Chap. 7 Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Day 9 Notes

Purchase A Home

|  |  |
| --- | --- |
| **Recurring Costs** |  |
| **Closing Costs** | Costs that are paid at \_\_\_\_\_\_\_\_\_\_\_\_\_ that include origination \_\_\_\_\_\_\_\_, attorney fees, points, prepaid interest, transfer tax, and title insurance. |
| **Amortization Table** | A listing of the unpaid \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, the monthly \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, the amount allocated to paying down the principal, and the amount allocated to \_\_\_\_\_\_\_\_\_\_\_\_\_\_. |
| **Hybrid ARM** | A combination of a fixed rate period of time with an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_rate period of \_\_\_\_\_\_\_\_. *A 3/1 hybrid ARM indicates that the initial interest* *rate is fixed for the first 3 years and then there is an adjustment period every* *year thereafter for the life of the loan.* |

***What will the American Dream cost you? Closing Costs***

**Recurring**

**Non-Recurring**

* Earnest Money Deposit: a good-faith \_\_\_\_\_\_\_\_\_\_\_\_ given (previous to the closing) to the seller to show the buyer intends to buy the house.
* Origination Fees: fees paid to the \_\_\_\_\_\_\_\_\_\_\_\_\_\_ institution for processing the loan.
* Title: a title search is often done to be sure the \_\_\_\_\_\_\_\_\_\_\_\_ actually owns the property. Occasionally, there are too many \_\_\_\_\_\_\_\_\_\_ against the property for the owner to sell it and a title search will discover this.
* Points: extra \_\_\_\_\_\_\_\_ charged by the lending institution for the use of their money. There are two types: origination points, which are like \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ fees and \_\_\_\_\_\_\_\_\_\_\_\_\_ points, which bring down the rate of your loan by paying money up front.
* Prepaid Interest: money paid to cover the \_\_\_\_\_\_\_\_\_\_\_\_\_ from the closing to your first monthly payment.
* Transfer tax: fee charged for the transfer of \_\_\_\_\_\_\_\_\_\_ from the seller to the buyer.

 ***Fixed Rate Mortgages Adjustable Rate Mortgages (ARMs)***

**Example 1:**

The Smiths are buying a $150,000 home. They made a 15% down payment. How much money will they be taking out with a loan?

**Example 2:**

The Marshalls are buying a $550,000 home. They have been approved for a 4.25% APR mortgage. They made a 12% down payment and will be closing on May 5th. How much should they expect to pay in prepaid interest at the closing?

1. What is the down payment?
2. How much do they need the loan for?
3. Find the amount of the interest for one year by multiplying the APR as a decimal times the amount of the loan.
4. Find the daily amount of interest.
5. Find the number of days that the interest will have to be paid by taking the last day of the month you are closing in and subtracting the closing date.
6. Find the prepaid interest by multiplying the number of days found in step e by the daily amount of interest found in step d.

**Example 3:**

The Marshalls know they will have to bring their checkbook to the closing. What might they expect to pay in total at the closing?

***The closing costs vary significantly, but a good rule of thumb is 1% to 4% of the purchase price of the house.***

**Example 4:**

Joe and his wife have been approved for a $600,000, 30-year mortgage with an APR of 3.25%. How much of their first monthly payment will go to interest and principal?

1. Find the monthly payment.

[](http://api.gmath.guru/cgi-bin/gmath?M%3D%5Cfrac%7BP%5Cleft(%5Cfrac%7Br%7D%7B12%7D%5Cright)%5Cleft(1%2B%5Cfrac%7Br%7D%7B12%7D%5Cright)%5E%7B12t%7D%7D%7B%5Cleft(1%2B%5Cfrac%7Br%7D%7B12%7D%5Cright)%5E%7B12t%7D-1%7D)

1. Find the amount of the monthly interest. Use I=prt. Since we are finding the interest for the first monthly payment, our t is going to be for one month or 1/12.
2. Take the monthly payment from the first step a and subtract the interest found in step b and you get the principal for that first monthly payment.
3. ****