

1) Discuss one Insurance product and comment on its benefits



The insurance product is “โครงการ เมืองไทย รับทรัพย์ตลอดชีพ 90/7” offered by Muangthai life insurance. The product offer the plan that compensate for the loss of customer’s life by 100% of sum assured if the death occurred before the age of 90. Customer can choose the method of payment either monthly or annually. The minimum sum assured is 100,000 Baht and there is no maximum sum assured. The customers are entitled to a tax privilege of up to 100,000 Baht/year. The premium payment period is 7 years.

For the benefit, customer will get cash pay-back for every year which is 2%/year during the contract and customer will get 100% cash pay-back whether they die before the age of 90 or not. The premium payment period is 7 years but protect until the age of 90.

Source: <https://www.muangthai.co.th:1767/product/detail/wholelife90-7>

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

Mortgage A: Total payment = $\$970 \times 12 \text{ months} \times 30 \text{ years} = \$349,200$

Mortgage B: Total payment = $(\$760 \times 12 \text{ months} \times 5 \text{ years}) + (\$1,005 \times 12 \text{ months} \times 25 \text{ years}) = \$347,100$

As the result, Mortgage A is higher total payment than mortgage B.

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

The two main type of consumer credit is closed-end credit and open-end credit.

Closed-end credit is a loan or extension of credit in which the proceeds are dispersed in full when the loan closes and must be repaid, including any interest and finance charges, by a specified date. The loan may require periodic principal and interest payments, or may require the entire payment of principal at maturity.

Open-end credit is a pre-approved loan between a financial institution and borrower that may be used repeatedly up to a certain limit and can subsequently be paid back prior to payments coming due. The pre-approved amount will be set out in the agreement between the lender and the borrower.

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

Debt to income Ratio is a personal finance measure that compares an individual's debt payment to his or her overall income. A debt to income ratio is one way lenders measure an individual's ability to manage monthly payment and repay debts. Debt to income ratio is calculated by dividing total recurring monthly debt by gross monthly income, and it is expressed as a percentage. The recommendation is the ratio should not be exceeded 20%

Debt to Equity Ratio is a debt ratio used to measure a company's financial leverage, calculated by dividing a company's total liabilities by its stockholders' equity. The debt to equity ratio indicates how much debt a company is using to finance its assets relative to the amount of value represented in shareholders' equity. The recommendation is the ratio should not be exceeded 0.5.

Therefore, the general rule of measuring credit capacity is the debt to income ratio should not be exceeded 20% and debt to equity ratio should not be exceeded 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?

The market value of home is \$150,000. Michael can borrow up to $80\% * \$150,000 = \$120,000$. Michael still owe \$50,000 mortgage on his home. So, the maximum amount that he can borrow is $\$120,000 - \$50,000 = \$70,000$.