

U7D7-T Mortgages part 2 for ON

Thursday, January 11, 2018 4:36 PM



U7D7-T
Mortgage...

U7D7 **Changing Mortgage Conditions**

Some more mortgage definitions:

- Open Mortgage – extra payments can be made to reduce the outstanding principal
- Closed Mortgage – no extra payments can be made
- Variable Rate Mortgage – the interest rate fluctuates with the market values (can be locked in at any time)
- Fixed Rate Mortgage – the interest rate is constant throughout the term of the mortgage.

Using the previous case study, we will examine the effects of the following options.

In each situation calculate the new payment per period and the total interest paid.

Changing Amortization Period

Change the amortization period from 25 to 20 years.

Changing Payment Frequency

Change the payment frequency from monthly to weekly (still use a 25 year amortization period)

Changing Payment Amount

Change the payment amount to \$2000 or \$1300 per month and recalculate the number (N) of payments required. Calculate total interest paid.

Effect of Lump Sum Payments

After 5 years (60 payments), make a lump sum deposit of \$25000, recalculate the number of payments remaining, assuming you still pay \$1254.31 per month.

Scenario	Payment Amount	Number of Payments	Number of Years	Total Interest Paid
High Rate	\$1875.51	300	25	\$282 653
Original	\$1254.31	300	25	\$96 293
20 year amortization	\$1481.97	240	20	\$75 672.80
Weekly payments	\$289.22	1300	25	\$95 986
Bi-Weekly	\$578.59	650	25	\$96 083.50
Bi-Weekly \$1254.31/2	\$627.16	582.44	22.4	\$85 283.07
Pay \$1300/month	\$1300	285.6	23.8	\$91 280
Pay \$2000/month	\$2000	123.05	10.25	\$33 900
Lump sum payment \$25000 after 5 years	\$1254.31	268.27	22.36	\$81 493.74