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Speaker 1

Welcome, my name is Andrew Baron and this is, Well... It Depends! The podcast where I discuss different financial decisions that can't be answered with a simple yes or no. In this episode, I ask the question, when should I finance a large purchase? But before we begin a short disclaimer, this is being recorded on June 7th, 2023. The contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment, tax or legal advice. It is important to consult with a professional before making any financial decisions as the strategies discussed may not be suitable for you specifically.

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Getting into it, when should I finance a large purchase? Well... It Depends! Whether it be a new car, upgrading your home or a fancy new gadget. You may be tempted to finance a large purchase, but should you? That question can't be answered with a one size fits all answer and instead depends on a number of factors, including your financial goals, your current situation, and the purchase in question.

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Let's begin with your current financial goals. These can either be shorter term such as saving for a vacation or longer term, such as putting aside money for retirement. In either case, you don't want this new purchase to jeopardize your financial goals by either eating away money you already have saved up or by squeezing your budget through these additional monthly payments. If the purchase aligns with your financial goals, or at least doesn't hinder them, it may make sense to finance this purchase.

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That brings us to your current situation. According to your current income and assets, can you take on this new purchase without reducing your lifestyle? If the answer is no, it may be too much for you to handle. Do you have an emergency fund? If you don't, you leave yourself vulnerable to a future financial crisis. If you are already carrying substantial debt, adding new debt can impact your credit score and make it difficult to secure new loans in the future.

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That brings us to the purchase in question. A mortgage on your primary residence is generally considered good debt. It may also make sense to finance an auto loan if you need it for work and you can afford the monthly payments. However, financing discretionary luxuries such as a vacation may not be financially savvy.

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It's important to consider interest rates. Higher interest rate terms may make the purchase significantly more expensive than it originally appears at face value. On the flip side, low interest rate payments or even 0% interest may make the payments more affordable from a cash flow standpoint than they otherwise would be, meaning it may make sense to finance these purchases.

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Lastly, even if it makes sense to finance the purchase now, you need to have a plan to pay off the debt. Remember, you don't want these additional monthly payments spiraling out of control leading to buyer's remorse.

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To recap. Financing a large purchase may make sense if it aligns with your financial goals, you can afford it according to your current financial situation and you understand the type of debt you're picking up.

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Be aware of interest rate terms and have a plan to pay off the debt. If you have any additional questions, reach out to a trusted financial advisor. So, to answer the question when should I finance a large purchase? Well... It Depends!

Speaker 1: Andrew Baron, CFP®, EA