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FN 281 Individual Assignment

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

a. A single parent with two school-age children. A condominium near school (2 bedrooms)

b. A two-income couple without children. A condominium near work place (2 bedrooms)

c. A person with both dependent children and a dependent parent. A small house ie. Town home

d. A couple near retirement with grown children. A house

2) Which mortgage would result in higher total payments?

Mortgage A: $970 a month for 30 years $970 a month for 30 years 970(12x30) = $349,200

Mortgage B: $760 a month for 5 years and $1005 for 25 years 760(12x5)+1005(25x12)= $347,100

Answer : Mortgage A

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

1. Close-end credit
    a. Noninstallment credit is the simplest form of **credit**. It can be secured or unsecured. It is usually for a very short term, such as thirty days. It enables consumers to take possession of property today and pay for it within a set amount of time.
    b. Installment credit is a **loan** that is repaid by the borrower in regular **installments**. **Installment** debt is generally repaid in equal monthly payments that include interest and a portion of principal. It is a favored method of consumer financing for big-ticket items such as cars and appliances.
2. Open-end credit
    a. Revolving open-ended credit : This type is found with most credit cards in which the lender extends credit for use by the consumer, with an outside limit that depends on the debtor's credit history and ability to handle the debt repayment. The financial institution gives the debtor a credit card with a credit limit, such as $1,000, $5,000, or $10,000, and the debtor can choose how much of the available credit s/he will use at any given time. The debtor makes periodic (usually monthly) payments, and

continues to use the available credit as needed, as long as each periodic payment meets predetermined minimum amounts.

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

1. Debt payment to monthly income : Add all your monthly expense not including mortgage, divide it by your monthly income. The percentage should not exceeds 20%
2. Debt to equity : 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?

Amount which Michael can borrow = 150,000(0.8) = $120,000

Michael owed (remaining mortgage balance) = $50,000

Maximum amount Michael can borrow = 120,000-50,000 = $70,000