

10.1: Mortgage Loans

Objective: SWBAT compute the mortgage loan amount.

When you purchase a home, first, you'll make a down payment. Generally, the down payment is between 10 percent and 40 percent of the selling price, although many first-time homeowners put down 5 percent.

You finance the remaining portion of the selling price with a **mortgage loan** from a lender, such as a bank, savings and loan association, credit union, or mortgage company. The mortgage gives the lender the right to seize and sell the property if you fail to make the payments. The mortgage loan is usually repaid with interest in equal monthly payments. Remember that:

$$\text{Mortgage Loan Amount} = \text{Selling Price} - \text{Down Payment}$$

Warm Up:

Buying a home can be a major expense to someone who is just beginning their life and their career. When thinking about purchasing a home, the mortgage payments can be a major cost that needs to be thought about. Why do you think most people take out a 30 year mortgage as opposed to a 15 or 20 year mortgage?

Example 1:

Jessica and Wayne Greer consider purchasing a new home for \$275,000. A 20 percent down payment is required. What is the amount of the mortgage loan needed to finance the purchase?

Step 1: Find the down payment.

$$\$275,000 \quad \times \quad 20\% \quad = \quad \$55,000.00 \quad \leftarrow \text{Down payment}$$

Step 2: Find the mortgage loan amount

Selling price – Down Payment

$$\$275,000 \quad - \quad \$55,000 \quad = \quad \$220,000 \quad \leftarrow \text{Mortgage Loan Amount}$$

Self Check Answers:

1. \$60,000
2. \$140,000