

FN 281 Homework

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

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

Answer:

A single parent with two children will have a lot of burden to bear. Assume the parent has the salary around 70,000 baht per month. First concern is the education cost of their two children which cost each child around 2 million baht throughout their life therefore this single parent has to bear around 4 million baht in total. The Rental housing near children's school and your working place can provide the suitable price which we suggest this parent to pay the rental around 10,000 baht per month which is the lowest cost that can be found. This will drop the transportation cost because the children can walk to the school by themselves and also you can go to work faster. It can save the time to not waste it on the road. Next, we have to concern about the suitable environment for children whether the noise or place around the rental house have the bad place such as Pub, Bar or not. The rental house also make the parent purchase low maintenance housing to meet financial and social needs of family. Moreover, renters have the better financial deal is upon signing. When purchasing a house with a mortgage, you're required to have a sizable down payment, ideally 20%. But you do not have to pay a huge down payment and saved up to move into a rental property. The total amount is significantly less than you would need to buy a house. Many landlords require a rental deposit equal to the amount of one month's rent while a down payment for a house is much higher. For example, with a 5% deposit on a house that has a market value of around 6 million baht and your move-in costs start at around 300,000 baht, which is much more than the average one-month rent rate. Also, those buying will want to save up much more than 5% for their initial down payment because the bigger the down payment, the better. In short, bigger down payments can save you thousands of baht in interest. With this saving, the parent can use to invest in his or her children education.

b. A two-income couple without children.

Answer:

Rental Condominium near the workplace offers convenience and flexible of life style. The lifestyle of two income couple will have to work and concern only themselves. They only purchase the money to take care of themselves to party, to travel or to buy the goods that satisfy two of them and has no burden to bear much. Purchase rental of the condominium for financial benefits. The rental does not have much cost for around 20,000 Baht per month in the Town that is near BTS station to serve them a convenient way to work in the town and to build long term financial security. Moreover, another financial benefit to renting is having access to amenities that would otherwise be an enormous expense. Luxuries such as an in-ground pool or a fitness center come standard at many midscale to upscale apartment complexes with no additional charge to tenants. If a homeowner wants to match these amenities, they can expect to pay thousands of dollars in installation and maintenance costs. Similarly, condo-owners need to pay monthly fees to pay for access to these amenities but it is not too much as equal to be the homeowner. To live as a couple all the expense will divide into two that can reducing cost per person. The reason that not suggest them to buy the house because the payment and the period that have to pay the bill of down payment will ruin up their lifestyle. And they can also change their mind easily if they want to move somewhere else when in the future they plan to have children or they want to move out of Bangkok.

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

Answer:

The renting House is the good choice for a person with both dependent children and a dependent parent. First reason is that the dependent parent cannot live in the Condominium or the rental house because the environment that may be crowded or have the polluted air. Also the area to let your parent to walk and do some exercise when they retired. The second reason is that your children have to live with your parent sometimes when you are going to work therefore you have to separate the room of them because the children and your parent will have the different activity because of the age gap. The rental House will definitely have the separated room that can satisfy this. The last reason is the cost that you have to bear will not much in the rental house. You just pay the rent around 15,000 baht per month and you can spare the money to raise your child in education and also the medical fees for your parent.

d. A couple near retirement with grown children.

Answer:

Rental housing can meet financial, social, and physical needs. This couple has to choose the rental house near the hospital because when there is some accident they admit the hospital easily. Their grown children will also have the space to work in the house that can separate the room and also the area to this couple to do activity such as Watch TV, Jogging around the house , or talking with the neighbor without interfering their child's work. Purchase housing that requires minimal maintenance, offers convenience, and provides needed services. The rental which is around 20,000 baht per month will not exceed much of their pension and the leftover will purchase to the medical fees which is the main expense for this age.

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

Answer:

Mortgage A: \$970 a month for 30 years

$$\$ 970 \times 360 = \$ 349,200$$

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

$$(\$ 760 \times 60 ) + ( \$ 1,055 \times 300 ) = \$ 362,100$$

Therefore, The Mortgage B has higher total payments.

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

Answer:

Two main types of consumer credit are Closed-Ended Credit, and Open- End Credit.

First type which is Closed-Ended Credit consists of Installment Sales Credit, Installment Cash Credit, and Single Lump- Sum Credit. Installment closed-end credit allows the consumer to receive a certain amount of credit to purchase one item or a few goods. In addition, the person pays the credit in installments over a period of time instead of paying it back in one lump sum. This is the type of credit that is used for a specific purpose, amount and time. The payments in this type of consumer credit are usually of equal amounts. The full amount of the purchased product together with the interest must be paid within a time period. Typically, stores usually retain the title to the purchased goods until payment has been made. If the consumer defaults on payments, the store or seller may repossess the property. One example of installment closed-end credit is a car loan. The car company offers the consumer credit to buy the car. The credit does not extend beyond the sales price of the car.

Second type is Open-Ended Credit which includes Revolving Credit and Incidental Credit. This is the type of credit that is found in most credit cards. The consumer has a specified amount of credit she can use or not use at her leisure, and The consumer must pay off part of the credit owed at the end of a specified period – usually a month. If you don't pay the debt in full each month, you will have to pay a higher rate of interest. The credit does not close unless the company offering the credit closes the account. Since it usually does not close, this makes the credit revolving.

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

Answer: The first general rules of Credit Capacity is Debt Payment to Income Ratio. You use all of your monthly expenses which is not include your mortgage and divide by your monthly income. The percentage of this ratio will not exceed 20%. The second general rules is Debt to Equity Ratio which is liability divided by Net Worth. The percentage of this ratio will not go above 0.50.

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?

Answer:

Present market value of Michael's home = \$150,000.

Michael can borrow up to 80 percent of the market value, or \$120,000 (which is from  $0.8 \times 150,000$ ).

Michael still owes \$50,000 mortgage on his home.

Therefore, he can borrow a maximum of \$70,000 ( $\$120,000 - \$50,000$ ).