Name_______________________________Period___________Date_________________

Looking at Your Spreadsheet (Key)

Objectives:

1. Understand how at the beginning of a mortgage, you are paying more in interest than on principal.
2. Understand that living in a house for a longer period of time increases the equity you can build.
3. Understand that as you pay down the loan, you pay more on principal and less in interest.

You are purchasing a $150,000.00 house at 5.5% interest, and you made a 10% down payment of $15,000.00. Look at the spreadsheet and answer the following questions:

1. You will notice in cell C4 of the spreadsheet that your prepayment balance is $135,618.75. If the house cost $150,000.00 and you made a $15,000.00 down payment, why is this so? Because interest accrued before you made your first payment

2. How much is your tax savings after 12 payments? $7,307.85 Let's assume that you made your first payment in January, so the first 12 payments are in the same calendar year. Mortgage interest is tax deductible. If your annual salary is $65,000.00, with this tax deduction, what amount will you be paying taxes on? $57,692.15 If you are in a 25% tax bracket, how much will you save this year on taxes? $1,826.96

3. How much does your equity increase between month one and month two? $484.69 Now let's look at the payment you make at the end of five years. How much equity do you earn between months 60 and 61? $634.80 Now let's look at the equity you earn at the end of ten years. Compare month 120 with 121. How much did you earn? $835.20 Based on these comparisons, what can you conclude about the rate at which you build equity? The longer you make payments on a house, the greater the amount of payment goes to equity and the less you pay on interest. The longer you live in the house, the better the return on your investment.

4. Many people buy houses on 30-year loans so they can have lower payments. After examining the pattern of interest paid and equity gained on your spreadsheet on a 15-year loan, what might you conclude about a 30-year loan? You will pay more interest on a 30-year loan, and you will build equity at a slower rate.