FN281 - Personal Finance

Group B

Penpicha Boonlue 5604641117

Apichaya Thanombooncharoen 5704640118

Athicha Sinswas 5704640175

Kan Phonsuksiri 5704640563

Krittaphas Denpaiboon 5704640753

Kulgunya Rattayapakul 5704640795

Methinee Rengsomboonsuk 5704640886

Rossunart Sanghirun 5704641934

Suparerk Vipavakul 5704642148

Varis Ithivatana 5704642502

Varisa Laoboonlur 5704642510

Non Leethochawalit

Aj.Chaychai Thisadoldilok

Thammasat University

Semester 2/2016

Sources of consumer credit

Consumer credit is the use of credit for personal needs (except a home mortgage). It becomes a debt that a person incurs when buying goods and services. It can be known as consumer debt which allows consumers to get an advance or loan to spend money on products or services and repay in the future. However, consumer credit provides both benefits and disadvantages.

Factors of choosing sources of credit

1. **Repayment Terms**

   It tells how long the financing arrangement is structured to last. When the loan is long, there will be a significant amount of interest over time. However, the loans with shorter period of time might require larger periodic payments. Also, consider the amount that has to be paid in each period and how many period that required to pay. Last, the allocation of each payment to principal and interest. Loans with higher allocation to principal will help minimizing the total long-term cost.

2. **Interest and Fee Structures**

   Costs for loans are included interest rates and fees. Financing through investment can carry much different costs. For instance, money from venture capitalists may not require repayment for years, however, consumers may have to repay at a high premium at all once.

3. **Financing Requirements**

   Consumers should take financing requirements into account. Basic financing requirements are including credit score requirements and some financial ratio tests, such as debt-to-equity ratio.

Types of Loans

1. **Inexpensive loans**

   Inexpensive loans can come from parents or other family members who will not charge interest or charge cheap interest. It is the loans that use your assets (CDs or value of whole life insurance) as collateral. Advantages of this type of loans is that it is negotiable. For example, the interest rate and payment terms can be bargained.

2. **Medium priced loans**

   Medium priced loans consist of commercial banks, savings and loan associations (S&Ls), and credit unions. For instance, commercial banks make loans to borrowers who have ability to repay them. It also makes several types of loans, including consumer loans, housing loans and credit card loans. For S&Ls, it lends to creditworthy people which collateral may be required. The interest rate varies depending on the amount borrowed, payment period, and collateral. The last example would be credit unions (CUs), they serve people who have some type of common bond and provide better terms on loans and savings than commercial institutions.

3. **Expensive loans**

   This type of loan is including in finance and check cashing companies, retailors store, and bank credit cards and cash advances. These types of loans are not highly recommended since they charge high fees for cashing check on the spot. On the same hand, retail stores may offer their own credit cards. However, you will be charged higher interest rates than a regular credit card if you are unable to pay your balance on the due date.

Consumer Purchasing Strategy

You may think that consumer buying is randomized.The way the consumers approach product and service are in the same way. From the research, there are six stages to the consumer buying process.

Practical purchasing strategies

1. Timing Purchases

Consumer should be aware since the price might be vary with the time of the year.

2. Store Selection

The choice of retailer depends on location, price, and product. Different stores might have different price. For example, mostly the products in convenient store are more expensive. Or ordering via online, which saves time and money might make it harder to ensure the quality of product or it will be hard to return, replace, or repair purchases.

3. Brand Comparison

With the same kind of product from each brand might not be the same. For instance, taste, quality, or ingredients might be different. So, you must choose carefully. Cheaper price does not always good, you also have to consider the quality of the product. In these days, many products of many brands have a review on the internet. This also help you to decide with brand you will purchase.

4. Label Information

Label provide consumers important information. For example, product description, how to use the products, ingredients, expired date, internationally recognized standards (FDA, etc.), cautions. Consumers should be aware of it, for example, food label will make it much easier for you to compare foods and find the foods that have the nutritional value . Thus, you can make healthy choices about the foods you are buying. Food labels can help you limit the amount of fat, sugar and cholesterol in your diet by making it easy for you to compare one food item with another and choose the one with lower amounts. Food labels also tell exactly what is inside the package by just looking at the list of ingredients.

5. Price Comparison

Compare price before you purchase will help you save some money. Some products have different price range but actually it might be the same. For example, all sugars are the same, so, you can choose to purchase the lowest price. Import goods do not mean the better quality sometime, but it have a higher price. Convenience and ready to use products may mean higher prices since it adds more values on it.

Housing Decisions

Purchasing a house might become a big burden if you are not careful enough. What should you take into account when you consider to buy a house? These criterions can help prevent being surprised by unintended consequences after housing choices are made. the key concepts of housing decision are

Budget

Can you afford the house? The most important key is budget. By considering your financial assets that you have or your income. Do you have to borrow the money from bank? If yes, you have to make sure that you have ability to pay back the loans. If you do not have much money, maybe you might choosing a cheaper house. Types of house or the location also affect its price. Hence, you should consider these things.

Choosing to own or rent

You should think of the expectation of how long one plans to stay at a particular shelter. This also applies to the choice for vacation lodging.Choosing to own also brings a related decision for financing that renting does not require, in addition to the consequences of bearing the costs for property taxes, maintenance, repairs, and insurance that are often included in rent. When evaluating costs in the own versus rent decision, be sure to include these expenses in the evaluation.

Additional housing expenses

Apart form the price of a house, we need to consider the additional expenses like utilities and public services such as natural gas, electricity, fuel oil, water, sewage treatment, and possibly garbage collection. On average 21.6% of the housing expense is for these utilities and public services. Thus, we need to include them as part of the housing decision evaluation.

Some additional items categorized under housing suggest other decisions that may be included or constrained by the choice of housing. These include personal services such as yard maintenance or snow removal, housekeeping supplies, furniture, major appliances, household equipment for heating, cooling, and water processing (heating, softening, purification, well pump, etc.)

Related decisions

Looking at some of the other spending categories that may be related to choosing your home. For instance,

Transportation cost - Does it locate in city, suburban, or rural area? Does it far away from your workplace? The location will impact your transportation cost as well as availability and access to public transportation.

Pets - The ability to have pets can be severely limited in the case of choosing to rent. Also, home owner association agreements or community ordinances can also limit pet choices.

Healthcare and service providers - Does it near hospital or supermarket? Easy access to specific services and providers will be constrained by housing location. This can be particularly true for rural locations where population densities tend to reduce the number of available providers.

Credit Bureau

A credit bureau in Thailand is called National Credit Bureau (NCB). It is an agency which collects and sells information about the creditworthiness of individuals. It does not make any decisions about whether a specific person should be extended credit or not. However, it does collect information that it considers relevant to a person's credit habits and history, and uses this information to assign a credit score to indicate how creditworthy a person is. It provides credit information services only to members, service users or information owner who NCB deems to have a legitimate reason to use the information and also provides counseling services to any consumer, who seeks advice pertaining to his/her credit information maintained in NCB credit database.

NCB's existence has proven to be beneficial to the general credit-consuming public since it helps facilitate the credit assessment process and help bring would-be lenders and would-be borrowers closer. Moreover, it helps detect and prevent credit risks and fraud and, in the long run, helps guard against problem loans in our economy.

NCB's products and services can be divided into two types:

1. **Consumer Credit Report -** a report indicating the information about a would-be lender, who is an individual, and details about his/her credit history, loan approvals and repayments of all types of loans that the individual has applied with a financial institution.
2. **Commercial Credit Report -** a report which includes the overall information of a would-be lender, who is a company or an individual, and details about all types of loans that he/she has applied with a financial institution.

NCB is very important for personal finance. As mentioned above, NCB collects and sells information about credit history of individuals or even companies to financial institutions. Hence, whenever one applies for a loan with a bank, he has to be careful and makes sure that he will be able to pay back the loan since if he fails to do so, blacklist will appear in his credit history and the next time he wants to apply for another loan, the bank may not allow him to do the contract because of his creditworthiness.

<u>Mortgage Refinancing Options</u>

Refinancing a mortgage means paying off an existing loan and replacing it with a new one. There are many reasons to do mortgage refinancing options,

1. To obtain lower interest rate

If there is new mortgage that charge lower interest rate, you can transfer your old mortgage to the new one by using Mortgage Refinancing Options. Reducing your interest rate not only helps you save money, but it increases the rate at which you build equity in your home, and it can decrease the size of your monthly payment.

2. To shorten the term of mortgage

When interest rates fall, homeowners often have the opportunity to refinance an existing loan for another loan that, without much change in the monthly payment, has a shorter term.

3. To convert from an adjustable-rate mortgage to a fixed-rate mortgage

If you started your loan program with Adjustable Rate Mortgage, the interest rate tend to adjust higher than the rate available through a fixed-rate mortgage. To avoid this situation, converting to a fixed-rate mortgage is a good idea. It will results in a lower interest rate as well as eliminates concern over unstable future risk

EXAMPLE

Kan gets a $100,000 mortgage with an interest rate of 5.5 percent. Three years later:

- Interest rates have fallen, and Devyn can refinance with an interest rate of 4 percent.
- After 36 timely payments, Devyn owes about $95,700.

In this situation, Kan can save more than $100 a month by refinancing and starting over with a 30-year loan. Or Kan can save less every month, while paying off the loan in 27 years -- in other words, keeping the original loan's payoff date.

Reverse Mortgage

As Thailand is moving towards aging society the government need to be well prepared for those who has neither saving nor pension, one of the financial product the government uses to handle this is Reverse Mortgage which target those who is likely to not survive with their own saving but they are still in possess of their house, the house will be hold as a collateral for a principle that will be pay continuously until they pass away and then the lender will have a claim over the house.

If one compares reverse mortgage with an ordinary mortgage one would recognize at once that this reverse mortgage is something in contrast such that the lender is the one who obligated to pay the principal to the loaner or even need to exclude some amount for an emergency case e.g. hospital bills, the most important element is the loaner need not to pay any principal in return until they passed away. So we could say that this reverse mortgage is a forward contract which promise to sell the house to the lender in the future when the loaner pass away and then the right of ownership of the house will be transferred to the lender.

Reverse mortgage provide cash for old people, using their house as equity to convert them in to cash so, it is one of the retirement planning in personal finance. This means that reverse mortgage increase the amount of money available to fund their retirement especially, good for the retiree who does not like investment or making payment. For example, a retiree may plan in their personal finance when he was young that in a retirement period he will use reverse mortgage to fund himself when he was old. . Reverse mortgage should be plan carefully because the mortgage use your housing things as collateral therefore, the heirs of the retiree must consider carefully that they can pay the loan.

Reverse mortgage not only give money to the retiree but they can use the money to pay for their insurance converge like long-term care and life insurance. There are times when a person is certain that they will need LTC and can use a reverse mortgage to pay the cost of premiums that would most likely be unaffordable otherwise. But using reverse mortgage to fund a risky investment is not recommended.

I think relying only on a reverse mortgage is not a good idea because there are not only high fees and interest rates, but also the economic condition in the future is unstable. Hence, saving in the working age is a better way for personal finance.

In conclusion, from all that are stated above, we can see that there are many instruments for a person to plan a personal finance. However, he should think carefully and take into account all factors that may affect his planning in the future, for example, timing purchases, possible additional expenses and credit history. If not, he might face problems that cause most people to fail the plannings that have already been set.

References

Understanding types sources of consumer services. (2012, May 24). Retrieved from http://www.bizfilings.com/toolkit/sbg/finance/personal-finances/understanding-types-sources-of-consumer-credit.aspx

Ingram, D. (2013, August 12). Factors to consider when choosing methods of financing business. Retrieved from http://smallbusiness.chron.com/factors-consider-choosing-methods-financing-business-1875.html

Consumer Credit. (2011, June 15). Retrieved from http://www.investopedia.com/terms/c/credit-mix.asp

Credit Bureau. (2016, January 15). Retrieved from http://www.investopedia.com/terms/c/creditbureau.asp

National Credit Bureau. (n.d.). Retrieved April 14, 2017, from https://www.ncb.co.th/welcome_en.html

Credit bureau. (2017, April 08). Retrieved April 14, 2017, from https://en.wikipedia.org/wiki/Credit_bureau

Staff, I. (2016, May 31). Reverse Mortgage. Retrieved April 15, 2017, from http://www.investopedia.com/terms/r/reversemortgage.asp

Mark P. Cussen, CFP®, CMFC, AFC. (2016, December 23). Is a Reverse Mortgage Right for You? Retrieved April 15, 2017, from http://www.investopedia.com/articles/mortgages-real-estate/08/use-of-reverse-mortgage.asp

Bankrate.com, H. L. (n.d.). Refinancing A Mortgage -- Mortgage Basics. Retrieved April 15, 2017, from http://www.bankrate.com/finance/mortgages/refinancing.aspx#ixzz4eUaUusQR