

Practice

- A**
1. Calculate each regular payment for a mortgage of \$130 000 amortized over 20 years at 8.5% per year compounded semi-annually.
 - a) Monthly payment
 - b) Accelerated bi-weekly payment
 - c) Accelerated weekly payment
 2. What effect do each of the following have on the regular payment and the total interest paid on a mortgage? Explain.
 - a) Increasing the amortization period
 - b) Making more frequent payments
 - c) Making accelerated payments

- B**
3. The Thompsons borrow \$179 000 for their new home. They plan to repay the mortgage by making monthly payments for 25 years at 6% per year compounded semi-annually. Calculate the Thompsons' monthly payment and the total interest they will pay over the life of the mortgage.
 4. Refer to the mortgage in question 3. Calculate the Thompsons' new regular payment and the total interest saved under each scenario.
 - a) They arrange a 20-year mortgage instead of a 25-year mortgage.
 - b) They receive an interest rate of 5.75% by applying for their mortgage over the Internet.
 - c) They make weekly payments instead of monthly payments.
 - d) They make accelerated bi-weekly payments instead of monthly payments.
 5. Compare your answers to question 4.
Which change resulted in the greatest interest saved? Explain.

Reflect

- What are some strategies a homeowner can use to reduce the total interest paid on a mortgage? Why will these strategies reduce the interest costs?
- How do age, family circumstances, income, and lifestyle factors affect the strategies used to reduce the interest costs of a mortgage? Explain.