

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 single parent usually has low income so I suggest them to rent an apartment with the following reason. First, there is lower maintenance cost and electricity usage along with water usage. Since apartment is smaller than the house, it is definitely true that electricity and water will be less used as well as maintenance cost. Moreover, with the professional team provided by the apartment will make it more comfortable to easily fix things with less time consumed. For the security, it is safer to live in the apartment rather than house because there will be security guard in the apartment but for the house, you have to pay more for it. Most apartments have better location than the house so for the single parent, it would be better to live near workplace or school because it would save time for sending kids to school and taking them back. Compare with house, apartment is smaller but with the innovation helped providing more space, it would give enough space for them to live in apartment. Compare with condominium, it would be more expensive and luxurious than apartment so single parent might not be able to afford it. As a result, the best choice for these people is to **rent an apartment**.

b. A two-income couple without children.

- This type of people usually has money and likes to spend because after their death, money doesn't transfer to anyone unlike family with children. So they don't want to save cost of living that much so the choice of choosing apartment is not good because living in apartment is not that comfortable and privacy. With only 2 people in the family, it would be inefficient to buy or rent a house because the house is too big for two. It will generate more cost than it should be. Moreover, the location of the house might be too far from the workplace which makes them take too much time in the traffic. So the best choice for this group is **purchasing a condominium**. First, condominium would provide a better location. For example, it might locate near the public transportation such as BTS or MRT or near work place. With large amount of income, buying condo would give them a tax benefit also.

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

- For this type of people, they would love to stay together. So, little space liked apartment and condominium would surely not be suitable for them as the space is too small. The decision is whether to buy or rent a house. Since, the price of real estate usually increases so for long-term investment it would be good to own a house. The problem of buying a house is that if you use it for a short period, it would incur a lot more cost than renting a house. However, for this family, there is a large potential to stay for a long time because of having both parent and children. The benefit of renting a house is easier to move out compared to owning it but with a big family, they don't want to move in or out because they want to stay and keep the house as heritage. Moreover, moving in-out of the house for big family has many problems such as transferring staff, neighborhood characteristic, travelling and so on. So the best choice for this type is **purchasing a house**.

d. A couple near retirements with grown children.

Since people near retirement don't need the place near work because they will work only a few year. Moreover, grown children doesn't need a house near university or school because they could travel by themselves to school by car or public transportation unlike the school-aged kid in which they required someone to send them. So if the house is far from the school, the parent would be tired of sending them. Moreover, near retirement would like to plan living in a quiet and peaceful place when retirement. They would prefer to stay in a house rather than noisy and populated place like condo and apartment. Since retirement people will not live for a long time and the grown children might get marry soon and go out of the house. There tend to be short term live in the house so renting a house would be better choice than buying one.

2) Which mortgage would result in higher total payments?

Mortgage A: \$970 a month for 30 years

- The total payment for Mortgage A is $\$970 \times (30 \times 12)$ months) which is \$349,200

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

- The total payment for Mortgage B is $\$760 \times (5 \times 12) + \$1005 \times (25 \times 12)$ which is \$347,100

ANS. So the mortgage A has a higher total payment.

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

ANS. 1. The Closed-End Credit involve specific amount of loan so with this, you should have specific goal otherwise, the loan might not be enough or too much. Most common types of Closed-End Credit are:

- Installment sales credit make customer to be able to borrow money to pay for down payment but have to repay the principal plus interest.
- Installment cash credit is a direct loan for personal purposes such as vacation
- Single lump-sum credit is a loan that has to be repaid in full amount on a specific day.

2. The Open-End Credit is a line credit that gives by the bank for customer to use without putting the money in the bank. Normally, it is used for small amount such as paying for stuff but the interest that bank charge is quite high.

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

Ans. - The Debt Payments to Income Ratio (Debt to income) measures the ability to repay debts. So it should not exceed 20% to ensure that the customer would be able to pay the debt. More than 20% would make it too risky.

- The Debt to Equity Ratio is a measure of debt excluding mortgage divide by equity. Lenders and investors usually prefer low debt-to-equity ratios because the higher debt in the company makes it too vulnerable to external shock easily and makes the debt be bad debt. So the ratio should not go beyond 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?

ANS. Since the market value is \$150,000, Michael can borrow up to 80% so he can borrow $0.8 \times 150,000$ which is 120,000. However, there is still a remaining mortgage balance of 50,000.

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