

Worksheet

Chapter 7: Comparing Mortgage Terms

Now you will learn how to compare the interest costs of a mortgage with different repayment terms. Follow your teacher's directions to either print out the activity, close this Web site, and go the S&P calculators Web site or click on Standard & Poor's now and go back and forth between Web pages.

Step 1 Go to the Standard & Poor's calculators Web site at <http://calculators.pubimage.com>.

Step 2 Scroll down the page and click on "Cost of Debt."

Step 3—Click on "Start."

Step 4—Now you will be able to enter information to calculate the interest costs for a loan. Enter the following values.

Total amount borrowed: 100000

Frequency of payments: Monthly

Annual rate of interest: 7

Term of the loan, in years: 30

Additional costs for the loan: 0

Press "Submit" and then use the results to answer the following questions:

1. What is the total interest cost of the loan?
2. What is the amount of the monthly payment?

Press "Start Over," then "Start," and enter "20" as the term of the loan. Then press "Submit" and use the results to answer the questions below:

3. What is the total interest cost of the new loan?

4. What is the amount of the monthly payment?

5. Compare your answer to question 1 to that for question 3. How much more will you pay in interest for a mortgage repaid in 30 years compared to one repaid in 20 years?

6. Compare your answer to question 2 to that for question 4. By how much does the monthly payment increase for a 20-year mortgage compared to a 30-year mortgage? Do you think it is worthwhile to try to pay the higher monthly payment given the amount of interest saved?