

Mortgages and buying a home (various definitions):

** Lenders for a mortgage include banks, lenders and using a mortgage broker.

1) Mortgage – long term loan for the purpose of purchasing a home. The property is pledged as security so that the lender will take the property if payment is not made.

2) Default – borrower falls behind on his/her payments

3) Foreclosure – the legal process by which the lender takes possession of the property when the borrower defaults.

4) Lenders – can be a bank, savings and loan, credit union, mortgage company.

5) Principal – the amount of the loan. Every mortgage payment allocates some of the payment to interest and some to the principal.

Types of mortgages:

1) Fixed Rate (also called a Conventional mortgage) – the interest rate stays the same for the entire term of the loan.

2) Adjustable Rate – same as the variable rate mortgage. Just a different name.

3) Balloon Mortgage – A mortgage where the loan payments will not result in the loan being paid off. The balance is due at the end of the term as one lump sum. These loans are taken by borrowers who expect to refinance the mortgage or receive a large cash infusion by the time the “balloon” amount is due.

4) Biweekly Mortgage – Half of the monthly payment is made every 2 weeks. This results in 13 monthly payments in a year. This can reduce the term of the loan by 12 years.

You buy a house for \$567,000 and have to put 13% down. 1 points will be paid to obtain an annual 6.34% interest rate for a 30 year loan. One point costs 1.25% of the loan amount.

- a) Calculate the down payment.
- b) Calculate the amount of the mortgage.
- c) Calculate the cost of the points.
- d) Calculate the monthly payment.
- e) Calculate the total amount you paid over the term of the mortgage.
- f) Calculate the amount of interest you paid over the term of the loan.

$$\textcircled{a} 73,710$$

$$\textcircled{b} 493,290$$

$$\textcircled{c} 6166.13$$

$$\textcircled{d} 3066.20$$

$$\textcircled{e} 3066.20 \times 360 = 1,103,832.00$$

$$\textcircled{f} 1,103,832 - 493,290 = 610,542$$

You buy a house for \$250,000 and have to put 20% down. 2 points will be paid to obtain an annual 6.75% interest rate for a 30 year loan. One point costs 1.0% of the loan amount.

- a) Calculate the down payment.
- b) Calculate the amount of the mortgage.
- c) Calculate the cost of the points.
- d) Calculate the monthly payment.
- e) Calculate the total amount you paid over the term of the mortgage.
- f) Calculate the amount of interest you paid over the term of the loan.

(a) 50,000

(b) 200,000

(c) 4000

(d) 1297.20

(e) 466,990.63

(f) 266,990.63

You buy a house for \$333,000 and have to put 13% down. 3 points will be paid to obtain an annual 5.50% interest rate for a 20 year loan. One point costs 2.25% of the loan amount.

- a) Calculate the down payment.
- b) Calculate the amount of the mortgage.
- c) Calculate the cost of the points.
- d) Calculate the monthly payment.
- e) Calculate the total amount you paid over the term of the mortgage.
- f) Calculate the amount of interest you paid over the term of the loan.

(a) 43,290

(b) 289,710

(c) 19,555.43

(d) 1992.88

(e) 478,291.20

(f) 188,581.20