

<u>Mortgages</u>

A mortgage is an installment loan to finance a home.

The <u>down payment</u> is the amount of money you must pay up front to be given the loan.

<u>Closing costs</u> are fees you must pay to be given the loan.

direct costs

fees charged as points, 1% of the loan amount.

One type is a <u>fixed rate mortgage</u> (FRM) where you have a guaranteed interest rate for the life of the loan.

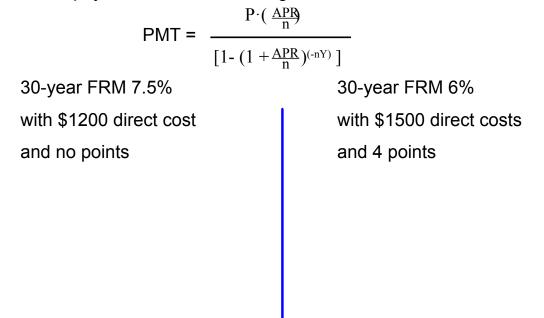
EX 1: Compare the monthly payments and total loan cost for these two loans. You borrow \$150,000 for a home.

$$\mathsf{PMT} = \frac{P \cdot (\underline{APR})}{[1 - (1 + \underline{APR})^{(-nY)}]}$$

30-year with APR of 7.25%

15-year with APR of 6.8%

EX 2: Consider these options for a \$180,000 mortgage. Calculate the monthly payments and total closing cost for each.



An <u>Adjustable Rage Mortgage</u> (ARM) is one in which the interest rate changes whenever prevailing rates change.

PMT =  $\frac{P \cdot (\frac{APR}{n})}{[1 - (1 + \frac{APR}{n})^{(-nY)}]}$ 

EX 3: Compare these two options for a \$125,000 30-year loan. Summarize the payments for the first two years.

FRM at 8.5%

ARM with first year 5.5% and second year at 10%