



**CONVENTIONAL FINANCING VIDEO EXERCISE**

- a. 8 1/2 %
- b. 13 1/2 %
- c. 19 1/2 %
- d. 20%

A=11 points

Exercise A

10. On March 1, 1990, Ben gets an ARM with an initial rate of 8 % with the index the loan is tied to at 6 %. The loan has a maximum 1 % annual cap and a 5 % lifetime cap with rate adjustment period of every six months. On September 1, 1990, the index rate is 7 %, on January 1, 1991, the index rate is 8 %. Complete the following chart showing the rate change and index change to determine:

The rate Ben will be paying on **February 1, 1991** is \_\_\_\_\_ %

(NOTE: Fill in each individual line shown with a number and percent sign)

Date	Rate	Index
3/1/90	8%	6%
4/1/90	___	___
5/1/90	___	___
6/1/90	___	___
7/1/90	___	___
8/1/90	___	___
9/1/90	___	___
10/1/90	___	___
11/1/90	___	___
12/1/90	___	___
1/1/91	___	___
2/1/91	___	___
3/1/91	___	___

11. Using the data in problem #10, show the rate and index.

The next raise in rate could not be before what date ? \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_

4/1/91	___	___
5/1/91	___	___
6/1/91	___	___
7/1/91	___	___
8/1/91	___	___
9/1/91	___	___
10/1/91	___	___

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)

(NOTE: You MUST show the formula to show your work on how you got to the answer.)

ConvABCDExer.doc Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

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CONVENTIONAL FINANCING VIDEO EXERCISE

A=11points

EXERCISE B

A. Ben borrowed \$180,000 at 10.0 % for 25 years and his payment is \$1636 per month.

1. If the interest rate were 10.4 %, his monthly payment would be more/less (circle one).
2. If the loan term was for 30 years, his monthly payment would be more/less (circle one).
3. If he made a smaller downpayment so that his loan amount was over \$180,000, his monthly payment would be more/less (circle one).

B. Your buyer wants a conventional loan. She asks whether she should get a 15-year or a 30-year loan for \$220,000. The lender offers her a choice of either a 10 1/4 % on a 15-year loan or a 10 3/4 % on a 30-year loan.

Using the interest rate **factor** table in the real estate project, what is the factor for the:

4. 15-year loan = \_\_\_\_\_

5. 30-year loan = \_\_\_\_\_

The principal and interest payment per **month** will be about (round up to nearest whole dollar):

6. 15-year loan = \_\_\_\_\_

7. 30 year loan = \_\_\_\_\_

8. The difference in the **monthly** payment for the 15-year and 30-year loan is about how much per month ?

\_\_\_\_\_

C. Maria earns \$2083 per month and has a \$212 monthly debt payment for the next 18 months.

9. What is the approximate **monthly** house payment she can afford ?

- |          |          |
|----------|----------|
| a. \$538 | c. \$674 |
| b. \$583 | d. \$750 |

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)

(NOTE: You MUST show the formula to show your work on how you got to the answer.)

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CONVENTIONAL FINANCING VIDEO EXERCISE

B=21 points

EXERCISE B

D. Robert and Sue want to buy a home. You determine the following information:

Robert earns	\$13.50/hour
Sue earns	\$20,000/year
One car has 16 more months at	\$165/month
Her student loan payment is	\$60/month
Their credit card payments are	\$80/month
They have cash in the bank of	\$14,000

Monthly property taxes and insurance are 10 % of the total monthly house payment.

- 10. Robert's **monthly** income is \_\_\_\_\_
- 11. Sue's **monthly** income is \_\_\_\_\_
- 12. Their combined **monthly** income is (#10+#11) \_\_\_\_\_
- 13. Their monthly payment housing expense-to-income **ratio** (#12x\_\_\_%) \_\_\_\_\_
- 14. Their total **monthly** debt is \_\_\_\_\_
- 15. Their monthly payment total debt-to-income **ratio** is (#12x\_\_\_%) \_\_\_\_\_
- 16. The maximum principal and interest **monthly** payment would be (#15-#14)\_\_\_\_\_PITI
- 17. The interest **factor** is (use table/30 years at 10 1/4 %) \_\_\_\_\_
- 18. The amount of the taxes and insurance ([#13 or #15] x10% of monthly payment) \_\_\_\_\_
- 19. The maximum monthly principal and interest \_\_\_\_\_PI
- 20. The maximum loan amount is about (#19/#17) \_\_\_\_\_
- 21. The price range of homes they should look at would be between  
\_\_\_\_\_ and \_\_\_\_\_  
with 3 % for closing costs, including the down payment.

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)

(NOTE: You MUST show the formula to show your work on how you got to the answer.)

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CONVENTIONAL FINANCING VIDEO EXERCISE

B=21 points

EXERCISE C

Mary buys a home for \$100,000 with 10% down. Taxes and insurance will be 10% of her monthly payments. Her financial information reveals that she was promoted to manager two years ago and she now makes \$38,000/year and has been with the same firm for four years.

Her Assets include:

Bank Accounts	\$ 7,000
Auto	\$8,500
Jewelry	\$ 2,800
IRA	\$4,500
Money Market Account	\$2,500
Gift letter from Parents	\$5,000

Her liabilities/debts include:

Auto (unpaid) balance	\$3500
Auto-monthly payment	\$215/month
Student loan (36 months left)	\$112/month
Personal (10 months left)	\$50/month

Qualification-Determine the following:

1. The loan amount \_\_\_\_\_
2. The down payment \_\_\_\_\_
3. The interest rate **factor** (use table-30 year loan at 9 3/4%) \_\_\_\_\_
4. The **monthly** loan payment (PITI) \_\_\_\_\_ **PITI**
5. Her **monthly** income \_\_\_\_\_
6. Her **monthly** expense \_\_\_\_\_
7. The **monthly payment** housing using payment-to-income ratio (#5x\_\_%) \_\_\_\_\_
8. The **monthly payment** using the debt-to-income ratio ([#5x\_\_%]-#6) \_\_\_\_\_
9. The principal and interest **monthly** payment (#8x90%) \_\_\_\_\_ **PI**
10. The monthly loan amount in dollars is how much (\$ \_\_\_\_\_ more) **or** (\$ \_\_\_\_\_ less).

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)

(NOTE: You MUST show the formula to show your work on how you got to the answer.)

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CONVENTIONAL FINANCING VIDEO EXERCISE

C=10 points

EXERCISE D

Answer the questions for each of the following circumstances.

A. The buyers want to buy a \$60,000 home, but they have only \$3,000 for their down payment.

1. Which would you recommend that this buyer apply for:
  - a. Conventional financing
  - b. Government financing
  - c. Seller financing

2. Why? Smaller \_\_\_\_\_

B. The sales price is \$175,000 and the buyers want to make a 10 % down payment.

1. Which would you recommend that this buyer apply for:
  - d. Conventional financing
  - e. Government financing
  - f. Seller financing

2. Why? Exceeds \_\_\_\_\_

C. The buyer filed for bankruptcy two years ago.

1. Which would you recommend that this buyer apply for:
  - g. Conventional financing
  - h. Government financing
  - i. Seller financing

2. Why? \_\_\_\_\_

D. The sales price is \$130,000 and the buyers have at least 20% for their down payment. The sellers need the full price in cash at closing.

1. Which would you recommend that this buyer apply for:
  - j. Conventional financing
  - k. Government financing
  - l. Seller financing

2. Why? Larger \_\_\_\_\_ avoids \_\_\_\_\_

D = 8 points

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)

(NOTE: You MUST show the formula to show your work on how you got to the answer.)

ConvABCDExer.doc Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

Name: \_\_\_\_\_

**CONVENTIONAL FINANCING VIDEO EXERCISE**  
**CASE STUDY**

Derek and Sylvia don't know much about financing and want to buy a home. They will probably be transferred out of the area in two or three years, but want to buy as much home as they can afford during their stay here. They ask you to pre-qualify them before they look at homes to get some basic information about the price range of homes they can afford. You learn:

Derek makes about \$3500 a month at his job as a sales rep. He has been working for the same company for seven years. Only \$1500 of the \$3500 is salary, and the other \$2000 is from commissions he has earned for the last 2 years. Before the transfer, Sylvia made \$2400 a month at her job as a paralegal. One week ago, she started a new paralegal job at a salary of \$2,200 a month. They have no other sources of income.

They own two cars, with a total value of \$17,000. They still owe about \$9,000 on the car loans, which have monthly payments totaling \$485. They make \$90 monthly payments on revolving charge cards, and \$100 monthly payments on Sylvia's student loan. Derek makes child support payments in the amount of \$250 a month.

They have \$4,350 in their joint checking account, and \$18,000 in a savings account, which is the proceeds from the sale of their previous home. Derek's employer has agreed to pay \$2,500 toward the 3% closing costs for the purchase of their new home.

They want to know what type of loan program best suits their needs, how expensive a home they can afford, and what their monthly loan payments will be. Assume that fixed rates are 10% and initial adjustable rates are about 8 1/2 %.

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)

(NOTE: You MUST show the formula to show your work on how you got to the answer.)

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