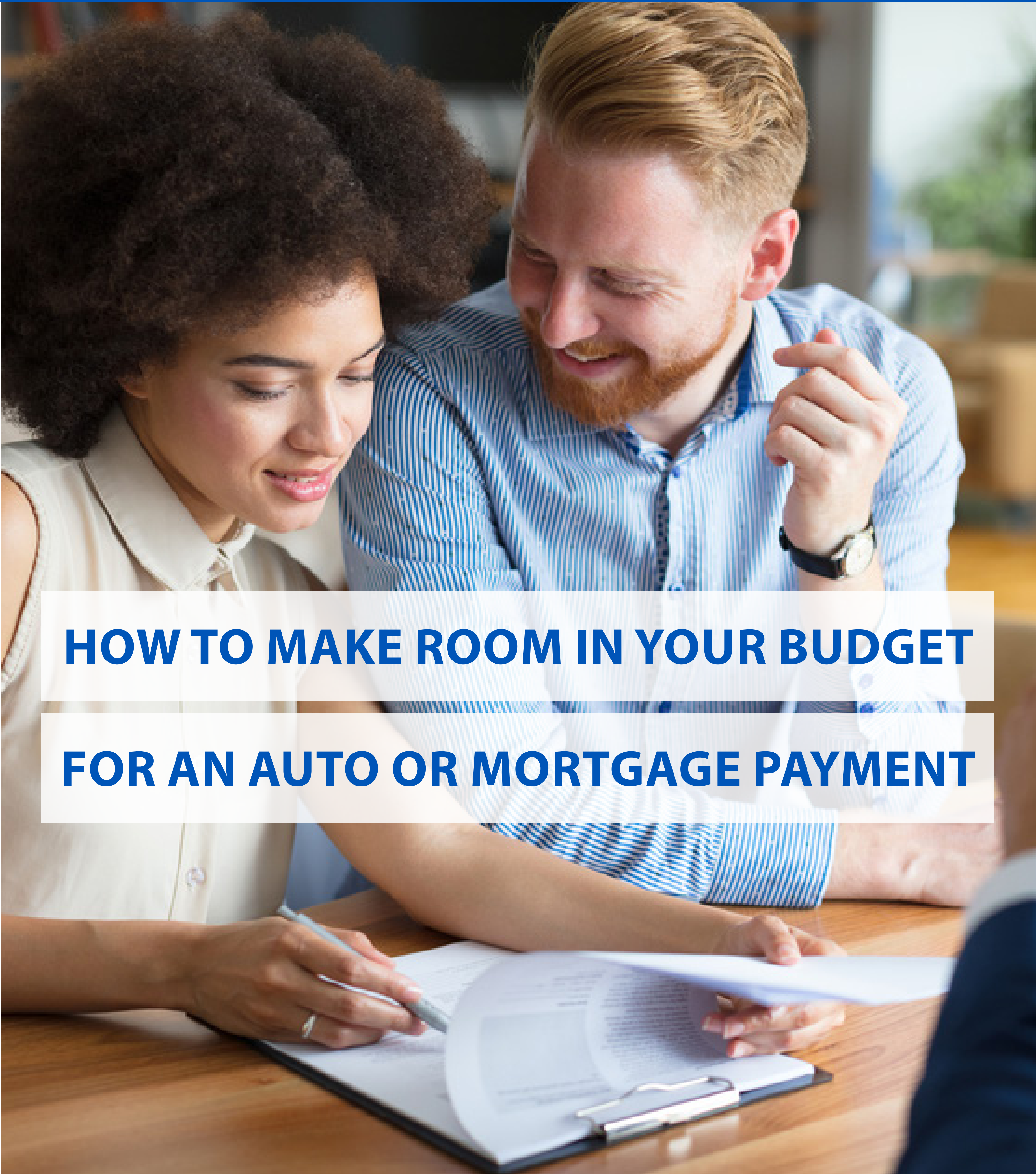
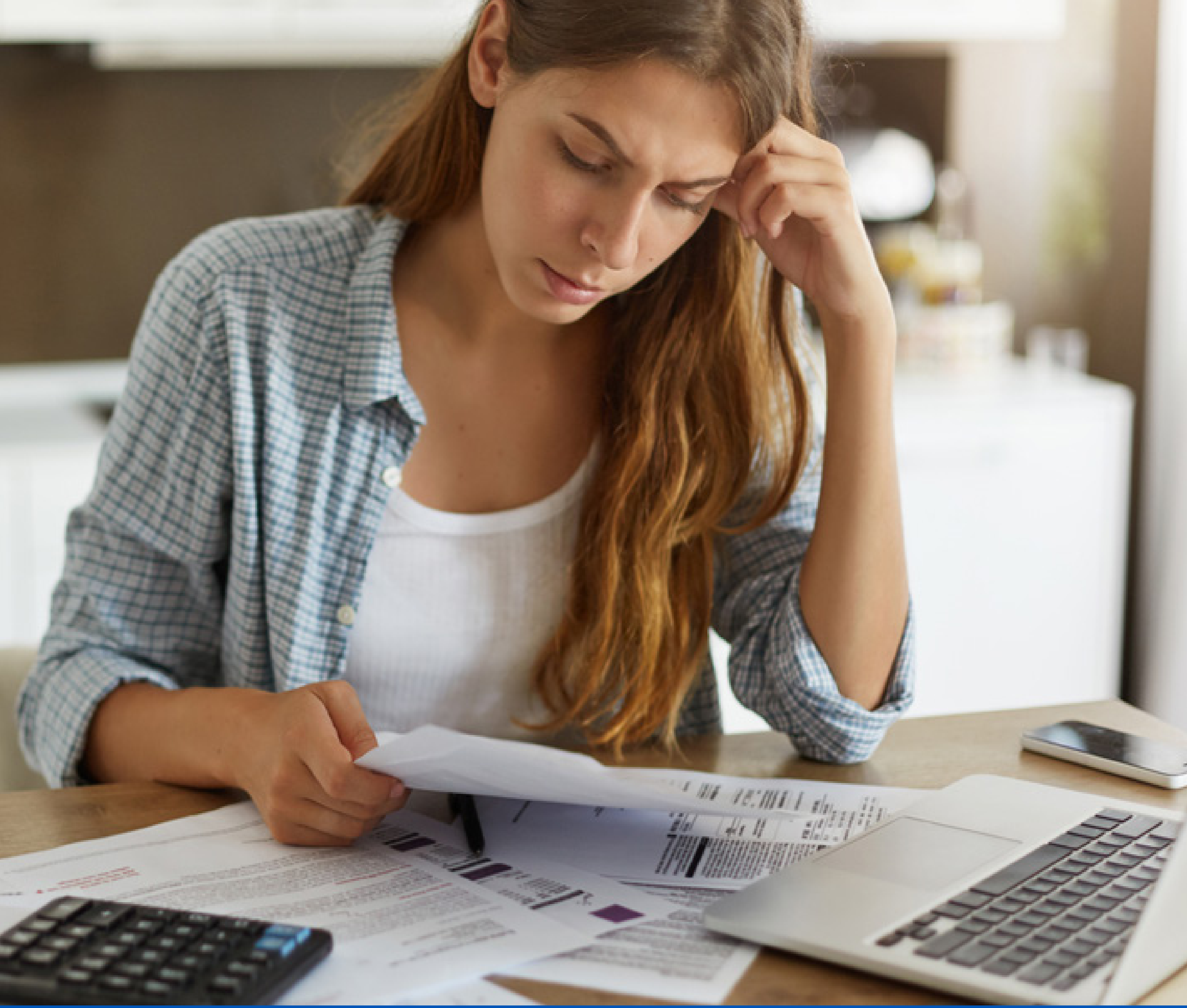
WEOKIE
FEDERAL CREDIT UNION

HOW TO MAKE ROOM IN YOUR BUDGET FOR AN AUTO OR MORTGAGE PAYMENT





It can be intimidating to think about taking on significant debt for a mortgage or a car payment, even if you know the benefits of financing a home or a car.

As a credit union, we get involved when people are ready to finance their major purchases, but this guide is all about what you can do before it's time to take out a mortgage or auto loan.

Before you apply for a loan, there are a lot of things you can do to prepare. Making room in your budget is an important step to take to prepare for your next big purchase.

The Planning Stage

EVALUATE YOUR CURRENT BUDGET.

The first step is to carefully evaluate your current budget. If you don't know where your money is going now, you can't plan accordingly. There are countless budgeting apps (including the ones we've recommended on our blog!) and tools out there for people with all different experience levels with budgeting.

When you evaluate your budget, be sure to look at the following things for the past 3-6 months:

- Your total take-home income from all sources
- Money you are currently putting towards any debt (including student loans, medical debt, credit cards, and any other sources of debt)
- What you are spending on housing, especially if you currently pay rent
- Your general expenses (clothing, food, insurance, entertainment, etc)

When evaluating your budget, where is your wiggle room? What can you cut out to save money on a monthly basis? What debt can you pay down before taking on another payment? What other financial goals do you have in addition to a new home or vehicle?

LEARN HOW MUCH MONEY IS "SMART DEBT."

How much do you know about debt-to-income ratios (DTI)? This ratio is calculated by dividing your monthly debt payments by your gross monthly income.

The Consumer Finance Protection Bureau says that consumers should avoid having more than a 43% DTI. However, a lot of experts recommend an even lower percentage, as low as 25%.
When a consumer's debt exceeds a certain percentage of their income, they are more likely to run into problems, including:

- Difficulty making all of your payments
- Negative impact on your credit score
- Inability to contribute to savings and investment accounts
- Declined credit accounts from lenders
- Higher interest rates from creditors

WEOKIE provides many different calculators available for free. You can calculate everything from how much you can afford for your car loan to how long it will take you to pay off your credit card debt, and so much more.

We can't emphasize this enough: understanding your financial situation is vitally important before you take out a loan, whether that is for a car that you desperately need or a mortgage payment for a home you just can't wait to own.

GET FAMILIAR WITH YOUR CREDIT SCORE.

If your credit score is too low, you are going to get hit with a higher interest rate from any lender. Familiarize yourself with your credit score and begin working on strategies to raise it if you need to.

The Saving Stage

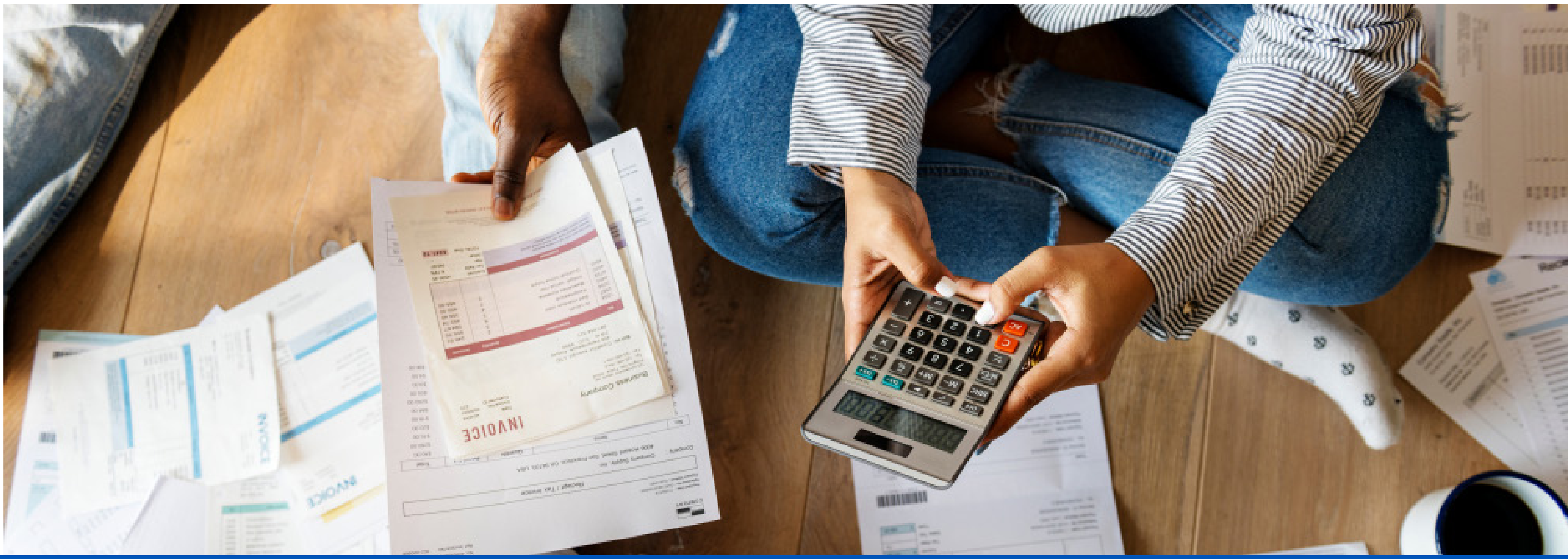
Once you have figured out your financial situation and know how much financing you can afford, it is time for the hard but rewarding work of preparing to take out a loan.

PAY DOWN EXISTING DEBT.

Paying down your existing debt is going to help you in several ways. One of the most important is that with a lower debt-to-income ratio, you are going to get a better interest rate on your new loan.

Additionally, for many forms of debt, paying off your loans can reduce the overall interest you are paying over time. This is especially true for credit card debt!

Finally, paying down your existing debt will give you the freedom to save more effectively. If less of your monthly income has to go towards debt, more of it can go into savings. Or, if you find yourself immediately in need of a new car or suddenly in a position where taking on a mortgage is a wise financial decision, then you have more cash flow to put towards that obligation.



SAVE FOR A DOWN PAYMENT.

The bigger your down payment, the less you will have to spend on a monthly basis to pay back your auto loan or mortgage payment. If you can, give yourself time to save for a down payment that will really make a difference.

For a mortgage, you generally need a 20% down payment, although certain loans allow for a smaller amount. For car loans, the percentage is generally a lot more flexible, but 20% is still a smart goal.

Saving for your down payment can mean making sacrifices in your daily life, but owning a car or home is worth it!

FIND OUT WHAT YOU CAN CUT FROM YOUR DISCRETIONARY SPENDING.

For a lot of people, spending comes easy, while saving does not. If this describes you, this will likely be the most difficult part of the advice we've laid out. Some discretionary spending that can often be eliminated or reduced while rethinking your spending include:

- Clothing and shopping
- Eating at restaurants and getting fast food for lunch
- Subscription plans to entertainment channels like Netflix, Hulu, and cable
- Travel and spending on activities
- Specialty grocery and drink items, including alcohol

Your unique spending habits are going to determine what needs to be changed. Regardless of what that looks like for you, this is true for almost everyone: in order to make room for a new debt like a car or house payment, you are going to have to change some of your spending habits. It is up to you to determine what those changes need to be!

What Happens Next

Once you have evaluated your finances, started saving, and made changes to your spending, come see us at WEOKIE so that we can get you the best possible financing on your new home or car. You can chat with a representative or apply for a loan online! Or give us a call at (405) 235-3030 so that we can start helping you reach your financial goals.

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