

A Financial Report LEVEL 2

A

Financial Report of The winter's Family

Winters Emily Financial Situation:

CASH: Net income - \$50,000
 Gross income - \$60,000
 Savings - \$12,000
 Bonds - 2 x \$5000 in 1998 at 5.9% interest over 8.75 years now
 Valued at \$6219.24 each

Downpayments:

Minimum Downpayment - 5% of the purchase price of the home which is \$7500
 Appropriate Downpayment - I think if you put the money you have in savings added with the two bonds you would get the appropriate downpayment of \$24,436.48 which is 16% of the purchase price of the home.

One time costs:

One time costs include the closing costs which cover all lawyers fees etc which is \$4500 and the moving costs which is \$50 dollars to rent a truck.

Monthly Expenses:

Groceries - \$400 a month
 Car Payments - \$260 a month
 Life insurance - \$30 a month
 Car insurance - \$200 a month
 Utilities - \$900 a month
 Cable - \$40 a month
 Entertainment - \$50 a month
 Clothing - \$100 a month
 Property taxes - \$125 a month

B

Options:

#1 10 year mortgage at 7% interest rate with a \$24,436.48 downpayment compounded semi-annually.

$N = 120$
 $I\% = 7$
 $PV = \$24,436.48$
 $FV = 0$
 $P/Y = 12$
 $C/Y = 2$

$$GDS = 1500 + 12 \times 1487.72 = 19352.64$$

has to be $< 30\%$ of \$63,000 which it is not so you can't afford it

#2 15 year mortgage at 6.5% interest with a \$24,436.48 downpayment compounded semi-annually.

$N = 180$
 $I\% = 6.5$
 $PV = \$24,436.48$
 $FV = 0$
 $P/Y = 12$
 $C/Y = 2$

$$GDS = 1500 + 12 \times 1115.04 = 14780.48$$

has to be $< 30\%$ of \$63,000 \checkmark it is

$$TDS = GDS + 12 \times \text{other loans} = 14780.48 + 12 \times \$250 = 17860.48$$

has to be $< 40\%$ of \$63,000 \checkmark it is

other monthly costs have to be less than 32% of net income

yearly costs = 14,916 which is less.

LEVEL 2

C

#8 which I recommend is amortized over 26 years using a 5-year closed at 5% interest compounded semi-annually.

$$\begin{aligned}N &= 300 \\I\% &= 5 \\PV &= \$125702.61 \\PMT &= \$748.64 \\FV &= 0 \\P/Y &= 12 \\C/Y &= 2\end{aligned}$$

$$\begin{aligned}GDS &= 1500 + 12 \times 748.64 \\&= 10482.48\end{aligned}$$

has to be < 30% of \$63000 \checkmark it is.

$$\begin{aligned}TDS &= 10482.48 + 12 \times 260 \\&= \$13482.48\end{aligned}$$

has to be < 40% of \$63000 \checkmark it is

other monthly costs have to be less than 32% of net income = 14940 which is less

This is the most affordable for you and I recommend it for you.

The reason I think this is most affordable for you is because that doing this gives you more flexibility to spend more during the year without having to worry about spending too much and not having enough to cover the mortgage.

D

Bibliography

1. TWW. [REDACTED]
2. Making Financial Decisions 11.

LEVEL 2

Teacher's Notes

Knowledge/Understanding

- The student generates calculations with some accuracy. The compound interest calculation is correct, but is not shown. Mortgage payments are determined using the TVM-Solver of a TI-83 graphing calculator. The formula used for finding mortgage payments, however, is not shown.

Thinking/Inquiry/Problem Solving

- The student provides an analysis of the client's financial situation with some detail (e.g., considers the amounts in the bank and in bonds, and presents a budget).
- The student recommends a down payment and justifies it with some effectiveness. The student considers the minimum 5% down payment, the total amount of available funds, and the closing costs (but not in much detail). However, the recommended down payment accounts for all the available funds and leaves nothing to cover the closing costs. In addition, the actual down payment used to arrive at the mortgage principal does not seem to agree with the student's suggestion.
- The student analyses various mortgage options with some accuracy. The student presents three options, varying the amortization period and interest rate. However, no connection is made between the interest rates and the terms.

Communication

- The student integrates narrative and mathematical forms with some effectiveness. Although both forms are present and integrated, the student does not provide enough narrative.
- The student communicates information in mathematical language with some effectiveness. The student uses the dollar sign consistently. However, in listing values from the TVM-Solver, the student includes dollar signs that do not appear on the screen display of the calculator. In one case, the incorrect symbol "PV%" is used for present value.

Application

- The student recommends a mortgage and justifies it with some clarity and effectiveness. In using the 32% GDS guideline, the student states it incorrectly as 30%, and considers only the mortgage and taxes in the housing costs. The student suggests that the mortgage recommended is "... most affordable for you ... gives you more flexibility to spend more ... without having to worry ...". The student does not relate the choice of the mortgage to the budget and the money available.

Comments

This work is representative of a solid level-2 performance. The student demonstrates some 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:

- show all calculations;
- vary the down payment and the term in a systematic manner;
- include all housing costs when using the GDS guideline;
- fully justify the choice of the mortgage.