

Assignment 4

1) What type of housing would you suggest for people in the following life situations?

a. A single parent with two school-age children.

- Renting House – provide facilities for children
- Owning New House – respond family needs

b. A two-income couple without children.

- Renting House – convenience and flexibility
- Renting Apartment – minimal financial commitment

c. A person with both dependent children and a dependent parent.

- Renting House – provide suitable environment for children
- Renting Apartment – lower maintenance cost
- Owning Condominium - lower maintenance cost

d. A couple near retirement with grown children.

- Renting House – financial, social, and physical needs
- Renting Apartment – lower maintenance cost
- Owning Condominium - lower maintenance cost

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: $\$970 * 360 \text{ months} = \$349,200$
- Mortgage B: $(\$760 * 60 \text{ months}) + (\$1005 * 300 \text{ months}) = \$347,100$

Therefore, the mortgage A has higher total payments.

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

- Closed - End Credit
 - Installment Sales Credit
 - Installment Cash Credit
- Open - End Credit
 - Revolving Credit
 - Incidental Credit

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

- Debt Payments to Income Ratio = $\frac{\text{monthly debt payment}}{\text{monthly income}}$
- Debt to Equity Ratio = $\frac{\text{Liabilities}}{\text{Net Worth}}$

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 Value = \$150,000

He can borrow up to = \$150,000 * 80% = \$120,000.

Remaining mortgage balance is \$50,000.

Hence, the maximum amount he can borrow = \$120,000 - \$50,000 = \$70,000.