

# Obtaining a Mortgage



## Objective

In this lesson, you will

## Comparing Types of Mortgages

**Mortgage:** a home \_\_\_\_\_ where the lender uses the \_\_\_\_\_ as \_\_\_\_\_.

- If you fail to repay the loan, the lender can sell the property and recover its money.
- Mortgages are for a \_\_\_\_\_ number of years, the most common is for 30 years.

**Down payment:** a percentage of the purchase price, paid in cash, at the time of \_\_\_\_\_.

- typically, 5% to \_\_\_\_% of the purchase price

**Closing costs:** several \_\_\_\_\_ - \_\_\_\_\_ fees to close, or finalize, the purchase.



Two different types of mortgages:

_____ -rate	_____ -rate
<ul style="list-style-type: none"> <li>• borrower “locks” in the interest rate</li> <li>• lender sets the interest rate at a certain value for the life of the loan</li> <li>• may have a _____ interest rate, but the amount you need to pay is always known</li> </ul>	<ul style="list-style-type: none"> <li>• also known as adjustable rate mortgages (ARMs)</li> <li>• The interest rate may _____ depending on the condition of the economy</li> <li>• (generally, a _____ rate plus an extra percentage)</li> <li>• Interest rates begin _____ than with a fixed-rate mortgage, but if they go _____, it can result in huge monthly payments.</li> </ul>

# Calculating Mortgage Costs

**Up-front costs:** various one-time fees paid at the time of \_\_\_\_\_

Type of Closing Fee	Paid to
survey fee	
	a real-estate appraiser to determine the market value of the property
origination fees	
	the lender for checking your credit history
	the lender to lower your interest rate
realtor fees	
	a firm that investigates whether the property belongs to the seller
recording or filing fee	



To determine the total amount paid over the lifetime of the loan:

**total cost = \_\_\_\_\_ payment + total \_\_\_\_\_ payments + \_\_\_\_\_ costs**

## Calculating Total Costs for a Fixed-rate Mortgage

**Example:** Adam bought his house for \$200,000. He has a 30-year fixed-rate mortgage at 6 percent interest. He paid a 20 percent down payment. The closing cost fees for the transaction amounted to 2 percent of the purchase price. How much would Adam pay for the house if he lived there for 30 years?

Step 1: Calculate the \_\_\_\_\_ payment amount.

$$\text{down payment} = 200,000 \times \underline{\hspace{2cm}} = \$40,000$$

Step 2: Enter the necessary values into a calculator to find the total monthly payments.

$$\text{total payments} = \$\underline{\hspace{2cm}}$$

Step 3: Calculate the \_\_\_\_\_ costs.

$$\text{closing costs} = 200,000 \times 0.02 = \$\underline{\hspace{2cm}}$$

Step 4: Calculate the total cost.

$$\text{total cost} = \underline{\hspace{2cm}} + 345,341.10 + 4,000 = \$389,341.10$$

## Calculating Total Costs for a Variable-Rate Mortgage

**Example:** Maria bought her house for \$200,000. She paid 20 percent of the purchase price for the down payment. She took out a variable-rate mortgage for 30 years. The beginning interest rate was fixed at 4.9 percent for 60 months. After 60 months, the rate could change once every year, but it could only go up 1 percent each year. The interest rate cap, or the maximum interest rate, was 10 percent. Find the total cost of Maria's home assuming that Maria live in the house for 30 years. Their closing costs amounted to 3 percent of the purchase price. What will Maria pay in total?

Step 1: Calculate the down payment amount.

$$\text{down payment} = 200,000 \times 0.20 = \$ \underline{\hspace{2cm}}$$

Step 2: Enter the necessary values in a calculator to find the \_\_\_\_\_ of the monthly payments.

$$\text{total payments} = \$430,295.60$$

Step 3: Calculate \_\_\_\_\_ costs.

$$\text{closing costs} = 200,000 \times 0.03 = \$ \underline{\hspace{2cm}}$$

Step 4: Calculate the total cost by substituting the values in the formula.

$$\text{Total cost} = 40,000 + 430,925.60 + 6,000 = \$ \underline{\hspace{2cm}}$$

### Ongoing Fees

Borrowers must also pay insurance and property \_\_\_\_\_ annually.

- An option to pay these costs is by adding an extra amount to each \_\_\_\_\_ mortgage payment.
  - The lender deposits this extra money into an \_\_\_\_\_ account.
  - The escrow account \_\_\_\_\_ the money in trust.
  - The lender then pays for the insurance and the property tax \_\_\_\_\_ from this account.

### Insurance

- Private mortgage insurance (\_\_\_\_\_) is insurance that protects the \_\_\_\_\_ from financial loss in the event of \_\_\_\_\_.
- Title insurance provides \_\_\_\_\_ insurance against financial loss due to defects in the property's title; protects against prior \_\_\_\_\_ and ownership claims.
- Homeowners insurance covers private \_\_\_\_\_. It provides insurance protections for losses occurring to one's home, its \_\_\_\_\_, loss of personal possessions, and \_\_\_\_\_ insurance for accidents that may happen in the house.

### Property Taxes

Property owners need to pay taxes to their local \_\_\_\_\_.

- The tax rate is based on the \_\_\_\_\_ of the property.

# Calculating Monthly Costs

A monthly budget helps to figure out how much one can afford.



Apart from the payments for insurance and taxes,

- a homeowner has to pay utility costs.  
Utilities: includes electricity, natural gas, \_\_\_\_\_ and sewage, \_\_\_\_\_ collection, and \_\_\_\_\_ and Internet services.
- If the house is in a development with \_\_\_\_\_ property, the homeowner may have to join the homeowners' association, or \_\_\_\_\_, and pay a monthly fee.

An HOA is an organization that \_\_\_\_\_ shared property (Example, community pool or recreational space)

Type of Cost	Annual Cost	Monthly Cost
	\$700	\$58.50
trash removal and water	\$400	\$33.50
	\$1,950	\$162.50
property insurance	\$1,200	\$100.00
	\$2,080	\$173.50
HOA fees	\$1,200	\$100.00

Philip has made a list of the amounts he needs to pay \_\_\_\_\_ and divided each by \_\_\_\_\_ to get the \_\_\_\_\_ cost.

Philip's Monthly Budget	
Budget Amount	\$1,500
utilities	\$ _____
_____	\$100
taxes and fees	\$ _____
total _____ cost	\$628
money left over	\$872

He will have \$ \_\_\_\_\_ left over once he pays all the monthly costs.

→ he can afford a mortgage with \_\_\_\_\_ installments of less than \$872

## Summary

If a borrower has a strict monthly budget, which type of mortgage would be best?