

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1A) (10 points) Suppose you took out a \$180,000 mortgage, which lasts 30 years, and has a fixed rate of 5%. What are your monthly payments? Remember to show what you typed into the calculator and if any number needs explaining, you should explain it.

1B) (5 points) Suppose you took out a \$180,000 mortgage, which lasts 15 years, and has a fixed rate of 5%. What are your monthly payments? Remember to show what you typed into the calculator.

1C) (10 points) Why isn't the answer to 1A equal $\frac{1}{2}$ of the answer to 1B?

1D) (5 points) In reality, your actual payments will be larger than the answers to Parts A and B. Why is the real world payment actually bigger?

2) (10 points) Even though they exist, why should you not ever take a sub-prime mortgage? Make sure you define them.

3) (10 points) Even though they exist, why should you not ever take an interest only mortgage? Make sure you define them.

4) (15 points) What is meant by a "full amortization ARM"? What are the advantages and disadvantages of one of them over a fixed rate mortgage? Explain your logic.

5) (15 points) Why did Alan Greenspan in 2004 and why do many Republicans now feel that Fannie Mae and Freddie Mac should be reigned in or eliminated? Explain their logic.

6) (10 points) How did the ratings agencies add to the sub-prime mortgage disaster? Explain your logic.

7) (10 points) What is a reverse mortgage? What is the disadvantage of it?