

Go Figure...

A HOME EQUITY LOAN

Example: Drew wants to apply for a home equity loan at Wilton Bank to fund his Internet company. He presently owns a home that has a market value of \$160,000. He has an existing mortgage balance of \$90,000. What is the maximum amount the bank will lend to Drew in a home equity loan?

Formula:
$$\begin{array}{r} \text{Adjusted Market} \\ \text{Value of Home} \end{array} - \begin{array}{r} \text{Existing Mortgage} \\ \text{Balance} \end{array} = \text{Home Equity Loan}$$

Solution: A. Find the adjusted market value of the home.

$$\begin{array}{r} \text{Market Value} \\ \text{of Home} \end{array} \times 80\% = \text{Adjusted Market Value}$$

$$\$160,000 \times 80\% = \$128,000$$

The adjusted market value of the home is \$128,000.

B. Find the maximum amount of the home equity loan.

$$\begin{array}{r} \text{Adjusted Market} \\ \text{Value of Home} \end{array} - \begin{array}{r} \text{Existing Mortgage} \\ \text{Balance} \end{array} = \text{Home Equity Loan}$$

$$\$128,000 - \$90,000 = \$38,000$$

Wilton Bank will lend Drew up to \$38,000 in a home equity loan.

Your Financial Portfolio

Tanya's Toys

Tanya's mother brings home rejects and remnants of toweling from the mill where she works. Tanya's grandmother taught her how to sew the cloth into animal shapes and stuff them. They give these little stuffed animals as presents, and Tanya has also sold 25 of them at \$8 each to raise money for the high school football team. Tanya and her friend, Lisa, decided to start a business making and selling "Tanya's Toys." Tanya has listed the expenses of making 100 stuffed animals and the sources of funding.

Item	Cost	Source of Funding
Toweling	\$25	She spoke directly to the manager at the mill, who offered a special deal of \$25 payable after the animals were sold.
Sewing machines	\$430	Tanya was already using the sewing machine she had at home and located another used industrial machine. She and Lisa decided they would buy the second machine after they sold 500 toys.
Other sewing equipment: Sewing shears, tape measure, patterns	\$45	Tanya's grandmother offered to loan them the money to buy good sewing shears.
Supplies: Thread, eyes, buttons, ribbon, and felt to decorate the animals	\$25	Tanya and Lisa decided to fund the purchase of supplies from their savings.
Wages		Tanya and Lisa chose to reinvest the profits until they bought all the equipment and supplies.

Research What kind of business could you launch that would require minimal start-up costs? In your workbook or on a separate sheet of paper using the guidelines shown above, describe and name your business and list what equipment and supplies you would need. Also indicate how you would fund your enterprise. How much would your equipment and supplies cost? How could you persuade members of your family or friends to participate in your business?