

Steps for Making a Big Purchase

Medical students and residents sometimes want or need to purchase a house, a car or other expensive items before their education or training is complete. With large purchases come valid concerns about student loan indebtedness and limited residency salaries. However, if approached wisely, these concerns can be mitigated and the item can be purchased.

Preparing to Buy

Step #1: Understand and Protect your Credit Score – Your FICO score (credit score) will determine the interest rate of your loan. To get the lowest interest rate possible, try to raise your credit score prior to making any large purchase. This can be done, but it will take time... so plan accordingly:

- Always pay bills on time (medical school provides 4-years to make on time payments)
- Pay down credit cards and other revolving debt
- Limit borrowing and avoid opening additional lines of credit

Additionally, be aware of Identity Theft. It's a rampant crime and the most proactive step you can take is to periodically review your credit report at www.annualcreditreport.com.

Step #2: Know How Much You Can Afford – Knowing what you *really* can afford hinges on having a current and accurate budget. Once you determine the monthly payment you can comfortably afford, then it's time to move to the next step.

The Buying Process

Step #3: Start Shopping for a Loan – Yes, it seems backwards, but it makes most sense to shop for a loan before you shop for the item. By comparing lenders and their loan products, not only will you be able to find the best deal, but you will also have a clear understanding of the total cost (fees, points, rates, etc) associated with the big purchase. If a pre-approval letter is needed during your purchase, any of these lenders can now provide it. (Note: make sure you limit shopping to a short span of time to avoid unnecessarily hurting your credit.)

Step #4: Start Shopping for your Big Purchase – Depending on the item, professional assistance may be required during this step. For a home purchase, a licensed real estate agent is suggested (especially if you are unfamiliar with the area). For a car purchase, a trusted mechanic may be needed to inspect your possible choice. When a final selection has been made, there will be negotiations, paperwork, additional inspections etc. Often, the most stress will come at the tail-end of the transaction.

Things to Avoid:

- A lender pushing you into a monthly payment you do not feel comfortable with

- Stay away from alternative loans with options like interest-only payments

Final Tips:

- When buying a car, try to buy used... as soon as you leave the dealership in that new car, it becomes a used car and you've immediately lost a significant amount of the value.
- By reducing your required monthly payments on other debt, it can increase the loan amount for which you qualify. This means, forbearance on student loans may help you qualify for more house or car. But be wise... when your residency ends, the house, car and student loan bills will all need to be paid. Budget and spend accordingly.
- Remember: it is not how much you make, but *how much you save*. Be sure you are taking retirement saving into consideration when planning and budgeting for major purchases.

Other Resources

Buying a House:
www.hud.gov/buying/

Buying a Car:
www.edmunds.com/advice or
www.kbb.com/kbb/advice