



CH. 5

MAKING AUTOMOBILE AND HOUSING DECISIONS

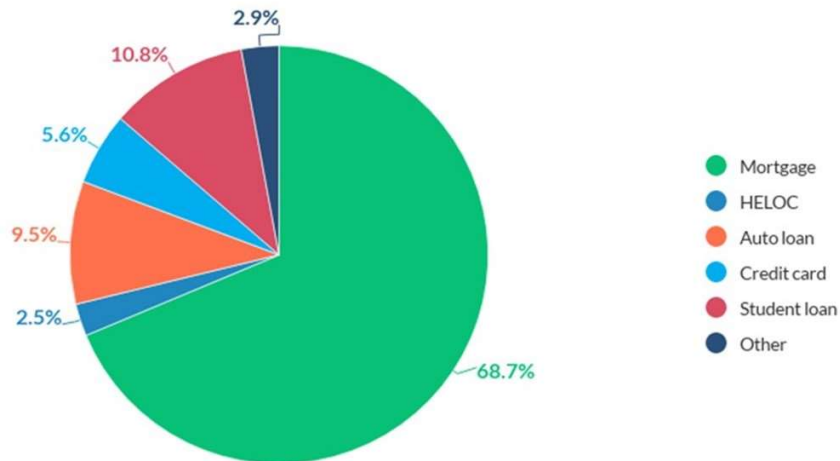
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MAJOR PURCHASE DECISIONS

- Home: Rent or buy?
- Automobile: Lease or buy?
- A home is typically the largest single investment you'll ever make, and a car is usually the second largest. As a result, the decisions to buy and finance these assets are important, personal, and complicated.

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AMERICAN CONSUMER DEBT



Note: As of Q3 2020.

Source: New York Fed Consumer Credit Panel/Equifax

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BUYING A CAR

- New vs. Used
 - ✓ Affordability: Generally, car payments should not be more than 20% of your monthly net income.
 - ✓ Operating and maintenance costs: Check warranties and insurance premiums
 - ✓ Size, safety, body style, life cycle needs, etc.

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BUYING A CAR

- Lease vs. Purchase
 - ✓ In 2020, among new vehicles, sales counted 17.1 million units (80%) while leases counted 4.2 million units (20%).
 - ✓ The average price for new vehicle sales was \$39,251 in 2020 compared to the average price for used vehicle sales of \$22,027 in 2020.
 - ✓ The average monthly car payment in the U.S. is \$563 for new vehicles, \$397 for used vehicles and \$450 for leased vehicles.

(Data Source: Bureau of Transportation Statistics & NADA)

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AUTO FINANCING

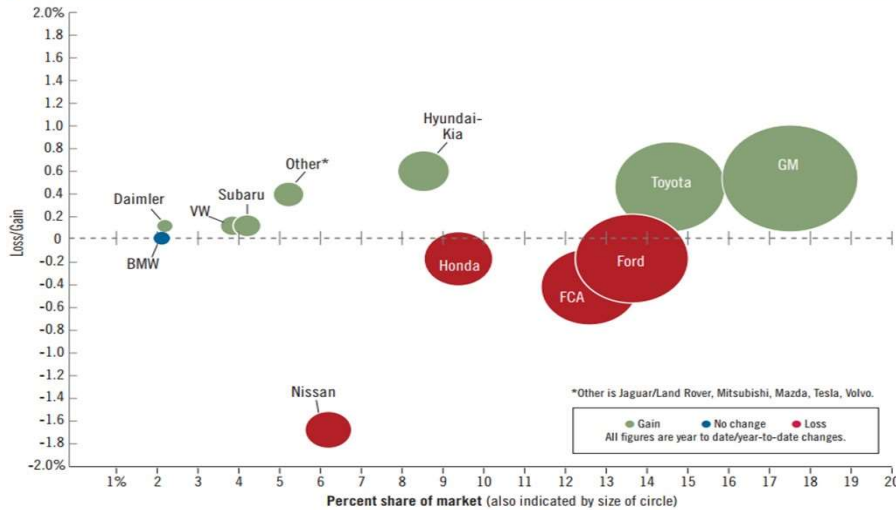
- Overall, Americans owe nearly \$1.4 trillion in auto loan debt.
- On average, Americans take out about \$56 billion across 2.3 million new auto loans each month. Americans borrow an average \$34,635 for new vehicles and \$21,438 for used vehicles.
- The average loan term is 70 months for new cars, 65 months for used cars and 37 months for leased vehicles.
- The average auto loan APR was 9.46% in 2020, but that ranged from an average of 5.49% for borrowers with the strongest credit to 22.66% for borrowers who are credit invisible.

Sources: Experian, Federal Reserve Bank of New York, LendingTree, Kelley Blue Book, CarGurus, Consumer Financial Protection Bureau

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U.S. PASSENGER AUTOMOBILE MARKET SHARE

Manufacturer Gains/Losses in Market Share, December 2020

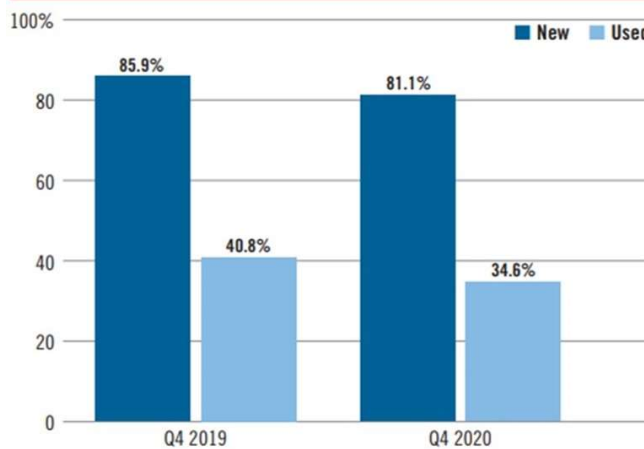


Source: NADA

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AUTO FINANCING

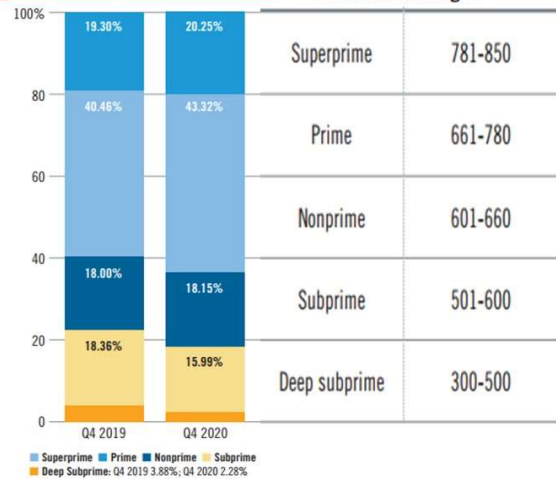
Percentage of Vehicles with Financing*



*Financing=either a loan or lease is present on the title.

Source: Experian

New-Vehicle Loans by Risk Segment

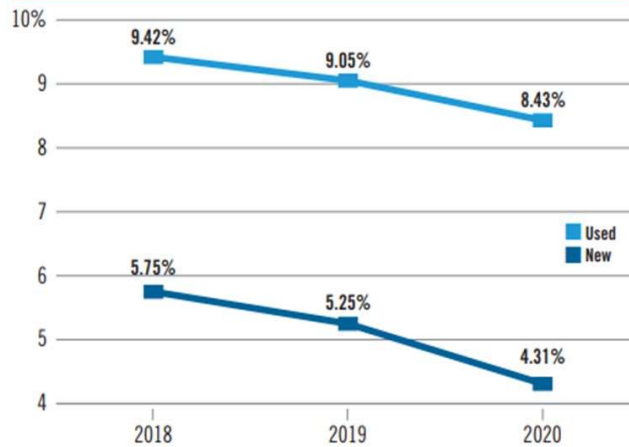


Source: Experian

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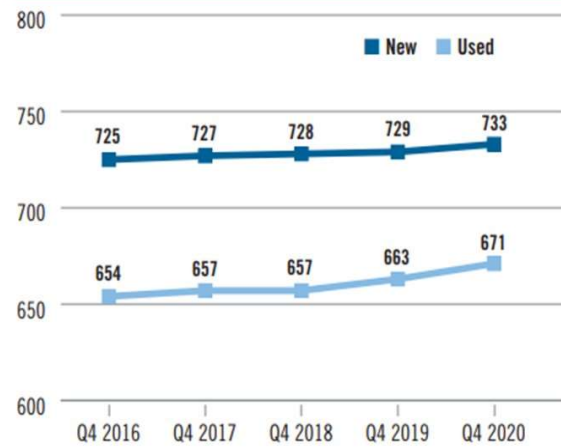
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Average Interest Rate on Vehicle Financing



Source: Experian

Average Loan Credit Scores, by Vehicle Type



Source: Experian

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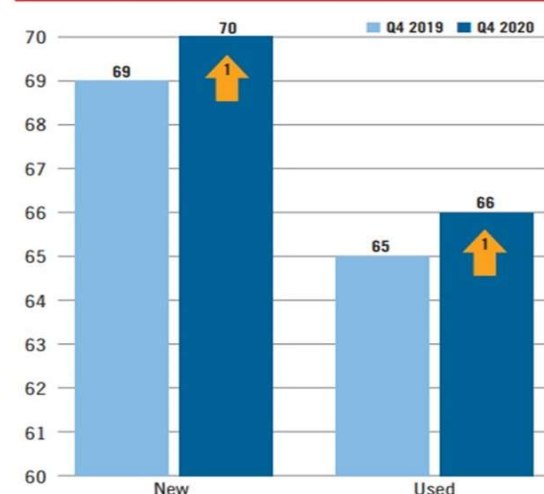
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Average Monthly Payment



Source: Experian

Average Loan Term, in Months



Source: Experian

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LEASING A CAR

- Leasing: Instead of paying the full purchase price, you pay the amount of expected depreciation over the term of the lease, plus interest and fees.
- Cost of the lease
 - = Capitalized cost (price, commonly referred as cap cost)
 - Residual value (estimated remaining value at the end of the lease term)
 - + Interest, lease origination costs, and other fees
- In addition to lease origination costs, you'll also have to pay registration fees.

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LEASING A CAR

- Lease terms are typically two to four years.
 - ✓ Lessee is responsible for insuring and maintaining the car.
 - ✓ Mileage allowance about 12,000 miles with significant rate for miles used over the allowance.
- At end of lease, you may have a purchase option.
 - ✓ Whether to exercise the purchase option or not depends upon the residual value of the car in lease. If the price is lower than market value, purchase; otherwise, do not purchase.

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LEASING A CAR

- Pros: Lower monthly payments, new car every few years, always under warranty & smaller sales tax
- Cons: You do not have an ownership.
 - ✓ You always have a car payment and lease deals are limited.
 - ✓ There's a mileage limit: most excess mileage charges range from 15 to more than 40 cents per mile.
 - ✓ You must return it in excellent shape and there can be sizable lease-end costs.
 - ✓ There are usage, maintenance, and repair restrictions.
 - ✓ Breaking a lease may seriously damage your credit, making it very difficult and more expensive to lease another car.

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BUYING A CAR

- Research
 - ✓ <https://www.kbb.com/>
 - ✓ <https://www.edmunds.com/>
 - ✓ <https://www.jdpower.com/>
 - ✓ <https://www.consumerreports.org/cars/>
- Purchase
 - ✓ Dealership, Web Services (e.g. <https://www.carmax.com/> / <https://www.vroom.com/>)
- Arrange Financing Deals

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HOME: RENT OR BUY?

- Types of Housing: Single family, condominiums, cooperative apartments, rental units
- Whether you buy or rent can have important implications for both your finances and happiness.
- Before making your decision, try comparing prices and rents in your area, and consider how long you'd likely stay in a home.
- Make sure you consider the full costs of ownership including maintenance, taxes, and insurance.

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WHY RENT?

- Do not have funds for a down payment
- Unsettled in their jobs and family status; freedom to travel and move
- Do not want the responsibility of maintenance of home
- Current prices and mortgage rates unattractive
- Can invest down payment and earn better return than owning a house

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RENTAL LISTING SCAMS

- **Hijacked Ads:** Some scammers hijack a real rental or real estate listing by changing the email address or other contact information, and placing the modified ad on another site. The altered ad may even use the name of the person who posted the original ad. In other cases, scammers have hijacked the email accounts of property owners on reputable vacation rental websites.
- **Phantom Rentals:** Other rip-off artists make up listings for places that aren't for rent or don't exist, and try to lure you in with the promise of low rent, or great amenities. Their goal is to get your money before you find out.

Source: www.consumer.ftc.gov

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SIGNS OF RENTAL LISTING SCAMS

- **They tell you to wire money:** This is the surest sign of a scam. There's never a good reason to wire money to pay a security deposit, application fee, first month's rent, or vacation rental fee. That's true even if they send you a contract first.
- **They want a security deposit or first month's rent before you've met or signed a lease:** Do a search on the owner/listing. If you find the same ad listed under a different name, it may be a scam.
- **They say they're out of the country:** But they have a plan to get the keys into your hands. It might involve a lawyer or an "agent" working on their behalf. Some scammers even create fake keys.

Source: www.consumer.ftc.gov

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WHY OWN?

- Tax savings from deducting property taxes and mortgage interest, assuming you itemize deductions
- Build wealth as home appreciates in value
- Lower mortgage payments than high monthly rental rates
- Provides a greater feeling of security and stability, less likely to move if own home

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HOME OWNERSHIP

- Customary ratios for conventional mortgage stipulate that payment cannot exceed 30 percent of borrower's gross income.
- Additional costs include property taxes and insurance.
- Also, you have to factor in maintenance and operating costs, including utility costs.

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HOME BUYING

- Research the market.
 - ✓ You may use a real estate agent to gather information and to represent your interest. Using an agent does not add to the cost of purchasing a home. The seller bears that cost. Agents using a Multiple Listing Service (MLS) have access to the entire market.
- Prequalifying for a mortgage speeds up the process.
- All real estate transactions must have a written contract. Any negotiated agreement must be in the contract, or it is not enforceable.
- Perform a title check to disclose any liens or deed covenants.

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HOME BUYING SITES

- <https://www.trulia.com>
- <https://www.zillow.com/>
- <https://www.realtor.com/>
- <https://www.redfin.com>
- <https://homefinder.com>
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MORTGAGES

- Fixed-Rate Mortgages: Most common is 30-years, but 15-year loan becoming more popular. Normally there is no penalty for early payment of loan, thus you can pay off a 30-year mortgage in 15 years if you wish.
- Adjustable-Rate Mortgages: Rate is fixed for a period (i.e. six months or five years) after which the rate may be changed for another term.
 - ✓ Rate will be adjusted based upon an index rate.
 - ✓ Rates have a maximum stated as a margin between initial rate and maximum rate. Also, payment may also have a cap that limits how much the payment may be increased.