MAJOR EXPENDITURES: HOUSING, TRANSPORTATION AND FOOD

Advanced Level

Your present self impacts your future self.

Housing, transportation and food comprise over 60% of spending choices for most people. As a consumer, you have a range of spending options in each of these categories. Decisions and tradeoffs you make here will have a big impact on your budget and what you have left to spend on other things. Take the time to understand your options and apply the planned buying process.

HOUSING

One of the biggest housing decisions you'll make is whether to rent or purchase a home. Plan on spending about 1/3 of your income on housing, which is just about the national average. The size and location of the home, amenities within the community and the local real estate market will influence the amount of money you'll spend on your housing choice.

Spending Plan for:		
Time Period:		
	Planned Amount	**Actual Amount**
Income		
Earned Income		
Wages or salary before deductions		
Unearned Income		
Money from savings and investments to help pay expenses during this time period		
Received Income from Government Programs		
Total Income	$	$
Expenses		
Deductions Often Taken from Paychecks		
Contributions to retirement programs (401k, 403b, pension, IRA)		
Federal income tax and state income tax		
Social Security and Medicare		
Saving and Investing (Pay Yourself First)		
Contribution to savings and investments		
Insurance Premiums		
Health, automobile, home or renters, life		
Housing Costs		
Transportation Costs		
Food Costs		
Family Member Care		
Communication and Computers		
Telephone landline, cell phone, Internet, cable/satellite television		
Medical Costs Not Covered by Insurance		
Clothing and Personal Care		
Educational Expenses		
Pet Care		
Entertainment		
Gifts and Charitable Contributions		
Credit Costs		
Student loan, credit card, other loan payments		
Total Expenses	$	$
Net Gain or Net Loss (Income less Expenses)	$	$

Renting Your Home

Rent is the price paid for the use of someone else's property. A **tenant** rents property from a **landlord.** The tenant pays the landlord "rent" (a fee, usually paid monthly) to live in the landlord's property. In large apartment complexes or neighborhoods with large inventories of single-family rental homes you may find yourself working with a property manager or a property management office. They're the same as a landlord; they just have more rental properties to manage.

Information about existing rental properties is available through many family and community resources.

How much of your income can you afford to pay towards a monthly rental payment? Here are some typical expenses your spending plan should include when investigating the rental market. Some of these items might be included in the monthly rent.

- ☐ **Rent** – Your regular payment to a landlord for the use of property.
- ☐ **Utilities** – How much will electricity, water, and garbage service, cost you if they're not included in your rent?
- ☐ **Household furnishings** include all items that make your home habitable.
- ☐ **Renter's insurance** - An optional (but important) purchase that covers damage and or loss of your personal property and liability in your rental home. However, it doesn't cover the loss of the dwelling if it is destroyed by fire or natural disaster.
- ☐ **Communication expenses** include internet, television and phone service.

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To begin comparing rental properties, make a list of essential vs. preferred features. Then, if possible make appointments to view your favorite properties. When comparing properties it's important that you ask a potential landlord several questions:

- **Rent** – How much is the rent, when is it due and what payment methods are available.
- **Length rental contract**– Is the contract based on 12 months? If you want to shorten the contract will that affect your rental payments?
- **Utilities** – Learn who is responsible for paying each utility bill.
- **Amenities** – Determine if any features such as furniture, appliances, on-site laundry or a community pool are provided and if so, whether there is an additional charge for usage.
- **Repairs and maintenance** – If the dishwasher leaks or the furnace stops working are you responsible for the repairs? Find out what maintenance is covered under your rental agreement and the associated fees for repair work.
- **Policies** – Can you live with a restriction that says no overnight street parking? Do you have a pet and want to bring it to your new home? What if you like to grill out? Check to see if there are restrictive policies related to the quality of life you'd like to live. Be sure to ask for a written copy of all rental policies and restrictions before signing a lease.
- **Landlord/Property Manager's Access Rights to the Property** – Unless it's an extreme emergency your landlord typically must give you a 48-hour notice prior to entering your rental home. This varies from state to state. Make sure to read and become familiar with your rights.
- **Eviction terms** – Understand your rights and the policies associated with a landlord's cause to evict you from your rental property.

Don't rent without a rental agreement - A written rental agreement protects the tenant.

If you are approved to rent a property make sure you receive the rental agreement before providing any deposits or rent payments. A **rental agreement** (also referred to as a lease) is a contract specifying the tenant's and the landlord's legal responsibilities. A rental agreement is a contract. Once signed, you are responsible for the terms of the lease. Examine the rental agreement closely making sure it clearly outlines information about expenses and policies. The rental agreement is there to protect you and to outline your legal responsibilities as a tenant.

You might be subject to financial penalties should you break any of the terms in your lease. Most rental agreements state that the tenant (you) will pay rent for a specific amount of time, usually 12 months from your signing date. If you break the rental agreement before the contractual time period is over, you'll probably have to continue to pay rent to the end of your contract or be assessed a penalty charge. Check your rental agreement and don't assume anything!

Filling out a rental application is part of the rental process. You may be asked to verify

- Who will be living at the property
- Your current and past employers and your income (don't be surprised if the landlord contacts your employer to verify)
- Your previous rental history

You'll most likely also be asked to supply additional character references and approve your future landlord's request to pull your credit reports.

Remember, your credit history affects more than just credit. It can also influence if a landlord will rent a property to you.

When renting a home, you may have some initial expenses to pay before moving in:

- **Pre-payment** – You may be required to pay the first and last month's rent immediately upon signing your rental agreement.
- **Security deposit -** This is money you pay your landlord to cover cleaning costs when you leave your unit at the end of the lease, as well as any damages the property suffered during your occupancy. Damage repairs to be charged against your deposit must go beyond normal wear and tear of a rental property. If you paid an additional month's worth of rent upon signing your initial contract, your landlord typically has one month to return those funds to you. However, part or all of that deposit will be withheld depending on the condition of the property upon your departure. If your landlord holds back funds, he/she must present you with a written list of the damages and the amount of money needed to clean and make repairs. If the deposit is larger than the amount required for repairs and cleaning, the landlord must return the excess.

Home Ownership

Homeownership provides a broad range of benefits including pride of ownership, tax benefits, and the opportunity to build equity. **Equity** is the monetary value of a property minus the amount owed on the property. Building equity in your home over time will increase your net worth. However, a home purchase and ongoing costs of home ownership also involve expenses that you wouldn't necessarily have if you decided to rent. A home purchase is a complicated transaction and represents one of the largest single investments you'll most likely ever make.

One of the first steps to take as a potential homeowner is to find a good real estate agent. **A real estate agent** is a licensed individual representing a buyer or seller in a contractual transaction to purchase real property. The agent should be someone you can relate to, someone who understands your needs and has the expertise and know-how necessary to help you find the right home for you. A large part of a real estate agent's job is to help guide you through the contract and closing process.

Few people can buy a home for cash. According to the National Association of REALTORS® (NAR), nearly nine out of 10 buyers finance their purchase, which means that virtually all buyers -- especially first-time purchasers -- require a loan.[1] To obtain a loan you'll have to fill out a loan application and provide supporting documentation. You'll be asked to supply pay stubs, rental checks and past tax returns. Loans are obtained through mortgage bankers, mortgage brokers, savings and loan associations, commercial banks, credit unions and insurance companies.

If you finance (borrow money) your home purchase you will enter into a loan contract agreeing to repay the sum of money borrowed. A loan for the purchase of real estate is called a mortgage. A mortgage is a special type of loan that is backed by the property that it is used to purchase. Under a mortgage contract, the property is considered collateral on the loan and the lender can take back the property if you do not repay as agreed. The repayment period for most home purchase loans is either fifteen or thirty years.

What can you begin doing today to qualify for a home loan with favorable terms?

Using a mortgage to purchase a home will involve two large initial expenses.

- **Down payment** is the portion of the purchase price that is not borrowed. A mortgage down payment is typically 5 – 20% of the purchase price of the home. If you can't afford a full 20% down payment on a home, then the lender will typically add **mortgage insurance** to the contract and include the cost as part of your monthly mortgage payment. Also known as "Private Mortgage Insurance," PMI protects the lender in case you can't make your mortgage loan payments and the lender has to take the property back through a process known as foreclosure.[2] In that event, the insurance provider would reimburse the lender for any loss due to your failure to repay as agreed. Lenders often require PMI if a borrower provides less than a 20% down payment, because these loans are considered higher risk. The PMI payment is usually paid monthly as part of the overall mortgage payment to the lender.
- **Closing costs** are fees and charges associated with the purchase of a property. The exact amount depends on several variables but can be 1-4% of the purchase price.

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In addition to paying down the principal and interest on your mortgage loan, your monthly mortgage payment will also include an amount to cover your property taxes and **homeowner's insurance** costs. **Homeowner's Insurance** covers damage or loss of the structure and contents, plus your liability in case others are injured on your property. Most lenders who provide a mortgage require the borrower to purchase homeowners insurance sufficient to cover loss of the structure.

Other home ownership expenses include:

- ☐ Utilities
- ☐ Household furnishings
- ☐ Special Assessments – fees collected by the local city government for utilities, road maintenance and other services such as fire protection and street lighting.
- ☐ Homeowner's Association Dues – condos and residential communities may charge monthly or yearly fees through a Homeowners Association (HOA) that will pay for the maintenance of shared areas and necessary repairs throughout the community
- ☐ Communication expenses including internet, television and phone service

The current market value of your home is considered an asset on your Statement of Financial Position. However, if you use a mortgage to finance the purchase of the home, the remaining balance on your mortgage loan is considered a liability.

TRANSPORTATION

The average person spends 17% of their income on transportation. As a consumer you have several transportation options.

Public Transportation

Some cities have limited public transportation options (taxi, subway, bus, light rail) and even in cities with well-developed networks, not all areas are covered equally. However, if public transportation is available this may be the most cost-effective option because it doesn't require you to pay the costs of maintenance and repairs associated with vehicle ownership. The cost of using the different modes of public transportation varies significantly. Some public transportation systems offer passes (usually monthly or yearly) to help reduce a user's cost.

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Federal income tax and state income tax		
Social Security and Medicare		
Saving and Investing (Pay Yourself First)		
Contribution to savings and investments		
Insurance Premiums		
Health, automobile, home or renters, life		
Housing Costs		
Transportation Costs		
Food Costs		
Family Member Care		
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Clothing and Personal Care		
Educational Expenses		
Pet Care		
Entertainment		
Gifts and Charitable Contributions		
Credit Costs		
Student loan, credit card, other loan payments		
Total Expenses	$	$
Net Gain or Net Loss (Income less Expenses)	$	$

Purchasing an Automobile

When purchasing an automobile you'll discover there are two main sources of inventory: an automobile dealership and vehicles offered for sale by other consumers. Dealerships sell a variety of new and used automobiles. Private owners usually sell pre-owned vehicles.

A major decision you'll make before purchasing your automobile is whether you will buy new or used (also referred to as pre-owned). Before working with sales personnel, it is important that you carefully evaluate your needs and wants to understand what vehicle options will meet your lifestyle.

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Here are some typical transportation expenses to consider prior to purchase:

- **Automobile loan payment** – If you finance your purchase what is your required loan payment?
- **Fuel costs** – This expense will depend on vehicle performance and how much you drive.
- **Maintenance and repairs** –Do research to estimate the costs associated with normal wear and tear based on how many miles you expect to drive per year. Keep in mind that some vehicle models (especially foreign imports) are much more expensive to maintain and repair than others.
- **License and registration** – This is a yearly fee and varies greatly.
- **Insurance** – Your age, sex and prior driving record all influence this cost.
- **Parking** – If your place of employment doesn't provide free parking during your workday how much will on street parking or a local parking garage cost?

Costs associated with vehicle ownership vary depending on the make and model of your automobile and how much you drive it. Newer automobiles have higher license and registration fees than older automobiles, but older automobiles may also cost more to maintain.

Consumer Reports provides unbiased information comparing vehicle features, pricing, safety ratings and much more.

Kelly Blue Book Cost to Own (http://www.kbb.com/new-cars/total-cost-of-ownership/) is an online estimator tool that helps you understand how much it costs to own and operate a vehicle and how much money to allocate in your spending plan.

The current market value of an automobile is considered a tangible asset (property purchased to create a lifestyle or improve your present life) on your Statement of Financial Position. Each year the value of your automobile will decrease. This is known as **depreciation** (decrease in the value of an asset associated with the decline in its remaining useful life). The depreciation rate depends on the age of the vehicle as well as its make and model. If you used an automobile loan to finance your purchase, the remaining balance on your loan is a liability on your Statement of Financial Position.

Depending on the amount borrowed, the car may depreciate faster than your loan balance declines. If the car's value becomes smaller than the remaining balance on your loan, you are considered "upside down with your loan." This doesn't pose an immediate problem, but could present an obstacle to selling or trading your car for a different model, in which case you would need to pay back the lender more than you would receive from the sale. You can reduce the likelihood that you'll have an upside down period during your loan payback if your original loan has a shorter loan term (for example, 48 months instead of 60 months) and/or a larger down payment (for example, 20% instead of 10%).

What features would you want in an automobile?

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Know what features you want in a car and the average price for that vehicle. This will help you negotiate the best possible price.

Cost	Size	Usage
Gas Mileage	Safety Ratings	Reliability
Environmental Impact	Depreciation	Upgraded features

Examples of features that may be important to you include:

- ☐ **Cost** – what can you afford?
- ☐ **Size** – how many passengers will this car carry?
- ☐ **Usage** – how will you use this vehicle?
- ☐ **Gas mileage** – What's the average MPG (miles per gallon)?
- ☐ **Safety ratings** – How safe is the vehicle compared to other models?
- ☐ **Reliability** – How reliable is the vehicle? What are the average maintenance and repair costs?
- ☐ **Environmental impact** – Does the model have features (other than fuel economy) that reduce its environmental impact?
- ☐ **Depreciation** – How quickly will the value of the vehicle depreciate? What did you learn from your research?
- ☐ **Upgraded features** – What upgraded features would you consider adding to the price of your purchase? What are some upgraded features you can live without?

Using Credit to Make Your Purchase

Automobile loans are available from depository institutions or automobile dealerships. Most lenders check your credit history to determine whether you can qualify for a loan. Loan rates vary significantly, so it is important to shop around in advance of negotiating your purchase.

Most lenders require a **down payment** (the portion of the purchase price that is not borrowed) be made. The down payment amount depends on many factors including the price of the automobile and the lender's specific terms. If you plan to sell your current vehicle and use the money from its sale as your down payment, research your vehicle's worth in advance of working with a dealership. This helps determine whether the dealership is offering a good trade-in value for your vehicle. You might consider selling it on your own. If you are trading in your vehicle, negotiate the value of the trade-in separately from negotiating the price of your new vehicle.

If you are buying a new automobile, you may decide to lease. **Leasing** is renting a product while ownership title remains with the lease grantor. In a typical auto lease, you pay a specified amount of money (usually monthly) during the life of your lease (for example, 36 months). Once the lease expires, the automobile is returned to the lease grantor (lender). Some leases allow for purchase of the vehicle for an additional cost at the time the lease expires. This amount is usually specified in advance as part of the original lease contract. If you are considering leasing an automobile make sure to carefully read the contract to learn exactly what you are required to pay. Make sure to look for any penalties associated with usage such as additional charges you'll have to pay for exceeding the allotted miles.

Be careful - If you do not have an adequate down payment or favorable credit terms, the value of your vehicle could instantly be less than the loan amount because of depreciation.

Don't drive the car home before the financial paperwork is complete.

Websites such as Kelly Blue Book and National Automobile Dealers Association provide valuable information about vehicle worth, typical cost of ownership and much more.

FOOD

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Spending Plan for:		
Time Period:		
	Planned Amount	Actual Amount
Income		
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Educational Expenses		
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Entertainment		
Gifts and Charitable Contributions		
Credit Costs		
Student loan, credit card, other loan payments		
Total Expenses	$	$
Net Gain or Net Loss (Income less Expenses)	$	$

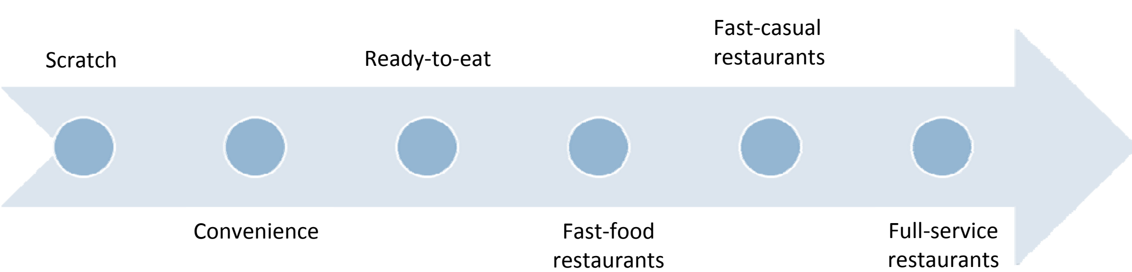
The average person spends 13% of their income on food. But, food costs can vary widely across individuals, largely depending on how often they eat meals away from home. And, unlike housing and transportation expenses, food purchase decisions are made daily and are susceptible to impulse buying. A $4 latte once in awhile is a pleasant indulgence that makes life more satisfying. A daily $4 latte habit can be an expensive burden on your monthly budget. Once you have allocated money for food in your Spending Plan, the task of staying within a specific dollar amount becomes the goal, and the creation of nutritious meals for a period of time becomes the challenge.

These decisions are highly personal and specific to individuals. But, generally speaking you have two primary options from which to choose:

- ☐ Preparing food at home – This is a form of household production. You use your time and resources to prepare meals rather than purchase them. Time costs are important to consider, in addition to financial costs. Some consumers have limited time and prefer items that require less preparation, although ready-to-eat meals are often more expensive. This is a good example of how meals pose a daily tradeoff: for this meal decision is saving time more important than saving money?
- ☐ Food away from home – Eating away from home includes a variety of options that vary significantly in price.

What are two things you can do to minimize your food expenses?

When thinking about the budgetary impact of your food options, keep the following in mind regarding how price increases across options:



In In addition to cost, consider the following factors to increase your overall well-being:

- ☐ Nutritional value – Evaluate the nutritional value of food purchased and consumed. Try to eat a well-balanced meal high in nutrition. There are many resources to help plan nutritional meals such as MyPlate.
- ☐ Time – How much time do you have for preparation?
- ☐ Skills – Do you have the skills to prepare meals, or are you interested in learning from others?
- ☐ Facilities and equipment – Is your kitchen equipped with the necessary appliances?

All in all, when making food decisions make sure you are working within your spending plan and eating nutritiously.

1. National Association of REALTORS® - http://www.realtor.org/
2. Investopedia - http://www.investopedia.com/

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