FAPP 9e Writing Projects – Chapter 22

1. Locate current advertised incentives for a car that you would consider buying and compare them in an essay of two to three pages. For each option, give the price, the interest rate, the term, and how much interest you would pay over the course of the loan.

2. A substantial proportion of new cars today are not sold but leased. Contact a local car dealer about a car that you are interested in and find out the details on leasing. Compare the cost of the lease and associated expenses with the cost of purchasing and owning the car. Include estimated maintenance, repair, and insurance costs for each option. Which seems like a better deal, and why? Consult the "Suggested Web Sites" section at the end of this chapter. Write two to three pages describing and comparing the two options.

3. Banks often offer choices of mortgages with various combinations of interest rates and "points." A point is 1% of the mortgage amount. Points are paid to "buy down" the interest rate for the mortgage; they are paid upfront to the bank at the closing of the house sale. For example, you may have a choice between a mortgage at 6% with 2 points (2%) and a mortgage at 8% and no points. Which would you choose, and why? Does it make a difference how long you are planning to own the home? Or how expensive the home is? Write a page justifying your decision.

4. One of the advantages of buying a home with a fixed-rate mortgage is that your payment stays the same but your earnings and the value of your home are likely to go up with inflation. You are paying back the loan with dollars of lesser value.

Consider the following scenario. Suppose that you buy a "starter" two-bedroom home for $105,000 under a special program for first-time home-buyers that requires a down payment of only $5000. You have a 30-year fixed-rate mortgage for $100,000 at 7%, on which the monthly payment is $665.30. You also have a $2000 one-time expense in closing costs and annual costs of $200 for insurance and $2000 for property taxes.

You live in the home for five years and spend $10,000 on maintenance, upkeep, and improvements. You then sell the home for $125,000, pay a realtor $9000 to sell it, and pay closing costs of $500 (for title insurance and other costs). Finally, it costs $3000 to move.

**(a)** Make out a balance sheet of revenue and expenses. How did you make out on owning the home?

**(b)** Remember that you also got to live in the home without paying rent. Translate the cost of owning the home into an equivalent monthly rent.

5. Explore actual costs of homes in your area, mortgages with local banks (including closing costs), and property taxes and insurance. Come up with data on a particular mortgage, and the costs and benefits of refinancing, and make out a corresponding balance sheet for five-year ownership.