

## LESSON #9: STUDENT ACTIVITY FOR LOANS

# DON'T BE THAT GUY WHO DOESN'T UNDERSTAND LOAN LINGO

Jaime is purchasing a home and plans on borrowing money with a mortgage. Help him figure out how his loan works and how much it will cost to borrow the funds. (Hint: Use the mortgage calculator at [bankrate.com](http://bankrate.com))

**Read each option below and assess which mortgage you would advise Jaime to select and why.**

### Option 1: Fixed Rate Mortgage

**Home value:** \$187,500  
**Down payment:** \$37,500  
**Loan amount:** \$150,000  
**Loan term:** 30 years  
**Loan description:** 30-year fixed rate  
**Interest rate:** fixed at 4% for the full 30-year term

### Option 2: Adjustable Rate Mortgage (ARM)

**Home value:** \$187,500  
**Down payment:** \$37,500  
**Loan amount:** \$150,000  
**Loan term:** 30 years  
**Loan description:** 5/1 ARM  
**Interest rate:** fixed rate of 2% for the first 5 years of loan term and then adjusts (up or down based on the index rate) annually thereafter

Which option would you pick for Jaime and why?

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### PRINCIPAL AND INTEREST

After doing research, Jaime decides to go with the fixed-rate mortgage. What is his monthly payment for both principal and interest? \_\_\_\_\_

For the FIRST month of the loan, what is the payment toward interest? \_\_\_\_\_

For the FIRST month of the loan, what is the payment toward principal? \_\_\_\_\_

For the LAST month of the loan, what is the payment toward interest? \_\_\_\_\_

For the LAST month of the loan, what is the payment toward principal? \_\_\_\_\_

### ADD IT ALL UP

Over the course of his 30-year loan term, how much does Jaime pay in total interest? How much does he pay in total principal? \_\_\_\_\_

What is the difference between his total costs (principal plus interest) compared to the original loan amount of \$150,000? \_\_\_\_\_

### EXTRA! EXTRA!

What happens to Jaime's interest costs if he decides to put extra payments toward principal?

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- If Jaime decides to pay an extra \$100 each month, his total interest will be \_\_\_\_\_ and he will pay off his loan \_\_\_\_\_ years earlier.
- If Jaime decides to pay an extra \$250 each month, his total interest will be \_\_\_\_\_ and he will pay off his loan \_\_\_\_\_ years earlier.
- If Jaime decides to pay an extra \$500 each month, his total interest will be \_\_\_\_\_ and he will pay off his loan \_\_\_\_\_ years earlier.

