

Conditions of a Mortgage

More Terminology:

Pre-Approved Mortgage	<ul style="list-style-type: none">• The maximum amount that can be borrowed from a lending institution to purchase a house• Used to determine the maximum house price a buyer can afford
Semi-Monthly Payment	<ul style="list-style-type: none">• Half the monthly payment is paid twice a month, usually on the 15th and the 30th of each month
Bi-Weekly Payment	<ul style="list-style-type: none">• A payment is made every 2 weeks• The amount of the payment is: $(\text{monthly amount}) \times 12 \div 26$
Accelerated Bi-Weekly Payment	<ul style="list-style-type: none">• Half the monthly payment is paid every 2 weeks• The equivalent of one extra monthly payment is paid each year
Weekly Payment	<ul style="list-style-type: none">• A payment is made every week• The amount of the payment is: $(\text{monthly amount}) \times 12 \div 52$
Accelerated Weekly Payment	<ul style="list-style-type: none">• One quarter of the monthly payment is paid each week• The equivalent of one extra monthly payment is paid each year

Example 1:

Danny and Melinda receive approval from their bank for a pre-approved mortgage of \$167 000 for the townhouse they wish to purchase. The current annual interest rate for a five-year fixed term mortgage is 6.09%.

a. Determine the monthly payment for a 20-year amortization period.

b. Calculate the total amount paid for the mortgage.

c. Determine the monthly payment for a 15-year amortization period.

- d. Calculate the total amount paid for the mortgage in part c.

- e. Compare your answers to parts a and c. How much more is the monthly payment for the 15-year mortgage?

- f. Compare your answers to parts b and d. How much less would Danny and Melinda pay by choosing a 15-year amortization period?

Example 2:

Mikayla's monthly mortgage payment will be \$1250.87. She was advised that she could pay down the mortgage faster by changing the frequency of the payments.

- a. Determine the payment amount for each payment frequency.

Payment Frequency	Amount of Payment (\$)
semi-monthly	
bi-weekly	
accelerated bi-weekly	
Weekly	
Accelerated weekly	

b. Calculate the total amount paid in one year for each frequency.

Payment Frequency	Amount Paid in One Year (\$)
semi-monthly	
bi-weekly	
accelerated bi-weekly	
Weekly	
Accelerated weekly	

c. Which payment frequency from part a pays down the mortgage the fastest?

Example 3:

Arnold purchased his home five years ago and his mortgage is now up for renewal.

a. Determine the weekly payment for a mortgage of \$183 000 at 5.39% per year for a 20-year amortization period.

b. Arnold plans to renew his mortgage for the amount in part a. He chooses to increase his monthly payment to \$1600 per month. Determine the length of time needed to pay the mortgage in full.