

Activity 3

A HOME OF YOUR OWN

You are buying your first home and want to select the best possible mortgage. Use the calculator at mortgagecalculator.org/calcs/fixed-vs-arm.php to compare a 30-year fixed rate mortgage with a 5.5% interest rate, and a 30-year adjustable rate mortgage with a 3.25% interest rate that increases by .25% each year after the first year, up to a maximum interest rate of 9.25%. (Input zeros for the remaining items in the calculator.)

Assume that you are purchasing a \$200,000 home with a 20% down payment. Use the information provided by the calculator to answer these questions.

1. What is your monthly payment with each mortgage?

Fixed rate mortgage payment: \$_____ per month

Adjustable rate mortgage payment: \$_____ per month

2. What is the total cost of your home after you have paid off each mortgage?

Total home cost with fixed rate mortgage: \$_____

Total home cost with adjustable rate mortgage: \$_____

3. Which mortgage seems the better choice for you? Why?

4. What financial risks do you face by selecting this mortgage?

5. What are the financial benefits of your choice?

