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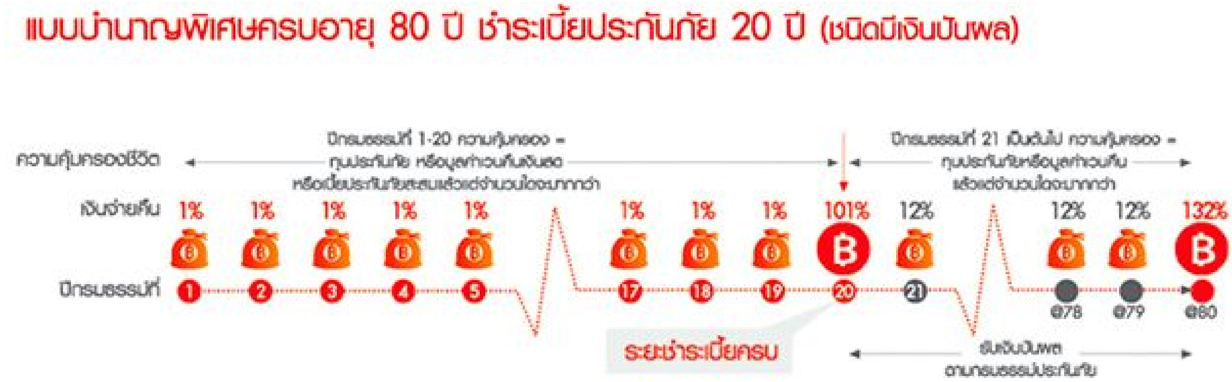
FN281 Individual Assignment

1) Discuss one insurance product and comment on its benefits

Insurance product that I chose is FWD Life Time Pension Extra.



The benefit is that you can receive 1% of premium every year until the 20th year of the contract and after that until the 80th year, you will receive 12% of premium. At the maturity date of contract, you will receive 120% of premium. This is good for people who plan for the retirement and receive premium every year after retirement until 80 years old.

2) Which mortgage would result in higher total payments?

Mortgage A: $970 a month for 30 years

Mortgage B: $760 a month for 5 years and $1005 for 25 years

Calculation : A = 970*30*12 = $349,200

B = (760*5*12) + (1005*25*12) = $347,100

Therefore, Mortgage A would result in higher total payments.

3) What are the two main types of consumer credit?

The two main types of consumer credit are revolving open-end credit and installment close-end credit. Revolving open-end credit usually found in most credit cards. The credit lender will give the credit for use determined by the debtor's credit history and ability to handle the debt repayment. The debtor can choose the amount of available credit to use at any given time, and the debtor will pay back every month and be able to continue to use it as long as the periodic payment has been paid at the minimum amounts. Furthermore, the debtor can choose whether to pay off the entire outstanding debt or just only the required minimum payment.

Another type is installment close-end credit. The creditor gives the debtor a specific amount of credit for purchasing. Usually this kind of credit is used in the large amount of money such as cars. The credit will be paid overtime instead of paying it back in one lump sum.

4) What are the general rules of measuring credit capacity?

There are two general rule for measuring credit capacity. First is the debt payment to income ratio. This use to compare an individual's debt payment to overall income and it can measure an individual's ability to manage monthly payment and repay debts. The ratio is in form of percentage. The lower the percentage, the better the balance between debt and income, vice versa. The ratio should not exceed 20% in order to maintain the balance.

Second way is to use the debt to equity ratio. It can measure financial leverage, the dollar amount of debt an individual has for each baht of equity that person has. The lower ratio indicates the ability to pay back since it means that individual has a relatively low debt, vice versa. The ratio should not exceed 0.5.

5) A few years ago, Michael Tucker purchased a home for $100,000. Today, the home is worth $150,000. His remaining mortgage balance is $50,000. Assuming that Michael can borrow up to 80 percent of the market value, what is the maximum amount he can borrow?

Book Value	100,000
Market Value	150,000
Remaining Mortgage	50,000

Borrow up to 80% of market value = 80%*150,000 = 120,000

Hence, the maximum amount Michael can borrow is (80%*150,000) - 50,000 = $70,000.