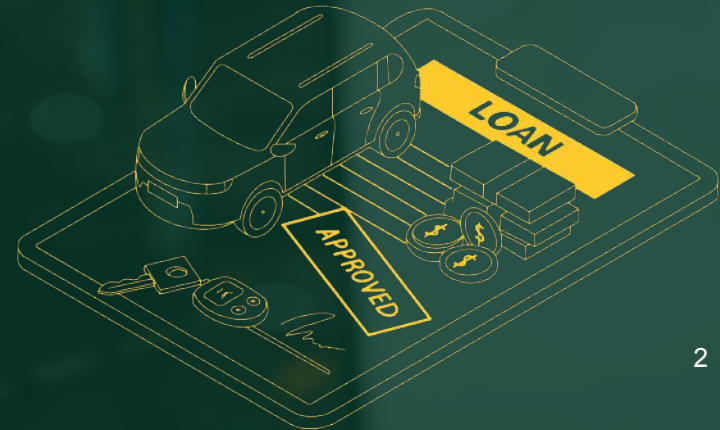
If you're buying your first car there are two options: pay upfront or take a loan out to pay off the car. And for many, paying upfront isn't an option.

FINDING A CAR

We recommend that you don't buy a new car as the second you drive it off the lot, the value of the car drops nearly 40%! And in the first year, the car will be worth less than half of what you paid!

This concept is called depreciation and it happens rapidly in the first year for a car.

On the other hand when you buy a used car that's a couple years old with limited miles, the depreciation only happens as you use it; not right away. This means you do not lose value in the car the second you drive it the first time.





And Then Your First Home...

Buying your first home is a daunting task. That's why the government offers assistance to first time home buyers through various Federal Housing Administration (FHA) programs. So before buying that house ensure that you look to see if there is any assistance available, such as grants, down payment assistance, and credits to assist with closing costs!

One of the main things to look at when buying a house is a mortgage. This is a loan that allows you to buy a house without paying for it upfront and slowly paying it off over the course of the years you live there. There are many different term lengths for mortgages and types so ensure to find the best one that suits your needs.

These mortgages are issued by banks and are dependant on your financial history. The bank will look at your credit score, your employment, and your current debt.

To find the best mortgage for you it is important to shop around and look at different companies.

On Google there is a mortgage rate calculator that is incredibly helpful when looking through these.





Mortgages & Opportunity Cost

The following is just an example to show you a mortgage payment calculation, and to show why even when you have the cash, taking out a loan is the smart financial decision. To calculate other mortgage payments, use Google's free Mortgage Calculator.

Home Price:	\$150,000
Down Payment:	\$15,000
Mortgage Amount:	\$135,000
Interest Rate:	4%
Mortgage Period:	30 years
Mortgage Payment*:	\$927.84 per month *Your mortgage payment includes both interest and a portion of the principal tied to the loan

IMAGINE

Even if you had \$150,000 to purchase the house with cash, would you? We know that the stock market has an average return of 12% per year. So if the bank is willing to loan you \$135,000 at 4%, wouldn't you be better off investing that \$135,000 and just paying the interest? Let's take a look.

Loan Repaid To The Bank:	\$135,000
Interest Paid Over 30 Years:	\$97,023

Earnings On \$135,000 at 12% Per Year for 30 Years, Minus Bank Payments:
\$3,680,000



Understanding Good Vs. Bad Personal Debt



Whether we like it or not, personal debt can often be a reality. For many of us, goals like a college education or home ownership would be unattainable without personal debt. However, it is important to be aware of its advantages and disadvantages:



The Good

- Taking on personal debt for things like education can **increase future earning potential** and upward mobility
- Taking on personal debt for investing can **increase your returns** if you make sure to compare interest rates and rates of return
- For individuals with irregular income, taking on personal debt can help **manage cash flows**



The Bad

- Forms of personal debt, like credit cards, are seen as poor sources of financing since they charge **high interest rates**
- Many items for which personal debt is incurred, like cars and phones, **do not appreciate in value** thereby making debt less justifiable
- Taking on large amounts of personal debt **impairs future borrowing and purchasing abilities**