

Group Project Worksheet

Home Mortgage

Group Members:

This worksheet must be turned in with the summary paper. Complete each question, and if you are asked to make a computation, show all of your work. Write neatly and legibly. Points may be deducted if answers are incorrect, incomplete, or messy.

Finding a House

In this project assume that you have a regular job, that you are planning to buy a house and that you want to investigate some of the financial aspects of buying a house and obtaining a mortgage.

Decide as a group what criteria are most important to you when buying a house, then find a house that fits your criteria by either contacting a realtor or searching on the Internet. Be sure to discuss the criteria you used in your essay.

1. Describe the house you chose, including its price, in the space below.
2. How much you can afford as a down payment and how much will you need to borrow? Remember that we are assuming you have a regular job; if you like, you can imagine that you are saving to buy the house in five or ten years and base the size of your down payment on the amount you will have saved by then.

Fixed Rate Mortgages

1. Now contact at least 3 banks or mortgage companies and find out:

- The APR for a 15, 20, and 30 year mortgage
- The APR for an adjustable-rate mortgage
- The total closing cost
- The cost of mortgage insurance

You can find some of this information online without needing to contact a bank, but I would recommend you contact one. You can get a Truth in Lending statement, which will contain all of this information, including the correct closing costs.

(a) Bank name: _____

Type	APR	Closing Costs	Mortgage Insurance
15 year			
20 year			
30 year			
ARM			

Deposit to avoid insurance: _____

(b) Bank name: _____

Type	APR	Closing Costs	Mortgage Insurance
15 year			
20 year			
30 year			
ARM			

Deposit to avoid insurance: _____

(c) Bank name: _____

Type	APR	Closing Costs	Mortgage Insurance
15 year			
20 year			
30 year			
ARM			

Deposit to avoid insurance: _____

2. Select a mortgage company and compute the monthly payments for each fixed-rate mortgage option. Note if each option matches the monthly payment quoted by the mortgage company.

(a) 15 year option:

Company's Quote: _____

Monthly Payment: _____

(b) 20 year option:

Company's Quote: _____

Monthly Payment: _____

(c) 30 year option:

Company's Quote: _____

Monthly Payment: _____

3. For each option, compute the total cost of the loan, and the amount you will pay in interest, in both dollar and percentage terms.

(a) 15 year option:

Total Cost: _____

Interest Paid: _____

Interest as % of Total: _____

(b) 20 year option:

Total Cost: _____

Interest Paid: _____

Interest as % of Total: _____

(c) 30 year option:

Total Cost: _____

Interest Paid: _____

Interest as % of Total: _____

4. Suppose you manage to find an extra \$200 in your monthly budget. You can either put it toward paying off your loan early, or put it in savings.
 - (a) If you put the \$200 toward paying off your mortgage, how much earlier would you pay it off? You can figure this out either by trial and error or with your instructor's help using logarithms.
 - (b) How much money will you save on interest?
 - (c) If you put the money in a mutual fund, how much money would you have when the mortgage was paid off? Are you better off putting it in a mutual fund or paying off your mortgage early?

Adjustable Rate Mortgage

- (a) What will your starting monthly payment be?
- (b) What is upper limit of the APR, and how fast can it increase to the upper limit?
- (c) What is the monthly payment if the APR increases to the upper limit?