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1. What type of housing would you suggest for people in the following life situations?

a. A single parent with 2 school-age children. Condominium (2 bedrooms)

b. A two-income couple without children. Condominium (2 bedrooms)

c. A person with both dependent children and a dependent parent. Small house (town house) or condominium

d. A couple near retirement with grown children. House

2. Which mortgage would result in higher total payments?

Mortgage A: $970 a month for 30 years 970(12x30) = $349,200

Mortgage B: $760 a month for 5 years and $1005 for 25 years 760(12x5)+1005(25x12)= $347,100

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

Installment credit is used for a specific purpose, for a defined amount and for a specific period. Payments are usually the same amount each month. Examples of purchases made on installment credit include large appliances, automobiles and furniture. These kinds of loans usually offer lower interest rates than revolving credit. For example, a car company holds a lien on the car until the car loan is repaid. The total amount of the principal and interest is repaid within a predefined period. If the customer defaults on the loan payments, the company can repossess the car and charge penalties.

Revolving credit can be utilized for any purpose. Loans are made on a continuous basis for purchases until the consumer reaches his credit limit. Customers receive bills periodically to make at least a minimum monthly payment. For example, Visa can approve a consumer for a $5,000 credit card limit with a 13% interest rate. If the consumer defaults on payments, the credit card company can charge late fees or other penalties.

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

Two ways in measuring credit capacity are

The debt to payment to monthly income ratio = monthly expense excl. mortgage/monthly income shouldn't be more than 20%

The debt to equity ratio = liability/ 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% 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