



5 Steps to Prepare for a Big Purchase

A financial journey typically includes several twists and turns – such as understanding how to manage spending, build savings and control debt. There might be “speed bumps” in the form of unexpected changes in income. Along the way, you might also navigate milestone purchases such as financing a home or car.

When considering a significant purchase, the destination is within reach when you steer through the following five financial steps. These guidelines set you up to understand how a big purchase fits into your overall financial picture.

1. Look at your financial picture

Start by considering what you can afford given your current income, expenses and other debt obligations. Get a handle on how much money comes into your household each month, and where the money goes. Make sure to consider your net income- what is available to you after taxes.

For homebuyers: When purchasing a home, a common rule of thumb is to spend about 30% of your

monthly gross income on housing. That includes costs like mortgage principal and interest, property taxes, insurance and maintenance.

For car payments: A general rule of thumb is to keep total monthly car costs at about 20% of monthly take-home pay.

2. Check your credit score and report

Checking your credit score and report is key when considering a big purchase like a home or car.

Pull your credit report from AnnualCreditReport.com and follow the additional instructions to see your current credit score – which influences your overall cost of financing your purchase. The lower your credit score, the more likely you will have a higher interest rate and greater overall cost.

Tip: Be sure to check your report for accuracy. Resolving errors or incorrect information often helps increase your credit score, giving you more attractive financing options. If the report is inaccurate, file a dispute with the credit bureau.

Make sure to check all three bureaus, as sometimes one has information that another does not.

Before making a big purchase, it's important to fully vet (and make sure you understand) your financing options.

3. Research your financing options

For a home purchase, that means giving yourself enough time to explore mortgage options including types of mortgages, terms, fees, interest rates and other information. Consider getting a preapproval or prequalification letter from a lender, especially in a competitive market with low housing inventory.

If you're looking to finance a car or other big purchase, take inventory of the most competitive loans offered by the dealership, credit union, bank or other lender.



Also be sure to read through any fine print: for example: Is there a pre-payment penalty if you pay your loan off earlier than expected?

Tip: When conducting your research, remember to use trusted, unbiased information sources, rather than depending upon advice from someone who might benefit from your choice.

4. Plan Your Purchase

Timing is everything, and having a plan in place for when to pull the trigger can make all the difference. Do you have enough in savings to provide a good down payment on a home or car? Is there a certain time of year that special financing or promotions are generally available?

Now's also a good time to find someone you trust to help you carry out your big purchase – if you're buying a home, ask friends or families for a real estate professional they can refer. Having someone in your corner who can help you to understand your options and know warning signs to look out for can make all the difference.

For a car purchase, do you feel the dealership is able to provide

advice and guidance? Have you taken the time to research vehicle make and model from a reputable source of information?

This is also the time to get your documentation in order, like proof of employment, insurance or other financial information.

5. Make the deposit

Finally, get ready to make an earnest money deposit for your purchase. In the case of a home purchase, which indicates you are a serious buyer. Generally, earnest money deposits range from 1% to 2% of a home's purchase price and are only refundable under specific circumstances.

For a new car purchase, deposits typically total about \$500 once you agree to the vehicle price in

writing.

Tip: Make sure you understand whether the deposit is refundable before making a purchase - especially if you think you may change your mind later.

The Journey Ahead

While not an exhaustive list, these steps should help prepare for the financial road ahead.

As you travel along your financial journey, take advantage of financial counseling and guidance provided by the trusted national nonprofit GreenPath Financial Wellness.



What Are Your Financial Goals Made Of?

No matter what your goals may be, our partners at GreenPath can help you to take control of your day-to-day financial choices to create more opportunities for achieving your dreams.



Create a Budget



Save More



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Improve Credit



Buy a House



Plan for Future

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For even more financial wellness tips and resources, visit:

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