#### SECTION 12-3 How much to borrow

#### TYPES OF MORTGAGES

### Fixed Rate Mortgages Adjustable Rate Mortgages (ARM)

Balloon Mortgages

#### FIXED RATE MORTGAGES

 Constant monthly payments over a fixed number of years, usually 15 or 30.

#### ADJUSTABLE RATE MORTGAGES (ARM)

•Loan with an interest rate that can be adjusted up or down depending on the prime interest rate.

 Prime interest rate - the interest rate that large banks give to the best customers.

#### BALLOON MORTGAGES

#### A loan in which after a certain period of time the entire remaining balance becomes due.

#### FEDERAL HOUSING ADMINISTRATION LOANS (FHA)

#### Federally insured loans that usually do not require a large down payment.

VETERANS ADMINISTRATION LOANS (VA)

 Loans with special privileges given to veterans who served during wars.

#### PREPAYMENT CLAUSE

## The ability to pay extra payments without penalty.

#### ASSUMABILITY CLAUSE

 The ability to have a buyer assume your mortgage when selling your house.

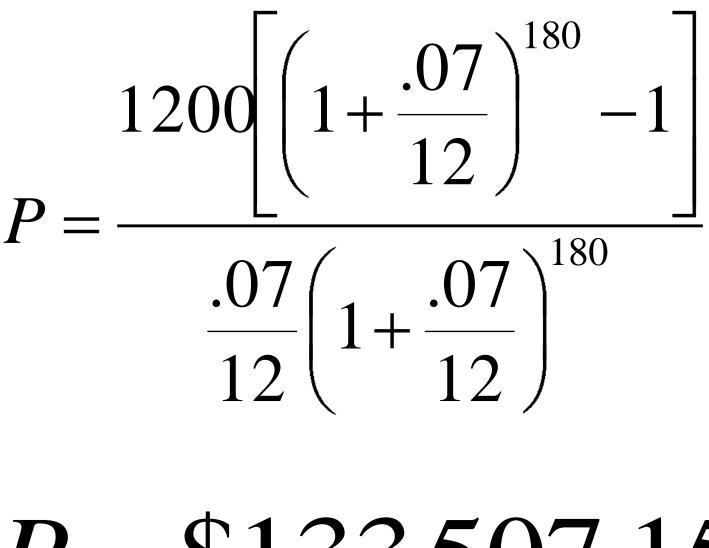
#### AMOUNT FORMULA

# $P = \frac{M[(1+r)^{n} - 1]}{r(1+r)^{n}}$



 Bob has a monthly income of \$4,000 and his bank will lend him money to buy a house if the monthly payment is no more than 30% of his monthly income.

•What is the most that Bob can borrow at 7% over 15 years?



### *P* = \$133,507.15

#### HOMEWORK

# Pg 560 AYS 1 - 4 Pg 562 TYS 1 - 3 Pg 563 EYS 1 - 4