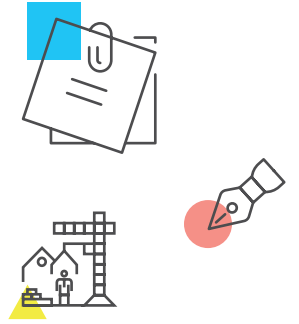


LESSON #9

ACTIVITY

UNDERSTANDING LOAN LINGO



Jaime is purchasing a home and plans on borrowing money with a mortgage. Help him figure out how his loan works and how much it will cost to borrow the funds. (Hint: Use the mortgage calculator at bankrate.com)

Read each option below and assess which mortgage you would advise Jaime to select and why.

Option 1: Fixed Rate Mortgage

Home value: \$187,500
Down payment: \$37,500
Loan amount: \$150,000
Loan term: 30 years
Loan description: 30-year fixed rate
Interest rate: fixed at 4% for the full 30-year term

Option 2: Adjustable Rate Mortgage (ARM)

Home value: \$187,500
Down payment: \$37,500
Loan amount: \$150,000
Loan term: 30 years
Loan description: 5/1 ARM
Interest rate: fixed rate of 2% for the first 5 years of loan term and then adjusts (up or down based on the index rate) annually thereafter

Which option would you pick for Jaime and why?

PRINCIPAL AND INTEREST

After doing research, Jaime decides to go with the fixed-rate mortgage. What is his monthly payment for both principal and interest? _____

For the FIRST month of the loan, what is the payment toward interest? _____

For the FIRST month of the loan, what is the payment toward principal? _____

For the LAST month of the loan, what is the payment toward interest? _____

For the LAST month of the loan, what is the payment toward principal? _____

ADD IT ALL UP

Over the course of his 30-year loan term, how much does Jaime pay in total interest? How much does he pay in total principal? _____

What is the difference between his total costs (principal plus interest) compared to the original loan amount of \$150,000? _____

EXTRA! EXTRA!

What happens to Jaime's interest costs if he decides to put extra payments toward principal?

- If Jaime decides to pay an extra \$100 each month, his total interest will be _____ and he will pay off his loan _____ years earlier.
- If Jaime decides to pay an extra \$250 each month, his total interest will be _____ and he will pay off his loan _____ years earlier.
- If Jaime decides to pay an extra \$500 each month, his total interest will be _____ and he will pay off his loan _____ years earlier.

