Homework #2 – Show your Calculations

1. You are seeking a (30-year) ARM loan of $250,000 which will charge 2 points. You will also incur $1500 in other third party closing costs related to this loan. Assuming you keep this loan for 4 years, what are your CF's, the yield to lender and cost to borrower (expressed as APR's)? What do you pay each year in interest?
- Initial rate 2.75%
- Annual adjustments – Tbill + 2.0% (rounded to 1/8%)
- No payment or interest rate caps
- Tbill Index, now at 2.21, then changes annually to: 3.23, 6.12, 7.76

Is this loan teased? Explain.

Summarize your results in a table as is shown below.

Year	Index	Int. Rate Charged	Monthly Payment	Amount Paid to Interest	EOY Balance
1	2.21				
2	3.23				
3	6.12				
4	7.76				

2. You are seeking a (30-year) ARM loan of $250,000 which will charge 3 points. Assuming you keep this loan for 4 years, what are your CF's and the yield to lender (expressed as APR)? What do you pay each year in interest?
- Initial rate 3.25%
- Annual adjustments – Tbill + 2.25% (rounded to 1/8%)
- Max change of 2% per year interest rate
- Max interest of 5% above initial rate
- Tbill Index, now at 2.21, then changes annually to: 3.23, 6.12, 7.76

3. You are seeking a (30-year) ARM loan of $250,000 which will charge 2 points. Assuming you keep this loan for 4 years, what are your CF's and the yield to lender (expressed as APR)? What do you pay each year in interest?
- Initial rate 3.000%
- Annual adjustments – Tbill + 2.50% (rounded to 1/8%)
- Max payment change of 10% per year (negative amortization allowed)
- Max interest of 6% above initial rate
- Tbill Index, now at 2.21, then changes annually to: 3.23, 6.12, 7.76