

8.4, Ex 1

You Buy a house on Jan 13.

The seller has already paid for some items for the whole month (interest) or the whole year (taxes) so you have to reimburse the seller.

These are called pro-rated items.

Closing - the final meeting where you sign the paperwork and actually pay for the house. It is similar to actually signing the papers to buy and finance a car.

You close on a home on September 13 for \$350,000, pay 11% as a downpayment and take out a mortgage with an APR of 5.75%. How much prepaid interest will you have to pay at closing?

You own the home as of September 14, but the seller has paid all of September's interest (September 1 - September 30). This means the seller paid your interest from September 14 - September 30 or 17 days.

Calculate 17 days of SIMPLE interest.

$$\begin{array}{r}
 \text{Cost} \\
 - \text{Downpayment} \\
 \hline
 \text{Loan}
 \end{array}
 \qquad
 \begin{array}{r}
 350,000 \\
 \underline{38,500} \\
 311,500
 \end{array}$$

$$I = Prt$$

$$I = 311,500 (.0575) \left( \frac{17}{365} \right)$$

$$I = \$834.22 \text{ you pay seller}$$

17 days

You close on a home on January 23 for \$125,000, pay 17% as a downpayment and take out a mortgage with an APR of 3.35%. How much prepaid interest will you have to pay at closing?

Cost	125,000.00
- Downpayment	-21,250.00
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Loan	103,750.00

$$I = Prt$$

8 days

$$I = 103,750.00 (.0335) \left(\frac{8}{365}\right)$$

$$I = 76.18 \text{ you pay seller}$$

You close on a home on March 30 for \$436,550, pay 21% as a downpayment and take out a mortgage with an APR of 4.95%. How much prepaid interest will you have to pay at closing?

Cost	436,550.00
- Downpayment	- 91,675.50
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Loan	344,874.50

$$I = Prt$$

$$I = (344,874.50)(.0495)\left(\frac{1}{365}\right)$$

$$I = \$46.77 \text{ you pay seller}$$

days