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.

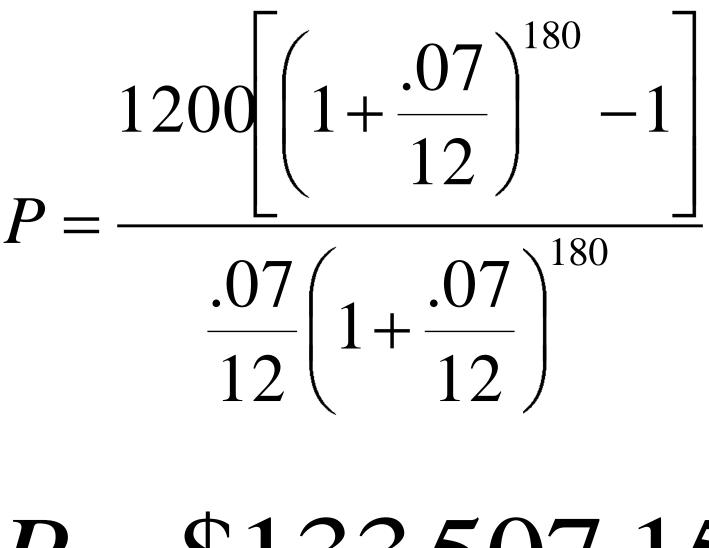
AMOUNT FORMULA

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



 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

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