Task
Mortgage Plan
Sample Solution

1. Use the TVM solver.

Component	**Monthly Payment ($)**
Mortgage 1	350.78
Mortgage 2	387.35
Mortgage 3	406.26
Secured Line of Credit	557.02
Total	**1701.41**

Janine pays a total of $1701.41 per month for her mortgage.

2. A line of credit is an agreement by a financial institution to loan money to a borrower up to an agreed upon maximum. Interest is only charged on the money that is actually withdrawn from the line of credit. Some financial institutions require that the borrower keep a bank balance of at least 10% of the line of credit.
A secured line of credit is the same as a line of credit except that the bank holds the mortgaged property as insurance against the borrower defaulting on the loan. If the borrower does default, the bank can seize the property.

3. Yes. Janine does not have to pay any of the principal on her line of credit but most financial institutions require that the accrued interest be paid monthly.

4. *Advantages*: A variety of interest rates insulates the borrower from changes in the market interest rate. A variety of terms allows the borrower to renegotiate parts of the mortgage often, choosing a longer term when interest rates are low and a shorter term when rates are high.
Disadvantage: Need to keep track of many mortgages and a line of credit and visit the bank more often than with one larger mortgage. Having several mortgages does not guarantee the borrower will pay less interest over the life of the mortgage if interest rates continue to rise.

5. *Advantage*: A line of credit can be paid off at any time, unlike a mortgage which only allows one small lump sum payment per year.
Disadvantage: The debt might last longer than a mortgage because the borrower has the option of paying only the monthly accumulated interest. With a mortgage, each payment pays the principal and the interest.