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FN 281: Individual Assignment #2
Due Date: Sat. 2 April 2016 (13:00)

1) Discuss one Insurance product and comment on its benefits

According to the official website of Muang Thai Life Assurance (https://www.muangthai.co.th:1767/en/product/detail/gov), Muang Thai Kharatchakarn Suksan is one of the insurance product which is whole life plan.

When you buy life insurance, there are essentially two types: term and permanent. Term life insurance is very simple. You pay a (typically) small premium for financial protection that lasts a specific amount of time, typically 10-30 years. It is pure insurance. The only potential benefit is the payout upon death. In my opinion, this is the only type of life insurance that youngest parents should consider, as the financial protection provided by the death benefit is the whole purpose of life insurance.

Permanent insurance comes in many different flavors, but the primary one is whole life. That is what we'll be discussing here today, though the principles below apply to almost any form of permanent insurance. Whole life insurance does not have a term. It has a death benefit that lasts until you die, whenever that occurs. It also has a cash value component that grows over time, similar to a savings or investment account.

From a pure insurance standpoint, whole life is not useful for the vast majority of young people. It is much more expensive than term. Most people don't need coverage for their entire life, as the primary purpose is to ensure that your children have the financial resources to get to independence. So as a pure insurance product, except for in a minority of cases that are the subject of another discussion, it doesn't make a lot of sense.

There are certain instances where whole life can be useful. If you have a genuine need for a permanent death benefit, such as having a disabled child, it can serve a valuable purpose. If you have a large amount of money, have already maxed out all of your tax-deferred savings, and you can afford to front-load your policy with large payments in the first several years, it can provide better returns than was discussed above. It is a useful product in a limited number of cases.

But the majority of people to whom whole life is sold do not fit these criteria. The majority of us do not need a permanent death benefit and do not have the large amounts of money on hand to make these policies a reasonable investment. For us, there are many reasons why whole life should be avoided. There are too many other good investment options out there to let yourself get stuck with this expensive and poorly performing product.

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

Mortgage A: $970 * 360 months = $ 349,000. Mortgage B: ($760 * 60 months) + ($1,005 * 300 months) = $ 347,100. Therefore, mortgage A will provide higher total payment than mortgage B.

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

Closed-end and open-end are two types of consumer credit. With closed-end (or installment-credit, the borrower pays back a one-time loan in a specific number of payments in a specific period of time. With open-end credit, or revolving credit, the borrower is permitted to take loans on a continuous basis and is billed for partial payments periodically.

The three most common types of closed-end credit are installment sales credit, installment cash credit, and single lump-sum credit. Installment sales credit is a loan that allows you to receive merchandise, usually high-priced items such as large appliances or furniture. You make a down payment and usually sign a contract to repay the balance, plus interest and service charges, in equal installments over a specified period.

Installment cash credit is a direct loan of money for personal purposes, home improvements, or vacation expenses. You make no down payment and make payments in specified amounts over a set period.

Single lump-sum credit is a loan that must be repaid in total on a specified day, usually within 30 to 90 days. Lump-sum credit is generally, but not always, used to purchase a single item.

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

There are two general rules of measuring credit capacity which are debt payments–to–income ratio, and debt-to-equity ratio.

The *debt payments–to–income* ratio is calculated by dividing your monthly debt payments (not including house payment, which is a long-term liability) by your net monthly income. Experts suggest that you spend no more than 20 percent of your net (after-tax) income on consumer credit payments. The 20 percent estimate is the maximum; however, 15 percent is much better. The 20 percent estimate is based on the average family, with average expenses; it does not take major emergencies into account. If you are just beginning to use credit, you should not consider yourself safe if you are spending 20 percent of your net income on credit payments.

The *debt-to-equity ratio* is calculated by dividing your total liabilities by your net worth. In calculating this ratio, do not include the value of your home and the amount of its mortgage. If your debt-to-equity ratio is about 1— that is, if your consumer installment debt roughly equals your net worth (not including your home or the mortgage)—you have probably reached the upper limit of debt obligations.

None of the above methods is perfect for everyone; the limits given are only guidelines. Only you, based on the money you earn, your current obligations, and your financial plans for the future, can determine the exact amount of credit you need and can afford. You must be your own credit manager. Keep in mind that you adversely affect your credit capacity if you cosign a loan for a friend or a relative.

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?

Present market value of Michael's home = $150,000. Michael can borrow up to 80 percent of market value, or $150,000 * 80% = $120,000. Michael still owes outstanding mortgage loan on his home that is equal to $50,000. Thus, maximum home equity loan Michael can borrow is $ 70,000 ($120,000 - $50,000).