

FN 281 - Individual HW.

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 house in village that's in the middle of all facilities and infrastructure : near working place, school, university, hospital, police station, fire station in case of emergency and can reduce transportation cost in the long run. Have all kinds of transportations and not much traffic which can save your time a lot; having more time = having more ability to work or develop yourself and earn more income.

b. A two-income couple without children.

Maybe a big room in condo. Buying house may be too expensive and far or hard for transportation. Nowadays we have lots of condo that's just next to the BTS station, have all kinds of facility provided: swimming pool, fitness, study room, near minimart so as a working age that want to save money, this could be the best place to comfortably live in as well as be able to save more money.

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

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d. A couple near retirement with grown children.

Maybe move to the house in the suburb area; those area can provide you a better quality of air and ability to rest and relax after so many years of hard working. However, it needed to be near hospital which is very important for old people in emergency case as well as near other facilities like police station, fire station and so on.

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

For A, total payment = $\$970 * 360 = \$349,200$

For B, total mortgage = $(760 * 60) + (1,055 * 300) = \$362,100$

Hence, the mortgage B will definitely gives you the higher payment.

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

Closed-end credit :

- Used for specific purpose and involves a specified amount (eg. Mortgage loans, Automobile loans, Installment loans)
- It usually involve a written agreement for each credit purchase. A 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 holds title to the merchandise until the payments have been completed.
- Most common types of closed-end credit:
 - Installment sales credit - make down payment and usually sign a contract to repay the balance plus interest and service charge in equal installments over a specific period
 - Installment cash credit - direct loan of money for personal purposes - home improvements or vacation expenses. No down payment and make payments in specified amounts over a set period.
 - Single lump-sum credit - a loan that must be repaid in total on a specific day.
- Open-End Credit
 - Normally used to make small purchases at different store. Examples are credit card and overdraft lines.
 - You can use open-end credit to make any purchases you wish if you do not exceed your line of credit - the maximum amount of credit the lender has made available to you.
 - You may have to pay interest or other finance charges for the use/having of such credit.
 - Credit card
 - Smart Cards
 - Debit Cards
 - Gift Cards
 - Travel/ Oil Card
 - Home Equity Loans
 - Car for Cash

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

Firstly you need to make your credit budget

- Firstly, you need to make your budget → may do your financial statement and cash flows to help considering
 - Should include also the basic necessities such as rent, food, clothing
 - Also spare some amount for other durable goods, such as new phones, etc if needed or maintenance of those goods.
- or you may calculate these ratio to help you measuring

- Debt Payments to Income Ratio:

$$\frac{\text{monthly debt payments}}{\text{monthly income}}$$

- Recommendation: should not exceed 20%

- Debt to Equity Ratio

$$\frac{\text{Liabilities}}{\text{Net Worth}}$$

- Recommendation: try not to 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?

According to this question, present market value of Michel's home = \$150,000. Michel can borrow up to 80 percent of the market value, which is equal to 120,000. Michel still owes \$50,000 mortgage on his home. Hence, he can borrow a maximum of $\$120,000 - \$50,000 = \$70,000$