ADKINS CAPITAL MANAGEMENT

Case Study #2 – Illustration of one exemplary Financial Methodology that is used in order to determine how much money the prospective residential real estate property buyer would need to earn on an annual basis in order to be able to afford to purchase a specific home.

To begin this process, assume that the prevailing mortgage interest rate for a fully-amortized fixed-rate loan is 10.0%, and that the prospective residential real estate property buyer believes that no more than 55% of annual 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 mortgage-loan interest rate of 10%, with the assumption that 55% 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 5.2.

With this information, the Financial Methodology will divide the for-sale price of the home by the Factor Multiple. In this example, assume that the prospective residential real estate property buyer would like to purchase a home that is for sale for $500,000 dollars. Based on the Financial Methodology, $96,154 dollars is the amount of annual household income that the prospective residential real estate property buyer would need to earn on an annual basis in order to be able to afford to purchase the home.

In order to apply the methodology, assume that the prospective residential real estate property buyer's pre-tax household income is $80,000 dollars. Given this information, the prospective residential real estate property buyer would conclude that he should not purchase the residential real estate property, because he does not earn 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%	x/5.2	x/7.8	x/10.4	x/11.7	x/13.0	x/14.3	x/15.6	x/18.1	x/19.4
5.0%	x/3.1	x/4.7	x/6.2	x/7.0	x/7.8	x/8.5	x/9.3	x/10.9	x/11.6
10.0%	x/1.9	x/2.9	x/3.8	x/4.3	x/4.7	x/5.2	x/5.7	x/6.7	x/7.1
15.0%	x/1.3	x/2.0	x/2.6	x/3.0	x/3.3	x/3.6	x/4.0	x/4.6	x/4.9
20.0%	x/1.0	x/1.5	x/2.0	x/2.2	x/2.5	x/2.7	x/3.0	x/3.5	x/3.7