

THE BUDGET BOTTOM LINE

MM2 Paul Jones and his wife, Connie, are thinking about buying a new car. They have figured out their basic income and expenses and have a pretty good idea about the type of car they want and what it will cost. Connie works part time while their 7-year-old daughter is in school. They currently own one car, which is paid off. They live in base housing. They have an emergency fund of \$1,000.

Calculate the Jones' monthly bottom line and figure out whether they can truly afford this car purchase.

Total (after tax) Income	\$2536
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Total Monthly Living Expenses:	\$1845
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Paul and Connie have picked out a vehicle that suits their needs. They have calculated that their total monthly car payment will be approximately \$357.

Using the following guidelines, determine whether Paul and Connie can afford this vehicle.

1. Financial advisers usually suggest keeping total car expenses to within 25 percent of your net income (what remains after taxes).

Paul and Connie's total net income: _____ x 25% (.25) = _____

2. Total car expenses includes the car payment plus maintenance, insurance, operating expenses (fuel, oil, etc.) and taxes. These operating expenses can sometimes total up to one-third of the monthly payment. To avoid spending more than you can afford, multiply the amount you figure you can afford to spend each month on your new vehicle by .66. The product will give you a good idea of what the car payment max is for your current financial situation.

25% of net income x .66 = _____

(Estimated car payment max based on net income.)

3. Paul and Connie have _____ left over each month. Can they afford the maximum payment calculated above?

YOU BE THE JUDGE OF THEIR BUDGET "BOTTOM LINE."