



Tashkent State University of Economics

Household finance

Lecture 5: Household portfolio of the decisions.

Lecturer: professor Otabek Karshiev



Personal Financial Plan

- ▶ **Section 2: Education:** Research the college, technical school or vocational school you plan on attending after graduating from GCIT
- ▶ 1. Research the total costs of your education (tuition, fee's, door room, meal plan, books)
- ▶ 2. Assume you are taking out a student loan to pay for your education; go to **student loan**
- ▶ 2. Assume you are taking out a student loan to pay for your education; go to **student loan calculator.com**, plug in the total amount of your student loans , and calculate your monthly student loan payments after you graduate
- ▶ 3. Keep a journal of your findings.. This is the second step of your Personal Financial Plan
- ▶ 4. Add this information to your journal...also submit for homework...all late assignments will be deducted by 25 points per day



PERSONAL FINANCIAL PLAN



- A. Real Estate**-is classified as land and anything attached to it, such as buildings and natural resources
1. One major factor people make when considering housing decisions is lifestyle (how you choose to spend your time and money)
 2. One basic consideration, about housing is whether to rent or buy
 3. Renting is a good choice for young adults who are beginning their careers
 4. Renting also appeals to people who want mobility, and do not want to devote time and money for property maintenance (mowing the lawn, shoveling snow, property repair, etc.)

Personal Finance

- 4. When you rent the place where you live, you become a tenant
- 5. The landlord is the person who owns the property you are renting
- 6. When you rent a rental unit you sign a legal document called a lease, which defines the condition of the rental agreement between the tenant and the landlord
- 7. Most people who rent live in apartments
 - a. These units may be located in a two-story house, high-rise building or an apartment complex





Advantages of Renting



- 1. **Mobility** – You can vacate/leave the property when your lease ends, or if you find a job in another city, you can give notice to your landlord and move quickly and simply
- 2. **Fewer Responsibilities** – Tenants are not responsible for making major repairs or maintaining the property, that's the landlord's responsibility
- 3. **Low initial Costs**- when you sign a lease, you normally pay a **security deposit**, which is paid to the owner of the property to guard against any financial loss or damage that the tenant may cause
- a. When the tenant moves out , the landlord may return the security deposit, minus any charges for damages the tenant may have caused or for any unpaid rent

Factors that affect the cost of renting

- 1. **Location**- The amount of your monthly rent will depend on the location, or neighborhood in which you choose to live
- 2. **Living Space**- The size of the rental unit will also affect the cost of a rental unit
- 3. **Utilities**- In some rental units, the tenant may have to pay for utilities, such as electricity, gas, water and trash
- 4. **Renters Insurance**- A type of insurance that covers the loss of a tenant's personal property as a result of damage or theft



PERSONAL FINANCE

- A. **Buying a Home**
- 1. Few people have enough money to pay for a house in full, so they have to finance it with a home **mortgage loan** (long term property loan)
- 2. To buy a house also requires a **down payment**, which is usually 20 percent of the purchase price
- 3. Homebuyers often use a **real estate agent** (person who is licensed to facilitate the buying/selling of real estate) to help them find a home
- 4. The Real Estate agents fee is normally paid by the seller, not the buyer
- 5. You must 18 years of age to but real estate on your own in the U.S.



Personal Finance

- B. Types of Homes
- 1. Residential Property is property in which an individual or family lives in; there are 3 types of residential property:
 - a. Single Family Homes- the most popular type of residential property, is usually on its own lot, with it's own yard
 - b. Multi Unit Housing- usually single buildings, divided into individual units (eg. Condo's, townhouses, duplex, lofts, etc.
 - c. Manufactured Homes There are 2 types of Manufactured Homes and Prefabricated Homes



Personal Finance



- A. **Home Values**- several factors affect the value of a house including its **size**, **condition**, **quality** and **location**
- 1. Location is extremely important
- 2. The **distance between your home/work**, **available public transportation**, the **quality of the local school system** and **public services** also affect a home's value
- 3. **Home Equity**-is the **value of the property minus** the **amount still owed for the mortgage loan**



Personal Finance

- B. **Income Property**- property used to generate income
- 1. With income property the owner generate income 2 ways, they can collect rent or sell the property for a profit
- a. **Rental Property**- is any type of dwelling unit or property rented for a length of time
- b. **Undeveloped Property**- is unused land intended **only for investment purposes**; with undeveloped land **no rent is paid to the owner**; the **financial gain** on this type of property comes from the **sale of the property after it has risen in value**
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Assignments

- ▶ II. **Groups**: Prepare a PowerPoint presentation . on the global housing market (including the U.S.) within the last 10 years; include any specific changes in the market, new technologies in the industry, current status, etc.
- ▶ 1. Due Date: 10/15/2014...no late assignments accepted.



Personal Financial Plan

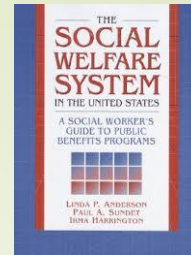
- ▶ 1. Research apartment rentals in the State of New Jersey and choose an apartment that's within your budget (.30 of your Gross Income) include the following:
 - ▶ a. Name/location of apartment
 - ▶ b. Security Deposit (how much is required)
 - ▶ c. Monthly rent
 - ▶ d. What utilities are included

- ▶ 2. Research the costs of any utilities that you as a tenant would be responsible for that's not covered in the monthly rent; Gas, Electric, Water: If required to pay for utilities estimate \$125.00 monthly for gas and electric

- ▶ 3. Also research the costs of Cable Television Providers, Cell Phone Providers and Internet Providers)

- ▶ 4. Estimate \$12.00 per month for renter's insurance

- ▶ 5. Journalize your findings for your personal financial plan, and submit for homework...due date..next class period...all late assignments will be deducted by 25 points per day



Personal Finance

- I. **Types of Taxes** as individuals we know that we pay federal and state income taxes on the salaries/and or wages that we earn
- A. Taxes are classified as:
 - 1. **Progressive Tax Rate** are taxes that impose a higher tax rate on those with higher incomes
 - 2. **Regressive Tax Rate** are taxes that impose a higher tax with lower incomes
 - 3. **Proportional Tax Rate** imposes the same tax rate on all regardless of income
- a. The U.S. has a Progressive Tax Rate
- b. **The Progressive Income Tax** is used as **income redistribution**, meaning that the taxes paid by those **earning higher incomes** is used to pay for **social welfare programs** such as benefits for the **elderly and retired, the sick or invalid, dependent survivors, single mothers, unemployed, work injured and low income families**

Personal Finance



- B. What is taxed in the U.S.
- 1. Personal Income Tax- your income
- 2. Sales Tax-goods/services you purchase
- 3. Property Tax-real estate
- 4. Wealth Tax- estate and gift taxes (estate taxes are taxes on property one receives after someone's death); gift taxes are (taxes on money or property that you give someone during your lifetime, it's taxed on the basis of its value)
- 5. Excise Taxes- are taxes on certain items such as air fare, gasoline, alcohol, tobacco products and phone service

Personal Finance



➤ A. Credit Facts

- 1. Nearly **33%** of all teens owe money to either a person or a company, with an average debt of \$230.00
- 2. Approximately **30%** of teens say they understand how credit card interest works and the accompanying fees
- 3. Approximately **30%** of teens say they know how to establish good credit
- Q: **How many of you have credit cards?**
- Q: **Is the card in your name?**
- Q: **If so, how did you get the card?**
- Q: **How long have you have it?**



Personal Finance

- B. **Credit-** is an **arrangement to receive cash, goods or services now** and pay for them in the future
- 1. **Consumer Credit**-is the use of credit for personal use
- 2. A common form of consumer credit is a **credit card** account issued by a Financial Institution, such as (eg. Banks, Credit Unions, Merchants, etc.)
- 3. **Consumer credit is a major force in the U.S. economy-** (any analysis of the U.S economy includes consumer credit spending which is a major force in the economy)
- 4. Credit Cards enable consumers to make purchases they may not be able to afford at the moment

Personal Finance



- A. Types of Credit- 2 basic types of credit
- 1. Closed-End Credit-is a one time loan that is paid back over a specified period of time in payments of equal amounts (eg. Vehicle loans, mortgage loans, furniture loans, etc.)
- 2. Open-End Credit-is a loan with a certain limit on the amount of money you can borrow for goods/services (eg. Department store (Macy's) and bank credit cards (Visa, MasterCard, etc.)

Personal Finance

- B. Alternative Types of Credit Cards
- 1. Debit Cards- Let's the consumer electronically withdraw money from their checking/savings accounts
- 2. Store – Value Cards (Pre-paid cards)- Cards that are prepaid, providing the card holder with immediate money
- 3. Travel and Entertainment Cards- (eg. American Express) are not really credit cards, used primarily for business, entertainment and travel; the balance is due in full each month



Personal Finance

- C. The Language of Credit
- 1. APR (Annual Percentage Rate) the cost of using credit; the amount of interest you pay annually
- 2. Credit Report is a detailed record of your personal credit and financial transactions
- 3. Credit Score is a rating used by companies to help lenders decide whether or not, and how much credit can be extended to borrowers



Personal Finance

- A. **Creditworthiness**- Before financial institutions **extend credit** to consumer they consider the applicant's **Capacity**, **Character** and **Capital** known as the "**3 Cs of credit**"
- 1. **Capacity** is the applicant's ability to repay the loan
- a. To determine capacity lenders will verify the applicant's **employment and income**
- 2. **Character** shows whether he/she has proven to be trustworthy in repaying debts
- a. To determine character they will check the applicants credit report and ask for credit references
- 3. **Capital** is the amount of money the applicant has beyond debts
- a. To determine the amount of capital the applicant has, they will look at the applicants savings account, checking accounts and investments



Personal Financial Plan

- ▶ 1. Section 4: Assume you have excellent credit and are applying for an auto loan
- ▶ a. Choose a new or used vehicle
- ▶ b. Research **auto loans** for people with excellent credit (Name lender and interest rate)
- ▶ c. Your down payment will be **10% of the list price**
- ▶ d. You will finance the car for 5 years
- ▶ Go to the following website to figure out your monthly payment www.lendingtree.com/partners/autotrader/AutoHowMuchCalc.asp
- ▶ Journalize your findings for your personal financial plan and submit for homework...due date..next class period assignments will be deducted by 25 points per day



Personal Financial Plan

- 1. Section 5: Research credit cards and choose a credit card that best fits your needs and include the following:
 - 1. APR (Annual Percentage Rate)
 - 2. Repayment terms
 - 3. Application process for applying for the card
 - 4. Annual Fees if any
 - 5. Penalties for being over the credit limit or late payments

- Journalize your findings for your personal financial plan, and submit for homework...due date..next class period...all late assignments will be deducted by 25 points per day



Personal Finance



- B. Deciding when to buy
- 1. Prices for many items change during different times of the year, therefore postponing or planning a purchase can sometimes save you money (eg. You would save money if you bought an air conditioner in the winter – there's less demand for them during that time of the year)
- 2. Stores often run special promotions during and after holiday's, just before the school year begins, and at the end of a season