

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

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

EXAMPLE

- ⦿ 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?

$$P = \frac{1200 \left[\left(1 + \frac{.07}{12} \right)^{180} - 1 \right]}{\frac{.07}{12} \left(1 + \frac{.07}{12} \right)^{180}}$$

$$P = \$133,507.15$$

HOMework

⦿ Pg 560 AYS 1 - 4

⦿ Pg 562 TYS 1 - 3

⦿ Pg 563 EYS 1 - 4