

Thawanhatai Kruayatidee

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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.

- 3 bedrooms condominium

b. A two-income couple without children.

- 1 bedroom condominium

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

- 3 bedroom condominium or small house

d. A couple near retirement with grown children.

- Big House

2) Which mortgage would result in higher total payments?

Mortgage A: \$970 a month for 30 years

- Total payment =  $970(30 \times 12) = \$349,200$

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

- Total payment =  $760(12 \times 5) + (1005(12 \times 25)) = \$347,100$

Therefore mortgage B results in higher total payments

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

Consumer credit falls into two broad categories:

1. Closed-End Credit (installments)

This form of credit is used for a specific purpose, for a specific amount, and for a specific period of time. Payments are usually of equal amounts. Mortgage loans and automobile loans are examples of closed-end credit. An agreement, or contract, lists the repayment terms, such as the number of payments, the payment amount, and how much the credit will cost. Generally, with closed-end credit, the seller retains some form of control over the ownership (title) to the goods until all payments have been completed. For example, a car company will have a "lien" on the car until the car loan is paid in full.

2. Closed-End Credit (revolving)

With open-end, or revolving credit, loans are made on a continuous basis as you purchase items, and you are billed periodically to make at least partial payment. Using a credit card issued by a store, a bank card such as VISA or MasterCard, or overdraft protection are examples of

open-end credit. There is a maximum amount of credit that you can use, called your line of credit. Unless you pay off the debt in full each month, you will often have to pay a high-rate of interest or other kinds of finance charges for the use of credit.

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

The two general rules for measuring credit:

1. The debt payments to income ratio

- calculated by dividing monthly debt payments by net monthly income

2. debt to equity ratio

- calculated by dividing total liabilities by net worth ( the lower the ratio is, the more capable of debt repayment a person is)

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?

Amount which Michael can borrow =  $150,000(0.8) = \$120,000$

Michael owed = \$50,000

Maximum amount Michael can borrow =  $120,000 - 50,000 = \$70,000$