

1) Discuss one Insurance product and comment on its benefits

• Insurance Detail:

- Thana-Thavee1 10/5 is the product of Thai Life Insurance as an alternative investment for people who have savings.
- This program gives premium refund back annually up to 10% of sum insured.
- A customer receives 500% of sum insured at the maturity date.
- Premiums are required to be paid only 5 years with no increase in premium rate.
- There is no medical exam and no health questions with sum insured at least 20,000 baht only.
- Death during contract:
 - 1st year receive 100% of sum insured
 - 2nd year receive 200% of sum insured
 - 3rd year receive 300% of sum insured
 - 4th year receive 400% of sum insured
 - 5th-10th year receive 500% of sum insured



• Benefits of Thai Life Insurance Thana-Thavee1 10/5

- Accumulation of future income for business plans: Large amount of money, 500% of sum insured at maturity date, assures of future planning.
- Retirement preparation: Life insurance becomes a type of forced savings to save for retirement.
- Saving for emergency case: Customers can use refunds in emergency case.
- Saving for child's education: The high refund rate helps customers to prepare for their kids' education.
- Allowance for tax reduction: Customers can use life insurance premium as a tax deduction.

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

- Assume that the annual interest rate for mortgage is 12%.
- The monthly interest rate is $12\%/12 = 1\%$
- We need to calculate present value of each mortgage to compare the total payment
- Mortgage A: Total payment = $\$970 \times (30 \times 12) = \$349,200$
- Mortgage B: Total payment = $(\$760 \times 5 \times 12) + (\$1005 \times 25 \times 12) = \$347,100$
- Mortgage A has higher total payments.

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

1. Closed-End Credit:

- A type of credit that is used for certain objective like making loan to buy a house or car with a specified amount of payments over a specific period.
- Normally, we need a written agreement for each credit purchase as an obligation for a borrower to repay the loan in the future, and the seller holds title to the merchandise until all payments paid.
- Examples of closed-end credit are installment sales credit, installment cash credit, and single lump-sum credit.

2. Open-End Credit:

- A type of credit that is used for small purchases that do not exceed the line of credit, the maximum amount of credit available.
- We may have to pay interest or other finance charges for having this credit.
- Examples are credit card, debit cards and overdraft lines.

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

- There are 2 ratios for general rules of credit capacity
 - **Debt Payments to Income Ratio** should not exceed 20%

$$\text{Debt Payments to Income Ratio} = \frac{\text{monthly debt payments}}{\text{monthly income}}$$
 - **Debt to Equity Ratio** should not exceed 0.5

$$\text{Debt to Equity Ratio} = \frac{\text{Liabilities}}{\text{Net Worth}}$$

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?

- Market value of Michael's home = \$150
- Michael can borrow up to 80% of the market value = $80\% \times \$150,000 = \$120,000$
- Remaining mortgage balance = \$50,000
- The maximum amount he can borrow = $120,000 - 50,000 = \$70,000$