Maria is looking for alternative ways to finance her business. She is considering applying for a bank loan. She received the application, which requires her to provide a Personal Financial Statement dated the last day of the year, 12/31/XX.

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Can you help her prepare a statement that **reflects positively** on her circumstances?

**PART ONE**

* 1. Read the Situation
  2. Enter in Column A if the situation results in an entry Maria’s Personal Financial Statement (PFS), AND what type, i.e., Asset–Checking account. Leave the space blank if it does not create an asset or liability.
  3. In Column B, enter the dollar amount to go on the PFS. Round to the nearest dollar
  4. Separate the short and long-term liability if a portion is due within the next 12 months and a portion is due later.

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| --- | --- | --- | --- |
|  | **SITUATION** | **COLUMN A**  List if this creates an Asset or Liability and what type  i.e. ASSET - Checking Account | **COLUMN B**  If the situation creates an asset or liability enter the $ Amount |
| 1 | Her brother owes her $500 from a loan made two years ago |  |  |
| 2 | Her Visa credit card balance is $4,140 including the amount she borrowed and accumulated interest. |  |  |
| 3 | She has a savings account of $ 3,200 |  |  |
| 4 | She has a 401 K savings plan at work, which grew due to the stock market rise last year from $17,400 to the current balance of $19,800.  The plan includes a 50% employer match. Thus, for every dollar Maria saved, her employer matched 50 cents.  Maria calculated that of her current balance she contributed $ 13,200 (2/3) and her employer matched $6,600 (1/3).  The **plan vesting schedule** indicates for Maria to be 100% vested she must be there 5 years. Currently she is only 40% vested. |  |  |
| 5 | She owes $340 for taxes – they are due to her underpaying estimated taxes for income earned in the prior year |  |  |
| 6 | In addition to her savings account, Maria has $895 in a checking account |  |  |
| 7 | Maria has two student loans.  Her first loan is a **subsidized Loan** from the federal government. The original balance was $2,500. It was given to her at 4.5% interest and currently with **accrued interest** $2,850 is due.  Payments become due 24 months after graduation. Since she graduated two years ago, she knows that starting next month she will have to start paying $40 per month (thus $ 480 is due in the next 12 months) |  |  |
| 8 | Her second student loan is an **unsubsidized loan** from Wells Fargo. The original balance was $3,000 and it carries a 7% interest rate. At present, with accrued interest she owes $ 3,325. However, she knows that she does not have to pay it back for five years post-graduation, so she can defer payments for another 3 years. |  |  |
| 9 | A few years ago, her parents gifted her a car and the title is in her name. Her brother drives it and pays the insurance, but she believes it has a market value of $5,600. |  |  |
| 10 | Maria’s parent’s attorney suggested that her parents gifted a portion of their house to Maria and her brother. Currently Maria owns 20%, her brother owns 20% and her parents 60% of the property. The deed includes Maria and her brother’s name. She also knows.   * In 2005 her parents purchase the house for $625,000 * The current **market value** of the property is $940,000. * The 2005 home purchase was financed in part from a bank mortgage. Her parents pay $2,138.38 monthly on the mortgage. * Maria calculated her parents have paid the mortgage for 161 months totaling $344,279 (2,138.38 times 161). She assumed the mortgage was nearly paid off. However, when she called the bank, she learned they still owe $290,056. * Maria was very surprised the mortgage had such a large balance due. Her parents explained that their payments were not just going towards the loan principal, but also the interest. Together they reviewed a **Loan Amortization Chart**, and saw that in a residential mortgage, in the early years most of their payment went towards interest, and only a small portion reduced the $400,000 principal. This was very discouraging. Maria saw that over the 30-year life of the loan, they would pay $ 369,816 in interest plus the $400,000 principal. In essence the mortgage would cost $ 769,816. |  |  |
| 11 | Two years ago, her parents wanted to remodel the kitchen so they took out a **home equity line** for $45,000.  The lien was entered against the property, so she realizes that if the house was sold the home equity loan would need to be repaid before she got any of the proceeds.  It is an interest only loan with a variable rate that adjusts annually based on prime. Her parents have faithfully made the interest payments, but have not made any principal payments. |  |  |
| 12 | Her grandmother has made her Last Will & Testament known to all her grandchildren.  Maria understands that when her grandmother dies she will inherit about $250,000,  $150,000 is from her grandmother’s IRA and $100,000 is in a savings account. |  |  |

**PART TWO**

|  |  |
| --- | --- |
| Enter the results from Column B on form 4.01 Personal Financial Statement. | |
| * 1. What is Maria’s Net Worth? |  |
| * 1. How much value does her ownership in her parent’s house contribute towards her net worth? |  |
| * 1. If Maria quit her job tomorrow, how much would her Retirement Assets decrease because she is not fully vested? |  |