

Mortgage Computation Practice Questions: Solutions

Q1. You currently owe \$125,000 on a 5.75% mortgage. How much interest will be due on your next payment? ($\$125,000 \times 5.75 / 1200 = \598.96). If you make a payment of \$500, how much will be paid to principal, and what will your balance be after that payment? (Principal = -98.96, Balance = \$125,098.96)

Q2. What is the monthly payment on a \$135,000, 6.5%, 30-year mortgage?

$P/YR=12 \quad PMT(N=360, I/YR=6.5, PV=-135000) = 853.29$

How much interest will you pay in the 3rd month of this mortgage?

3 INPUT 3 ■AMORT, press == to get 729.92

How much will you pay into interest in the 3rd year of this mortgage?

25 INPUT 36 ■AMORT, press ==to get 8521.69

What will your balance be at the end of year 3? Press = one more time, 130,163.35

If your bank charges you 2.5 points to obtain this loan, and you keep it for 30 years, what yield will the bank earn?

$I/YR(N=360, PV=-131625, PMT=853.29) = 6.75\%$

What will the Federal Truth in Lending APR be? Round to closest 1/8% to get 6.75%

If you must pay \$850 in other fees to close this loan, what is the effective borrowing cost (EBC), assuming you keep the loan for 30 years?

$I/YR(N=360, PV=-130775, PMT=853.29) = 6.81\%$

If you keep the loan only 3 years, what will the lender yield be?

$I/YR(N=36, PV=-131625, PMT=853.29, FV=130163.35) = 7.45\%$

If you keep the loan 3 years, what will your Effective Borrowing Cost be?

$I/YR(N=36, PV=-130775, PMT=853.29, FV=130163.35) = 7.69\%$