Can John and Marcia Afford the Home of Their Dreams – Answer Key

Give each student a copy of *Can John and Marcia Afford the Home of Their Dreams?* The goal of the exercise is to use the information provided to determine whether John and Marcia can afford to buy a $150,000 home. Ask the students to read the exercise and answer the questions. Discuss the answers as a class.

a. What would the monthly payment be for John and Marcia's home loan?

$150,000 - $10,000 = $140,000; $140,000 loan at 6% interest = $840 for PI (principal & interest)

b. What would John and Marcia's total house payment be, including PITI?

$840 (PI) + $210 TI = $1,050 (PITI)

c. Using the two lending criteria, would John and Marcia qualify for the loan they are considering?

Yes. $5,400 x .28 = $1,512; the monthly PITI is expected to be only $1,050; $5,400 x .36 = $1,944; John and Marcia's monthly PITI ($1,050) plus other consumer debt [car loan and credit card payment of $430] is only $1,480.

d. Do John and Marcia have enough flexibility in their budget to accommodate the additional costs of homeownership (mortgage payment, taxes, insurance, and higher utilities)?

Not right now. Their total expenses will be $5,500, representing fixed expenses of$3,240 and variable expenses of $2,260. They will need to adjust some of their variable expenses to balance their budget. They might find it difficult to purchase new home furnishings and appliances. If they experienced an unexpected financial set-back, such as the loss of a job, they might be unable to make payments on their home loan.

What are the benefits and costs of your recommended decision for John and Marcia?

The cost is that John and Marcia will not be able to become homeowners now. The benefit is they will not have to sacrifice activities they would like to do now.