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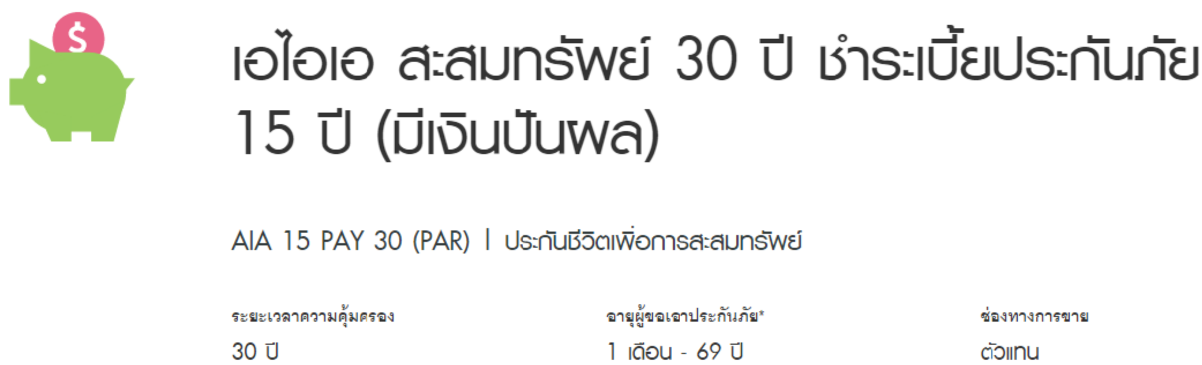
FN281 Individual Assignment

1) My insurance product is the product from AIA Company. The type of product is mainly aim to save asset from customer. The product is fit with working people to benefit from financial loss if there occur the unprotect accident. The main benefit of this product is on the protect period and payment period. The life of product is 30 years while, the payment is only a half of it or 15 years. This mean we only pay for product for 15 years and the product will protect us for 30 years. Moreover, the dividend also paid at the mature date.



2)

Mortgage A: $970 a month for 30 years

Total payment = (amount of payment) X (number of months) X (number of years)

= ($970) X (12) X (30)

= $349,200

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

Total payment = (amount of payment1) X (number of months1) X (number of years1) + (amount of payment2) X (number of months2) X (number of years2)

= ($760) X (12) X (5) + ($1005) X (12) X (25) =$ 347,100

Comparing these 2 mortgages, mortgage A ($349,200) result has a higher value of total payments than mortgage B ($347,100).

3) Consumer credit can divided into two types which are installment credit and noninstallment credit.

Installment credit, or *closed-end credit*, includes loans that require the borrower to repay the principal mount in equal periodic payments, usually monthly. A loan to purchase an automobile is one example of installment credit. It's also a popular method of financing other high-end appliances and electronics, such as refrigerators, washing machines or computers. The lender will ordinarily retain the title to the property (if one exists) until the loan is paid completely. These fixed-payment loans typically provide the borrower with very little repayment flexibility.

Noninstallment credit, which essentially includes all forms of consumer credit other than fixed-payment loans, is comprised of single-payment loans and loans that permit the borrower to make irregular payments and to borrow additional funds without submitting a new credit application. This latter type of loan is also known as *revolving-* or *open-end credit*.

4) There are two indicators that can measure credit capacity, the debt payment to income ratio and the debt to equity ratio.

The debt payment to income ratio, it measures to compare an individual's debt payment to his or her overall income, and can indicate an individual's ability to manage monthly payment and repay debts. It is calculated by dividing monthly debt payments by monthly income payment and is expressed by percentage. The low percentage meaning a good balance between debt and income, conversely, the high percentage is the signal of too much debt for a certain amount of income an individual has. The recommendation is that the ratio should not be exceeded 20%.

The debt to equity ratio, it measures the amount of debt an individual has for each of equity he or she has. It can be calculated by dividing liabilities by net worth or equity which is the difference between the total value of an individual's assets and liabilities. With a high personal debt to equity ratio, it indicate a high amount of debt relative to the available equity, which means the low ability to repay the loan. On the other hand, with a low personal debt to equity ratio, it creates a high ability to repay the loan. The recommendation is that the ratio should not be exceeded 0.5.

Therefore, the general rules of measuring credit capacity are the debt payment to income ratio should not be exceeded 20% and the debt to equity ratio should not be exceeded 0.5.

5) Present market value of Michael's home is $150,000. He can borrow up to 80 percent of the market value, which is $120,000. He still has a $50,000 remaining mortgage on his home. So, he can borrow a maximum of ($120,000) – ($50,000) which equal to $70,000.