

REI 330 - Real Estate Principles

Fall 2008

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Homework #3 - Due in class on Monday, November 24

Show all your work in solving the problems. You don't need to provide formulas but do need to show all calculator keystrokes to get full credit for your answers.

1. You take out a mortgage for \$175,000 at 5% over 30 years.
 - a. Find the monthly payment.
 - b. What portion of the payment is interest and what portion is principal in the first month?
 - c. What is the outstanding loan balance after the first payment is made?

2. A basic adjustable rate mortgage (ARM) is made for \$350,000 over 30 years with a starting interest rate of 7%.
 - a. What are the payments in the first year?
 - b. If the interest rate drops to 6% at the beginning of the second year, how much will payments be in the second year?

3. A home was recently appraised for \$300,000, and a lender has approved a reverse annuity mortgage (RAM) for 60% of the home's value to be paid over 10 years at a cost of 9%. If the borrower chooses to take monthly payments, how much will they be?

4. You are buying your first home and need a mortgage for \$220,000 over 30 years. You are considering one loan with no points at 7%. You are also considering a loan at 6.85% with 1 point. Which loan has the lower borrowing cost if you plan to stay in the home for 10 years?