CONSUMER ALERT ⚠

WHAT YOU SHOULD KNOW ABOUT PAYING CASH FOR A VEHICLE

1 ♦ MAY BE PENALTIES FOR CASHING OUT INVESTMENTS

Many mutual funds sold ten or twenty years ago have significant monetary penalties if they are cashed out before their maturity. You may wish to leave your investment in tact and finance instead.

2 ♦ LOSS OF EMERGENCY FUNDS

You are depleting a large sum of money from your savings or investments when you pay cash for a vehicle. This money could be needed for emergencies at a later date. e.g.:

- ☹ **a major and unexpected home repair**
- ☹ **a loan to a family member needing money**
- ☹ **a trip due to a family emergency**
- ☹ **a disability where savings are needed to replace income from work**
- ☹ **special medical bills, medication and treatments**
- ☹ **a funeral**

3 ♦ LOST OPPORTUNITY FOR INEXPENSIVE LIFE AND DISABILITY LOAN INSURANCE

In the event that you become disabled and unable to work, you may have little money to draw upon from savings for income if you have paid cash for your vehicle. By financing the vehicle and insuring the loan with credit life and disability insurance, you can leave your cash in savings or investments. In the event that you were unable to work, you would have your savings or investments in tact and be paying for the vehicle with insurance benefits instead of your savings.

If you are over fifty years of age, you have the added benefit of being able

to qualify for very *inexpensive* credit life and disability insurance premiums. This is due to the fact that the insurance is an *averaged premium*, which means that all customers that qualify (generally between the ages of 18 and 65) pay the same premium. Customers over fifty would normally pay much more money for insurance than a younger person if it was purchased directly from an insurance company.

4 ♦ LOSS OF INVESTMENT OPPORTUNITIES

Paying cash for a vehicle depletes money from your savings. This limits your investment opportunities. At some time in the future if you still have your savings, they could be used for:

- ☺ a down payment for a real estate purchase such as an investment property, cottage, or a larger home
- ☺ home renovations or a pool
- ☺ Registered Retirement Savings Plan (R.R.S.P.'s), R.E.S.P.'s, Canada Savings Bonds, Guaranteed Investment Certificates (G.I.C.'s), Mutual Funds, Tax Free Savings Account

Special Note:

The new Tax-Free Savings Account (TFSA) is a flexible, registered general-purpose savings vehicle that allows Canadians to earn tax-free investment income to more easily meet lifetime savings needs. The TFSA complements existing registered savings plans like the Registered Retirement Savings Plans (RRSP) and the Registered Education Savings Plans (RESP).

How the Tax-Free Savings Account Works:

- Canadian residents age 18 or older can contribute up 5,000 annually to a TFSA.
- Investment income earned in a TFSA is tax-free.
- Withdrawals from a TFSA are tax-free.
- Unused TFSA contribution room is carried forward and accumulates into future years.
- Full amount of withdrawals can be put back into the TFS in future years.
- Choose from a wide range of investments options such as mutual funds and Guaranteed Investment Certificates
- Contributions are not tax-deductible.
- Neither income earned within a TFSA nor withdrawals from

it affect eligibility for federal income-tested benefits and credits, such as Old Age Security, the Guaranteed Income Supplement, and the Canada Child Tax Benefit.

- Funds can be given to a spouse or common-law partner for them to invest in their TFSA.
- TFSA assets can generally be transferred to a spouse or common-law partner upon death

The next page (INVESTING YOUR MONEY INSTEAD OF PAYING CASH) is called a INVESTMENT ANALYSIS. It demonstrates that even though you pay interest on a dealer plan loan, you can make enough money through a conservative investment that would more than pay for the interest on a loan as well as an additional profit. The pages following the INVESTMENT ANALYSIS offers a step by step explanation.

5 ♦ LOST OPPORTUNITY TO PAY DOWN MORTGAGE

Most mortgages allow you to pay off up to 15% of the principal amount borrowed each year without a penalty. By paying down your mortgage instead of paying cash for your vehicle, this significantly reduces the interest charges *and* the amortization of your mortgage. The savings more than offsets the cost of interest on a vehicle loan.

6 ♦ NO CREDIT RATING ESTABLISHED

When you pay cash, there is no establishment of a positive credit rating. A positive credit rating is essential for borrowing money from financial institutions for things such as mortgages, lines of credit, home improvement loans, credit cards, etc. Financing through your dealer plan establishes your credit rating.

PAY DOWN YOUR MORTGAGE

AMOUNT BORROWED FOR A VEHICLE:	$ 40,000.00
TERM OF LOAN:	72 MONTHS
INTEREST RATE (%) ON LOAN:	6.00%
COST OF BORROWING (TOTAL INTEREST):	$ 7,730.24
TOTAL NOTE:	$ 47,730.24

MORTGAGE BALANCE:	$ 350,000.00
INTEREST RATE (%):	5.00%
AMORTIZATION IN YEARS:	25 YEARS
TOTAL INTEREST COST (OVER AMORTIZATION):	$ 260.685.23
MORTGAGE PAYMENT (P+I):	$ 2,035.62

PRE-PAYMENT AMOUNT:	$ 40,000.00
ADJUSTED MORTGAGE PRINCIPAL:	$ 310,000.00
ADJUSTED INTEREST COST (OVER AMORIZATION):	$ 179,598.36

SAVINGS: $	$ 81,086.87
LESS COST OF BORROWING (ON CAR LOAN):	$ 7,730.24
☺ **NET SAVINGS:**	$ 73,356.63

INVEST YOUR MONEY

$ AMOUNT BORROWED FOR A VEHICLE:	$ 30,000.00
TERM OF LOAN:	60 MONTHS
INTEREST RATE OF LOAN (FIXED RATE):	6.00%
TOTAL INTEREST $ PAID ON LOAN:	$ 4,798.80
TOTAL NOTE:	$ 34,798.80

$ AMOUNT INVESTED:	$ 30,000.00
TERM OF INVESTMENT:	60 MONTHS
CONSERVATIVE INTEREST RATE ON INVESTMENT:	(G.I.C.) 3.5%
TOTAL INTEREST $ PAID ON INVESTMENT:	$ 5,630.59
TOTAL OF AMOUNT INVESTED PLUS INTEREST:	$ 35,630.59

TOTAL OF AMOUNT INVESTED PLUS INTEREST:	$ 35,630.59
- TOTAL NOTE:	$ 34,798.80
☹ **THE COST OF PAYING CASH:**	$ 831.79

A G.I.C., R.R.S.P., R.E.S.P. or a T.F.S.A. also provides income tax savings.