

A Financial Report LEVEL 1

A

S.S Finance

[Redacted]

24 May,2002

[Redacted]

To The Winter's,

S.S Finance has analyzed your situation has come to some important conclusions that we will as your agent suggest. Firstly, We would like to take a look at your situation. The Winter's family consists of two adults and two children. Presently they are renting at \$ 750, utilities included and they have decided to buy a house for \$ 150,000 with a closing date of July 31,2002. The families net income annually is as follows \$ 50,000.They currently own two bonds each valued at \$ 5000 purchased in October,1998,earning interest at 5.9 % ,compounded semi-annually. The Winter's also have \$ 12,000 in their savings account. To purchase this home, you are considering a 10,15,20 and 25 years of amortization and the closed terms being considered are 1,3 and 5.

Your mortgage will be negotiated through the _____ Bank. As their rates and service is known to be the best. Your total earnings with the two bonds earning interest is \$ 12498.8 since October 1998 till present. If we add your \$12,000 from the savings account and your salary to that amount ,the result is \$ 74498.8 is what you will have by the year's end . The CMHC requires that first time homebuyers provide a down payment of atleast 5 % of the price of their home. The down payment , we recommend is also 5 % of \$ 150,000 which is \$ 7,500. The net assets justify that the down payment is possible. The closing price is approximately 2% of \$150,000 which is \$3,000. Moving will cost around \$ 500. The net mortgage left after paying the down payment will be \$ 142,500. The housing costs should not exceed 32 % of gross family income which is \$ 63,000 So the mortgage with utilities should be under \$ 1680. The Winter's monthly expenses which are just the housing costs total up to \$ 280. It includes property tax , gas/ hyrdo, cable, telephone and the mortgage. The recommended mortgage should be less than \$ 1400 so it doesn't exceed the 32 % of gross family income.

The mortgage plan we at S.S Finance recommend is to have a one year closed term and amortize it over 20 years. The interest rate the _____ Bank offers on it is 5.55% for a loan of \$142,500. Your monthly payment that way will be \$ 979.19 . Which is just your mortgage plus the \$ 280 of

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housing costs. That way it doesn't exceed the 32 % of gross family income. The reason why we suggest 20 years is because by that time your children will be adults working, and before you get old you will be done with your mortgage so you have time you can start saving for your golden years to come. The interest rate too is low compared to the others who have 6 percent's. A 25 year amortization would be too long and the interest you will pay will be a lot and you cannot afford a 10 year or 15 year amortization because it will exceed the 32 % of gross family income. This way you don't go over budget and at the same time can make some savings. So, we hope that you think about this deal and get back to us as soon as possible. We would be glad if we have come in to any help of yours.

Thanks,

[Redacted]
Financial Reporter
S.S Finance

LEVEL 1

C

Three Year Closed @ 6.75 %
(For a loan of \$ 142500 at a interest rate of 6.75 % for 25 years)

Your monthly payment is:
Calculated payment: \$ 976.20
Total payments : \$ 292858.72

Total interest paid: \$ 150358.72

(For a loan of \$ 142500 at a interest rate of 6.75 % for 20 years)

Your monthly payment is:
Calculated payment: \$ 1075.66
Total payments : \$ 258156.75

Total interest paid: \$ 115656.75

(For a loan of \$ 142500 at a interest rate of 6.75 % for 15 years)

Your monthly payment is:
Calculated payment: \$ 1253.66
Total payments : \$ 225658.66

Total interest paid: \$ 83158.66

(For a loan of \$ 142500 at a interest rate of 6.75 % for 10 years)

Your monthly payment is:
Calculated payment: \$ 1629.47
Total payments : \$ 195535.73

Total interest paid: \$ 53035.73

One Year Closed @ 5.55 %
(For a loan of \$ 142500 at a interest rate of 5.55 % for 10 years)

Your monthly payment is:
Calculated payment: \$ 1545.58
Total payments : \$ 185468.92

Total interest paid: \$ 42968.92

For a loan of \$ 142500 at a interest rate of 5.55 % for 15 years)

Your monthly payment is:
Calculated payment: \$ 1163.36
Total payments : \$ 209403.58

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Total interest paid: \$ 66903.58

(For a loan of \$ 142500 at a interest rate of 5.55 % for 20 years)

Your monthly payment is:
Calculated payment: \$ 979.19
Total payments : \$ 235004.40

Total interest paid: \$ 92504.40

(For a loan of \$ 142500 at a interest rate of 5.55 % for 25 years)

Your monthly payment is:
Calculated payment: \$ 873.96
Total payments : \$ 262187.95

Total interest paid: \$ 119687.95

LEVEL 1

E

All calculations are in Canadian Dollars

1-

Net annual= 50,000

Savings =12,000

Bonds = 5,000 and 5,000 interest @ 5.9 %

Interest on one Bond

\$5000 Oct-Dec 98 5.9 % +73.74

+5073.74 Jan –Jun 99 at 5.9 %

+149.65

=5223.39

+ 154.09 July 99-Dec99

=5377.48

+158.63 Jan 2000-June 2000

= 5536.11

+163.31 July 2000-Dec 2000

=5699.42

+168.13 Jan 2001 –June 2001

= 5867.55

+173.09 Jul 2001-Dec 2001

=6040.64

+178.19 Jan 2002-June 2002

=6218.83

+30.57 July 31 2002

=6249.40

2 (because they have 2 bonds)

• =12498.8

12,498.8 + 12,000

=24498.8 + 50,000 = \$74498.8

(They have available at the moment)

2-

5 % down payment recommended of 150,000

= 7,500 is the minimum

3- Net Assets in 18249.40

It justify that 5 % down payment is possible.

4-Closing Cost is Approximately 2 % of the house price

So $150,000 * .02 = 3000$

Moving costs around 500 dollars

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5-Mortgage Monthly

Mortgage 150,000

5 % down 7500

Net Mortgage= 142,000

6- Housing Costs should not exceed 32 % of gross family income which is

63,000

$-63,000 * .32 = / 12$

So the mortgage with the utilities should be under \$ 1680

7- Winter's Monthly Expenses-just the Housing Costs

It shouldn't be more than 32 percent of the net income

(apart from the monthly mortgage payments)

-150 property tax

-30 gas/hydro

- 50 cable

-50 telephone

= \$ 280 for housing costs

The recommended mortgage should be less than \$ 1400 so the amount

Doesn't exceed the 32 percent of the gross family income

G

Bibliography

██████████ <http://www.██████████>

Mortgage Made Easy. URL: <http://www.mortgagehelp.ca/site.htm>.

Utilities Fees. ██████████

Teacher's Notes

Knowledge/Understanding

- The student generates calculations with limited accuracy. The student seems unaware of the compound interest formula, calculating interest one period at a time, and arrives at an incorrect answer. Mortgage payments are calculated accurately, but no calculations are shown.

Thinking/Inquiry/Problem Solving

- The student provides an analysis of the client's financial situation with limited detail. The student considers the amounts in the bank and in bonds, but makes a major error in logic: " $12,498.8 + 12,000 = 24,498.8 + 50,000 = 74,498.8$ (They have available at the moment)".
- The student recommends a down payment and justifies it with limited effectiveness. The 5% minimum down payment is used. Closing costs are mentioned, but are not used to justify the down payment.
- The student analyses various mortgage options with limited accuracy. Two terms and four amortization periods are considered, and the total amounts of payments and of interest are listed; however, the down payment is not varied.

Communication

- The student integrates narrative and mathematical forms with limited effectiveness. The letter that the student writes, and the several calculations and lists that the student subsequently shows, are not effectively integrated. The student organizes mortgage information with limited effectiveness.
- The student communicates information in mathematical language with limited effectiveness. The student does not show many calculations, and hence is limited in demonstrating the use of mathematical symbols and conventions. The use of the comma and the dollar sign in money amounts is inconsistent throughout the report.

LEVEL 1

Application

- The student recommends a mortgage and justifies it with limited clarity and effectiveness. The student mentions the 32% gross debt service ratio (GDS) guideline in choosing a 20-year amortization period; however, a 15-year amortization period would also work using this guideline.

Comments

This work is representative of a solid level-1 performance. The student demonstrates a limited degree of achievement of the expectations in all four categories of knowledge and skills.

Next Steps

In order to improve his or her performance, the student needs to:

- do consistently accurate calculations;
- communicate information in a more complete and organized form;
- include more specific details when making justifications.