LESSON
8

Managing Your Money

LESSON DESCRIPTION AND BACKGROUND

This lesson introduces some basics of money management. It uses a radio call-in show script to help students learn about setting up a family budget and distinguishing between income and net worth. It also allows students to practice making budgeting decisions by having them make budgeting recommendations for a young family.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

- Budgeting
- Decision Making

NATIONAL STANDARDS FOR FINANCIAL LITERACY

- **Standard 2 Buying Goods and Services, Grade 8, Benchmark 5** – A budget includes fixed and variable expenses, as well as income, savings and taxes.
- **Standard 2 Buying Goods and Services, Grade 8, Benchmark 6** – People may revise their budget based on unplanned expenses and changes in income.

COMMON CORE STATE STANDARDS

- **CCSS.MATH.Content.HSA.SSE.B.4** – Derive the formula for the sum of a finite geometric series (when the common ratio is not 1), and use the formula to solve problems.
- **CCSS.MATH.Content.HSF.LE.B.5** – Interpret the parameters in a linear or exponential function in terms of a context.
- **CCSS.ELA-Literacy.CCRA.R.10** – Read and comprehend complex literary and informational texts independently and proficiently.
- **CCSS.ELA-Literacy.W.9-10.9, CCSS.ELA-Literacy.W.11-12.9** – Draw evidence from literary or informational texts to support analysis, reflection, and research.
- **CCSS.ELA-Literacy.L.9-10.6; CCSS.ELA-Literacy.L.11-12.6** – Acquire and use accurately general academic and domain-specific words and phrases, sufficient for reading, writing, speaking, and listening at the college and career readiness level; demonstrate independence in gathering vocabulary knowledge when considering a word or phrase important to comprehension or expression.
- **CCSS.ELA-Literacy.RH.9-10.4** – Determine the meaning of words and phrases as they are used in a text, including vocabulary describing political, social, or economic aspects of history/social science.
- **CCSS.ELA-Literacy.RH.11-12.2** – Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.

OBJECTIVES

The student will

- identify and explain the meaning of key budgeting terms such as disposable income, family budget, variable expense, fixed expense, balanced budget, and net worth.
- identify the elements of a typical monthly family budget including income, expenses, and savings.
- apply the concepts of costs and benefits to the budget-making process.

TIME REQUIRED

Two 45-minute class periods

MATERIALS

- **Exercise 8.1: Introduction to Money Management**, one copy per student
- **Exercise 8.2: Budgets Are Beautiful**, five copies

- **Exercise 8.3: John and Marcia: Monthly Spending Plan**, one copy per student
- **Exercise 8.4: Can John and Marcia Afford the Home of Their Dreams?**, one copy per student

ADDITIONAL RESOURCES

Visit https://www.econedlink.org/resources/collection/fffl-9-12/ to find presentations, interactives and other great technology tools to enhance your teaching of this lesson.

PROCEDURE

1. Ask students to explain the purpose of a budget and why people need to have one. Tell the students that a budget helps keep track of income and expenses. Explain that the purpose of this lesson is to help the students understand some key aspects of planning their financial future, including budgeting. Stress the idea that decisions about how to use income are similar to other decisions. There are advantages and disadvantages to various choices. Remind the students that financial sacrifices can be difficult to make when the costs must be paid in the present and most of the benefits occur in the future. Tell the students they are going to watch a video to introduce the concept of budgeting. Watch the EconEdLink video at https://player.vimeo.com/video/239510067 to introduce the concept of budgeting. After viewing the video, discuss the following questions.

a. Why do we need to have a budget? ***(Our wants are unlimited and our resources are limited. Scarcity forces us to make decisions. Budgets help us manage our money and make choices with it.)***

b. What are three types of goals you may have? ***(Short-term goals can be achieved in less than 2 months, medium-term goals take between 2 months and 3 years and long-term goals usually take longer than 3 years.)***

c. How can you adjust your budget to achieve a goal if your expenses are too high? ***(You can earn more, such as working a second job. You can also spend less, such as cutting back on entertainment.)***

2. Distribute a copy of **Exercise 8.1: Introduction to Money Management** and ask the students to read to become acquainted with the key concepts.

3. Ask for five students to volunteer to participate in a call-in show activity about budgeting. Distribute a copy of **Exercise 8.2: Budgets Are Beautiful** to each of these students. Determine which of the volunteers will play the roles of Budget Bob, Dr. Penny Saver, Connie from Connecticut, Calvin from California, and Minnie from Minnesota.

4. Have the students read the script in front of the class. There is also part for "All" to involve all of the volunteers and/or the entire class if you desire. When they have read the script, thank them for participating in the activity and ask the class the questions that appear at the end of the script. Discuss the answers with the class.

a. What is disposable income? ***(Disposable income is the money you have left to spend or save as you wish after all required deductions [e.g., taxes, Social Security, retirement plan contributions] have been taken out of your gross pay.)***

b. What does Dr. Saver recommend as the three parts of a family budget? ***(A family budget should include a listing of income, expenses, and savings. Some students may note that savings can be included as part of family expenses. This is one way to make sure that a family makes a commitment to saving.)***

c. What are fixed and variable expenses? Use examples to illustrate each. ***(Fixed expenses are ones that are relatively constant each month, such as a house payment, rent payment, and car payment. Variable expenses are ones that are likely to change or can be changed in the short term. Examples include telephone bills, groceries, medical bills not covered by insurance, entertainment, recreation, and charge account purchases.)***

d. What does "pay yourself first" mean? ***(Some savers include their savings goal in the fixed expenses part of their budget. This means that they make a commitment to saving in the same way that they are committed to paying expenses like car and house payments.)***

e. What is net worth? ***(Net worth is a measure of wealth. It is the current value of assets minus liabilities. [Liabilities are debts you owe.])***

f. What is meant by a balanced budget? ***(A balanced budget occurs when monthly expenses are equal to monthly income. If expenses are greater than income, the budget is negative. Certain expenses may not get paid or the person may go into debt to pay them.)***

5. Give each student a copy of **Exercise 8.3: John and Marcia: Monthly Spending Plan**. Ask the students to read the background information about John and Marcia. When they have finished reading, ask the class the following questions.

a. Who are John and Marcia? ***(A young, married couple working to support one child.)***

b. What is their lifestyle? ***(They live in a comfortable apartment, enjoy some small luxuries, and keep up with all their bills.)***

c. What is their immediate financial goal? ***(To save enough money for a down payment on a second car.)***

6. Ask the students to examine the tables in **Exercise 8.3** that show Marcia and John's fixed and variable expenses. Ask the students to answer the questions after the budgets. Discuss the answers.

a. What are some examples of John and Marcia's fixed expenses? ***(Housing, life and disability insurance, renter's insurance, automobile insurance, student loan, etc.)***

b. What are some examples of John and Marcia's variable expenses? ***(Meals, utilities, automobile fuel, medical care, child care, clothing, etc.)***

c. John and Marcia have decided to practice the "pay yourself first" approach to saving for a second car. How do they pay themselves first? ***(They have the amount that they want to save taken out of their pay and automatically deposited into their savings account, as if they were paying off a fixed expense.)***

d. Examine John and Marcia's monthly spending plan. What sacrifices do you think John and Marcia should make in their variable expenses to meet their goal? Note: at-home food expenses can't be reduced below $220. ***(Answers will vary. Accept any reasonable answers.)***

e. What are the benefits and costs of your recommended decisions for John and Marcia? ***(The benefit is that the combination of choices will allow John and Marcia to save enough for their goals. The cost is giving up some of the things they would like to do and have right now. Students will often want to eliminate entertainment or other fun activities, which is not always realistic.)***

7. Give each student a copy of **Exercise 8.4: 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 setback, such as the loss of a job, they might be unable to make payments on their home loan.***

e. 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.)***

CLOSURE

Use the following questions to provide closure to the lesson.

- What is disposable income? ***(Disposable income is the money that you have left after taxes, Social Security, contributions to retirement accounts, and other required deductions have been taken out of gross pay.)***
- What are three parts of a family budget? (***A family budget should include a listing of income, expenses, and a plan for saving.)***
- What are fixed expenses? ***(Fixed expenses are ones that are relatively constant each month, such as a house payment, rent payment, and car payment. Many experts in personal finance believe savings should be treated as a fixed expense.)***
- What are variable expenses? ***(Variable expenses are ones that are likely to change in the short term. Examples include telephone bills, groceries, medical bills not covered by insurance, entertainment, recreation, and credit card purchases.)***
- What is net worth? ***(Net worth is the current value of assets minus liabilities.)***

ASSESSMENT

Have students test their budget knowledge. Instruct each student to take out their personal computers or go to a computer lab and link to https://econedlink.org/resources/budget-odyssey/ Then, have students play "Budget Odyssey" individually. When complete, check for understanding by discussing the following questions.

- What is income? Provide two examples from the game or your own life. ***(Income is the amount of money received during a period of time.)***
- What is a fixed expense? Provide two examples from the game or your own life. ***(Fixed expenses do not depend on your consumption of a good or service.)***
- What is a variable expense? Provide two examples from the game or your own life. ***(Variable expenses are an unavoidable periodic cost that does not have a constant value.)***
- Why is it important to establish a balanced budget? ***(So you can keep track of your income and expenses and be financially responsible.)***

Introduction to Money Management

Do you know people who handle money carelessly? Lots of seemingly smart people are clueless about where they stand financially. There is Beverly, a professional woman, who calls the bank every two or three months to find out what the balance is in her checking account. Beverly uses her debit card almost every day but doesn't keep track of her usage very well. What Beverly still hasn't learned is that people at her bank don't know what Bev's real balance is either, because they don't know all of her debit card purchases that have yet to be processed or checks she has written that have not been cleared. Only Beverly knows that. Beverly may want to start regularly checking her balance and purchases online to get a better grasp of her spending and balance. And then there is Ben. Ben actually believes that he can write checks as long as he has blank ones to be used. Ben has been heard to say, "Why would the bank give me blank checks if I'm not supposed to use them?" Ben needs to realize that he can't spend more than he has, and has to learn to budget to live within his means.

You don't have to be like Ben and Bev. You can get on the fast track to wealth by becoming good at managing money. To manage your money well, you need to know some basic information, use some common sense, and then take action. We recommend three steps.

First, get a grip on your spending. How can you do that? Set up a budget. Make a list of your income and expenses. Then subtract your expenses from your income. If you have any surplus cash, plan how you will use it. Do this each month. Now is the time to get started investing in a mutual fund or brokerage account.

Second, get to know the various services offered by financial institutions in your community. Checking accounts are among the most common financial services people use, but there are many others including ATMs, online banking, direct deposits, savings accounts, credit cards, installment loans, student loans, retirement accounts, and certificates of deposit. Among the many types of financial institutions, three important ones are commercial banks, credit unions and brokerage firms. Open an account now at one or more financial institutions by going directly to the institution or even setting one up online (you will need an adult to help). There are many online options to compare services, fees, and technology components for every financial service you can imagine. Start with checking and savings accounts, but don't wait!

Finally, learn how to protect yourself against risk. All choices involve risk, but some risks are greater than others. Buying insurance is a common way to reduce risk. There are many kinds of insurance to consider including auto, health, renter's, homeowner's, life, and disability. The type and amount of insurance you need will change as you get older and the value of your assets increases.

The best thing about these three tips and others covered in these lessons is that none of it is overly difficult. It might take some work, but you can learn this stuff. Your efforts now can have a big payoff later.

Budgets Are Beautiful

Cast: Budget Bob (radio host), Dr. Penny Saver, Connie, Calvin, Minnie, All (all parts and/or entire class)

Setting: Have two chairs and table in front of the classroom for Dr. Saver and Budget Bob. Place Connie, Calvin and Minnie in desks at various places around the room.

All

And here is your radio host, Budget Bob!

Budget Bob

Hello, financial health fans! Welcome to the nation's newest financial advice show, Budgets Are Beautiful. This is the radio call-in show that lets you, the radio listener, get the latest advice on how to manage your family finances. Today our topic is how to improve your skills at managing your family's finances. Our guest today is a successful family financial planner, Dr. Penny Saver. Dr. Saver has helped hundreds of families and has a Ph.D., an M.A., and an S.U.V. Hello, Dr. Saver. Welcome to the show.

Dr. Saver

Hello Bob, and hello to all those people who are tuned in today. This is so exciting for me to talk with you about budgets! I am ready to take your questions.

Budget Bob

Here is our first caller: Connie from Connecticut. You're on the air, Connie.

Connie

Hi, Dr. Saver. I am having a disagreement with my husband regarding the meaning of some financial vocabulary. He heard someone on another call-in show talking about how to spend disposable income. My husband laughed and said that all of our income is disposable. He said that we dispose of all our income by the end of every month. Sometimes we dispose of our income before the end of the month. I think he was joking, but could you tell me: What do financial planners mean by disposable income?

Dr. Saver

Actually, your husband was not too far off. Disposable income is the money that you have left to spend or save as you wish after you pay your taxes, Social Security, and the other deductions that have been taken out of your gross pay. It is sometimes called net income. While disposable income can be used in many ways, most families have important financial obligations. Rent, car payments, and food bills add up quickly, so tough choices need to be made.

Budget Bob

That sounds kind of gloomy, Dr. Saver. Do you have any advice for Connie and her husband on how to get better use out of their disposable income?

Dr. Saver

Financial planners suggest that setting up and sticking to a family budget is the first step toward financial success. I advise families to start by setting a monthly budget.

To do this, you make a list of your income and expenses. Under income, list all the money you anticipate earning for the year. For most people, most income will be what they earn from their jobs. If your income varies month to month, divide your annual income by 12 and use the answer for the monthly income in your budget.

Then list your expenses. To help make sure your list of expenses is complete, look at last year's bills, credit card statements, and bank records. To determine the amount you spend on items you buy with cash, keep track of your out-of-pocket spending for a month or two. After you've done all this, you will have a good idea of where your money goes each month. Common expenses are rent, car payments, insurance, groceries, and so forth. Don't forget to list your savings amounts for each of your goals. If you wait to save what's left at the end of the month, you will never begin saving.

Now, subtract your expenses from your income. I hope that this is a positive number! If it is—if you have more income than expenses—then you have surplus cash that can be put to other uses. If, however, the number is negative, then you will need to cut your expenses, increase your income, or use some of your savings to get through the month.

All

Lesson #1: Remember to budget! Income and expenses matter and you should track them each month.

Budget Bob

Here is our next caller: Calvin from California. You're on the air, Cal.

Calvin

Hello Dr. Saver. Thanks for taking my call. My wife and I started to write a monthly budget and we learned right away that not all expenses are the same. Some seem to stay pretty much the same each month while others change. Do other people have this same situation?

Dr. Saver

Great question! Families ordinarily have what we call fixed expenses and variable expenses. Fixed expenses are ones that are relatively constant each month. These are a family's definite obligations such as a house payment, rent payment, car payment, and medical insurance. These expenses are hard to change in the short term, so we say they are "fixed." Variable expenses are ones that are likely to change in the short term. Examples include telephone bills, groceries, medical bills not covered by insurance, entertainment, recreation, charge account purchases, and so forth.

These are expenses over which you have more short-term control. Occasional expenses or periodic expenses are those that occur once or a few times a year. Personal property taxes, income taxes, car insurance, birthday gifts and holiday gifts are examples of expenses that get some people in trouble because they forget to plan for them.

Budget Bob

Dr. Saver, I sometimes hear advisors say, "Pay yourself first." In other words, set money aside from your disposable income to put into your savings plan. How does this idea of "pay yourself first" fit into the family's expenses?

Dr. Saver

I tell my clients to include their savings goals in the fixed expenses part of their budget. I like this approach because it shows how important saving is to individual and family financial health. Under the saving part of the budget, a family or individual could list funds saved for emergencies, as well as other cash set aside for long-term savings and investments. Ideally, a person's income is enough to pay their expenses each month, including money for saving. However, if a person's monthly expenses are greater than their monthly income, then they might have to spend less on something else to balance their budget. Another option might be to increase their income by working more hours. If a person can't do this, they may have to borrow money to pay their expenses. Too much debt can be difficult for a budget because it means paying back what you borrow, plus the interest charge paid to the lender. On the other hand, if a person's income is greater than their expenses, they have extra money left over that they could spend on something else, including adding more money to their savings. That is more fun than trying to give up something else!

All

Lesson #2: Give yourself money first! Saving is an important part of your budget, as well as balancing your budget, each month.

Budget Bob

Here is our next caller, Minnie from Minnesota. You're on the air, Minnie.

Minnie

I just love this show, Dr. Saver. Here is my question. My sister Emily told me that she heard on television that people might have high incomes and still have a low net girth. What's all this about net girth? Is it true that people who have high incomes are also thin?

Dr. Saver

Minnie, I think that you misunderstood your sister. I think she was referring to the idea of net worth, not net girth. Let me explain. People can have high incomes and still not be wealthy. When we measure wealth, we are measuring net worth. Here is how to figure your net worth. Net worth is determined by two factors. First, list your assets and their value. Assets are what a person owns, including the value of any savings, house, car, and personal possessions. Next, list your liabilities. Liabilities are the money you owe others such as payments on a home mortgage, car loan, credit card debt, college loans, and so forth. If your assets are greater than your liabilities, then you have a positive net worth. If your liabilities are greater than your assets, then you have a negative net worth. Individuals can have a large income and, because of their liabilities, still have a negative net worth.

Minnie

Can I follow up on that last point? Do you mean to say that you can’t tell whether a person is wealthy just by knowing where they live, what they drive, and where they travel?

Dr. Saver

That is exactly what I mean, Minnie. People who live in big homes, drive extravagant cars, and take around-the-world cruises probably have high incomes. That does not mean that they are wealthy. We measure wealth by calculating net worth. Many people of modest income have achieved a high net worth—many are millionaires—by living below their means.

All

Lesson #3: Net worth is important! Know your number.

Budget Bob

Well, Dr. Saver, that is all the time we have for today’s show. Thank you for being with us.

Dr. Saver

You’re welcome, Bob. Thanks for inviting me.

Budget Bob

Be sure to join us tomorrow when we will speak to Ms. Bonnie Bonds, another financial advisor. Bonnie’s topic is “What Is Gross about Your Gross Income?” We hope you will tune in to the show tomorrow. We will be waiting for your call.

All

That’s all, folks!

Questions

a. What is disposable income?

b. What does Dr. Saver recommend as the three parts of a family budget?

c. What are fixed and variable expenses? Use examples to illustrate each.

d. What does “pay yourself first” mean?

e. What is net worth?

f. What is meant by a balanced budget?

John and Marcia: Monthly Spending Plan

John and Marcia are a young married couple. They have a two-year-old child named Ashley and a goldfish named Shark. John manages a local shoe store. Marcia recently graduated from college and is a manager-trainee at a local bank. Their combined monthly income is $5,200. They want to have a successful marriage, and they want to be financially successful.

John and Marcia have enough income to provide an adequate lifestyle. Their apartment is comfortable but not lavish. They take care of themselves, Ashley, and Shark with sensible diets, exercise, and medical care. They view maintaining health, life, disability, and renter's insurance as essential. They pay for childcare at Terrific Tots Day Care so that both of them can work. They keep up with all their financial commitments, such as making payments on Marcia's college loan. They regard saving for retirement as important. Like other individuals, they are locked into their fixed expenses, but they have more flexibility with the variable expenses.

Marcia and John know that they want a second car. It is difficult to manage their complex schedules—work, day care, grocery shopping, and trips to the doctor—with only one car. They recently set a goal to save up enough money in one year for the down payment on a second car.

John and Marcia are regular savers. They practice the idea of "paying yourself first." They currently have $175 withheld each month from their paychecks to provide a fund for emergencies. They plan to increase that amount to $400 each month for the next year to enable them to make a $2,700 down payment on the second car.

The table below lists John and Marcia's "before" and "after" fixed expenses. The only item that has changed in the After column is "Savings withheld." Go to the table of John and Marcia's variable expenses. Determine where John and Marcia can draw the additional $225 for savings from their variable expenses. Complete the table and answer the questions at the end of this exercise.

Monthly Budget	Before	After
Total Income (both spouses work)	**$5,200**	**$5,200**
Fixed Expenses		
Housing	$750	$750
Life and disability insurance	$325	$325
Renter's insurance	$15	$15
Automobile insurance	$80	$80
Student loan	$100	$100
Savings withheld	$175	$400
Federal and State taxes	$630	$630
Social Security	$400	$400
Pension fund withheld	$80	$80
Total Fixed Expenses	**$2,555**	**$2,780**

Variable Expenses	Before	After
Meals (at home)	$300	
Meals (away from home)	$250	
Utilities	$315	
Automobile fuel, maintenance	$290	
Medical care	$230	
Child care	$205	
Clothing	$195	
Gifts and contributions	$60	
Magazines and newspapers	$10	
Home furnishings and appliances	$200	
Personal Care	$50	
Entertainment	$260	
Vacation	$120	
Credit Card	$100	
Miscellaneous/personal	$60	
Total variable expenses	**$2,645**	
Total expenses	**$5,200**	**$5,200**

Questions

a. What are some examples of John and Marcia's fixed expenses?

b. What are some examples of John and Marcia's variable expenses?

c. John and Marcia have decided to practice the "pay yourself first" approach to saving for a second car. How do they pay themselves first?

d. Examine John and Marcia's monthly spending plan. What sacrifices do you think John and Marcia should make in their variable expenses to meet their goal? Note: At-home food expenses can't be reduced below $220.

e. What are the benefits and costs of your recommended decisions for John and Marcia?

Can John and Marcia Afford the Home of Their Dreams?

Four years later, John and Marcia are pleased with their financial decisions. They have been able to reduce their expenses to purchase the second car. They have enjoyed the convenience of owning a second car, their income has increased, and Marcia's college loan has been paid off. But new challenges have arrived. The car payment is greater than the college loan was. While having two cars has made life much better, the extra car has added to insurance and car expenses. Also, increased income means the couple pays more in taxes and Social Security.

Marcia and John know that to be financially successful they need to begin acquiring better assets. Owning a home is on the top of their personal and financial wish list. They have saved $10,000 for a down payment on a $150,000 home.

Answer the questions below to determine whether John and Marcia can afford to purchase the home.

a. Use the table below to determine the monthly house payment for a 30-year, fixed-rate mortgage loan at 6 percent. To use the table, go down the column on the left to find the loan amount you want and follow across to the interest rate available. The figure on the table represents your mortgage payment of principal and interest (PI). For example, a $100,000 mortgage with an interest rate of 6.5 percent would have a monthly payment of $632.

What would the monthly payment be for John and Marcia's home loan? ______________________
(Hint: $150,000 – down payment = loan amount.)

Loan Amount	Interest 6%	Interest 6.5%	Interest 7%	Interest 7.5%
$100,000	$600	$632	$665	$699
$110,000	$660	$695	$732	$769
$120,000	$720	$758	$798	$839
$130,000	$780	$822	$865	$909
$140,000	$840	$895	$932	$979
$150,000	$900	$948	$1,049	$1,101
$160,000	$960	$1,011	$1,065	$1,119
$170,000	$1,020	$1,074	$1,131	$1,189
$180,000	$1,080	$1,138	$1,198	$1,259
$190,000	$1,140	$1,201	$1,264	$1,328
$200,000	$1,200	$1,264	$1,331	$1,398

b. The monthly payment covers Principal and Interest (PI), but John and Marcia also would need to pay for insurance and real estate taxes (TI), which total $210 each month. So their total house payment, which includes PITI, equals how much?

c. A rule of thumb for some lenders is to qualify you for a mortgage if the payments you would incur meet two criteria: a) the mortgage payment with taxes and insurance will be less than 28 percent of your monthly gross income, and b) the monthly mortgage payment of principal, interest, taxes, and insurance (PITI) plus other monthly consumer debt (such as a car loan and credit card payments) will not exceed 36 percent of your gross monthly income. John and Marcia have $430 of monthly consumer debt, including a car loan and credit card payment (see budget on Exercise 8.3). Their monthly gross income is $5,200. Using the two lending criteria, would John and Marcia qualify for the loan they are considering, based on your answers below?

$5,200 x .28 ______________________

$5,200 x .36 ______________________

d. As homeowners John and Marcia will have to pay higher utility costs. They expect to budget $365 per month for utility payments. However, one of the benefits of homeownership is the ability to reduce your income taxes by deducting mortgage interest expenses. If they become homeowners, John and Marcia will pay $3,000 less annually in state and federal income taxes during the first year (which means their fixed expenses in this category would decline by a monthly amount of $250). John and Marcia have calculated their budget expenses after buying the home to be $3,240 for fixed expenses (including $400 for saving) and $2,260 for variable expenses, for a total of $5,500.

Do John and Marcia have enough flexibility in their budget to accommodate the additional costs of home ownership (mortgage payment, taxes, insurance and higher utilities)? Why or why not?