**ADKINS** **CAPITAL MANAGEMENT**

**Case Study # 1 – illustration of one exemplary Financial Methodology that is used in order to determine the largest amount of money that the prospective residential real estate property buyer should spend in order to purchase a home.**

To begin the process, assume that the prevailing mortgage interest rate for a 30-year fully-amortized fixed-rate loan in the prospective residential real estate property buyer's community is 5.0%, and assume that he believes that no more than 40% of pre-tax household income should be spent in order to repay the principal and interest costs of a mortgage loan.  Based on this information, the Financial Methodology will determine the Factor Multiple that triangulates a 5.0% mortgage loan interest rate assumption, with the assumption that 40% of pre-tax household income is the largest amount of money that should be spent in order to repay the principal and interest costs of a mortgage loan.  In this case, the Factor Multiple is 6.2.

With this information, the Financial Methodology will multiply the prospective residential real estate property buyer's pre-tax household income amount by the Factor Multiple.  In this example, assume that the prospective residential real estate property buyer's pre-tax household income is $50,000 dollars.  Therefore, based on the Financial Methodology, $310,000 dollars is the largest amount of money that he should spend in order to purchase a home.

In order to apply the methodology, assume that the prospective residential real estate property buyer would like to purchase a home that is for sale for $300,000 dollars. Given this information, the prospective residential real estate property buyer would conclude that he can afford to purchase the residential real estate property, because given the prevailing mortgage loan interest rate for a 30-year fully amortized fixed-rate loan in the prospective residential real estate property buyer's community, and the fact that he believes that it is acceptable to spend 40% of pre-tax household income in order to repay the principal and interest costs of a mortgage loan, he earns enough money on an annual basis in order to be able to afford to purchase the home.

| TRUNCATED VERSION OF THE COMPREHENSIVE ARHVA FACTOR MULTIPLE TABLE | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Loan Interest Rate | Percentage of pre-tax household Income that the prospective residential real estate buyer believes is the larges amount of money that should be spent in order to repay the principal and interest costs of the loan | | | | | | | | |
| | 20% | 30% | 40% | 45% | 50% | 55% | 60% | 70% | 75% |
| 1.0% | 5.2x | 7.8x | 10.4x | 11.7x | 13.0x | 14.3x | 15.6x | 18.1x | 19.4x |
| 5.0% | 3.1x | 4.7x | 6.2x | 7.0x | 7.8x | 8.5x | 9.3x | 10.9x | 11.6x |
| 10.0% | 1.9x | 2.9x | 3.8x | 4.3x | 4.7x | 5.2x | 5.7x | 6.7x | 7.1x |
| 15.0% | 1.3x | 2.0x | 2.6x | 3.0x | 3.3x | 3.6x | 4.0x | 4.6x | 4.9x |
| 20.0% | 1.0x | 1.5x | 2.0x | 2.2x | 2.5x | 2.7x | 3.0x | 3.5x | 3.7x |