

Financial planning

[Finance](#)



Finance and Accounting Financial Planning Question The net worth from the net worth ment for Mary and Shawn together is \$ 874, 689. This is calculated as shown in the attached statement.

Question 2

The monthly cash flow surplus/deficit for Mary and Shawn together monthly is \$71, 707. . This is calculated as shown in the attached statement.

Question 3

TDS =

40%=

X= 12992. 70

Per month = 12992. 70

Per year = 12992. 70 *12

= \$155, 912. 40

The maximum monthly mortgage is \$ 155, 912. 40 per month based on the interest rate of 4% and TDS ratio of 40% and amortization period of 25 years.

Question 4

Down Payment = 5% percent of the amount of mortgage

= × 50000

=\$ 2500

The 5% down payment for the \$50000 amount of mortgage will be \$2500 and they can pay it from the surplus balance of their cash from income statement.

Question 5

CMHC insurance is for mortgage loan and the lenders require it when the <https://assignbuster.com/financial-planning-essay-samples-2/>

borrowers make the down payment of less than 20% of the total amount. As Shawn and Mary are making the down payment of 5% thus they need to pay the CMHC insurance and the amount is as shown below.

Amount of insurance = 2.6% of principal amount

= of 50000

= 1306

They will pay the amount from their annual surplus cash balance.

Question 6

The additional costs that would come along with the purchase of the house include the payment of property taxes, property transfer tax, and the insurance costs. The inspection cost would also be incurred if they wanted to have their house inspected and the survey fee who would verify the size of the house and the ground in which it is built. There may be some additional cost attached with the purchasing of house is that cost of furniture fixture, electricity cost, maintenance cost and cost of decorating the house.

Question 7

The use of credit card incurs some cost as interest rate. As the interest rate in the credit card is very high like interest rate on the credit card of Shawn is 18% and Mary is 15%. The use of other means of payment like cash payment reduces such costs involved. Thus, they need to reduce the usage of credit cards in borrowing goods and services because the high rate of interest leads to increase in their expenses in the income expenditure statement. For this reason, if they reduce the usage of credit cards then they will be able to save the amount of interest.

Question 8

Shawn wants to sell off his truck any buy something new. From the primary

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consideration of buying vehicles, it can be said that buying new vehicles is always good though it costs high but the quality of the vehicle is brand new and Shawn can easily repair or maintain the car from the company service center if it's new. However, if he wants to buy a used vehicle then the cost will be low as after one-year usage of any vehicle, its cost decreases.

However, here he needs to consider two things- one is that the age of the vehicle. He should not purchase too old vehicle, which is having low cost because it might not be in a good condition. Second is that only age of the vehicle cannot be the measurement factor for the condition of the vehicle depends on the Km. it has run and depending on the miles or Km it can be decided that whether the vehicle is in good condition or not. Some other consideration in the purchase of a used truck is the property transfer cost and the service it would incur to make the used truck running and in a good condition. If the costs involved are much larger or near to the cost of a new truck, he would purchase the new one. Nevertheless, buying an old truck relieves the other costs like the registration cost.

Question 9

Assuming simple interest

Amount of Interest=

=

= 1000

Amount to be paid = 50, 000+1000

= 51000

Each Installment =

= \$ 5, 100

They are interested in borrowing money for investment as they have heard

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about investment loans. They will take loan of \$50000, which is having an interest rate 2%, and repayment period is 10 year. Now we need to consider that will they be able to make payment for such loan or not. Considering the interest rate is 2% per annum, the total amount they would pay for the loan is \$51, 000 as calculated above. This amount if it is to be repaid by 10 equal monthly installment of \$5, 100 per year. If we were to consider that, the loan was to be repaid monthly it would be \$425. Investments loans are similar to property loans and home loans. It is similar like other loans where we can choose fixed, split or variable interest rate. The important consideration for this type of loan is that the monthly repayment amount will be less than what they should be if the borrower pays the interest with the principal amount. Tax deductions can be availed in the interest payments. It also helps to calculate the return from the property easily.

Question 10

Home equity line of credit is a credit, which is given to the owner of the home which uses the home of the borrower as security. When maximum loan balance is decided then the homeowner can draw it at his/her judgment. In this case, the interest rate is low because home equity line of credit keeps the home of the borrower as collateral thus the chance of default is low in repayment of loan and Royal Bank will allow the credit limit up to 75% of the market value of the home. The amount of the loan will be \$37500 and Shawn and Mary will pay the rest of the amount. This can be a good idea depending upon the choice of the borrower. These types of loans are useful when interest rate is low and the homebuyers have enough money to pay the rest of amount by their own. There is some risk associated with it like if the value of the home rises then it will increase the equity amount that is available to <https://assignbuster.com/financial-planning-essay-samples-2/>

the owners and at the time of high inflation, low interest rates are coupled with it.

References

CANADA MORTGAGE AND HOUSING CORPORATION., (2014). What is CMHC Mortgage Loan Insurance. [Online]. Available at: https://www.cmhc-schl.gc.ca/en/co/moloin/moloin_010.cfm. [Accessed on January 23, 2014].