REAL 410 **PROBLEM SET #3.5**

You wish to borrow $400,000. The lender offers you three options. 1. A 30 year, 4%, fully amortizing fixed rate mortgage. 2. A 4.5%, 30 year, interest only mortgage. Well, sort of. The mortgage is actually only interest only for the first 5 years. After 5 years, it becomes fully amortizing over the remaining term of the loan. 3. A 5% negatively amortizing loan with a minimum payment of $1200. This minimum payment is only allowed until the balance on the loan reaches $480,000. After that time, the loan becomes fully amortizing over the remaining life of the loan.

a. Calculate the initial payment on each of these loans.
b. Calculate the full payment on the interest only loan once it begins to amortize, assuming you send no extra payments.
c. Calculate when the negative amortization loan will reach its $480,000 limit. Round up to the next month (6.1 becomes 7).
d. Calculate the full payment on the negative amortization loan once it begins to fully amortize, assuming you send no extra payments.
e. Who might these loans work for?