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Individual Assignment 1

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

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

b. A two-income couple without children. Condo with two bedrooms

c. A person with both dependent children and a dependent parent.Small house or Condo

d. A couple near retirement with grown children. House

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

970 x (30x12)= 349,200

760 x (5x12) + 1005 x (25x12) = 45,600 + 301,500 = 347,100

According to the calculation above multiplied each year by 12 (1year=12months)

so we can see that Mortgage A has higher total payments.

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

There are two main types of consumer credit.

First,Closed-End Credit used for specific purpose and involves a specific amount such as Mortgage loans,Automobile loans,Installment loans.It usually involve a written agreement for credit purchase.Down payment or trade-in may be required,with the balance to be repaid in equal monthly payments over a period of time.Generally,the seller hold it until the payments have been completed.Most common type of closed-end credit such as Installment sales credit,Installment cash credit and Single lump-sum credit.

Second,Open-End used to make small purchase at different store such as credit card,overdraft lines and also to make any purchase that not exceed your line of credit.Open-End credit you may have to pay interest or other finance charges for the use or having of credit such as credit card,smart card,debit card etc.

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

The best way as you want to measuring credit capacity first need to make your budget that should include also the basic necessities such as rent, food, clothing and spare some amount for other durable goods, such as new phones, etc if needed or maintenance of those goods.To determine how much credit you can assume make an accurate and sensible personal or family budget.Two ways in measuring credit capacity are the debt to payments to income ratio and the debt to equity ratio.

By General rules of measuring credit capacity

1) Debt payments to income ratio (not exceed 20 percent)

= monthly debt payments /monthly income

2) D/E ratio (not go above 0.50)

= Liabilities/Networth

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 that Michale can borrow = 150,000(0.8) = 120,000

Michale owned = 50,000

Max amount Michale can borrow 120,000-50,000=70,000