**A Case Study of Paying Extra Principal on a Mortgage**

Place your answers from the procedure and analysis here:

* Required Monthly Payment = $ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* 1/12 of the required monthly payment = $ \_\_\_\_\_\_\_
* By adding this 1/12 to the required payments, the Jeffersons plan to pay

$ \_\_\_\_\_\_each month.

* Number of years to pay off loan = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

|  |  |  |  |
| --- | --- | --- | --- |
| Thomas Family | | | Jefferson Family |
| 1/12th of Monthly Payment Monthly Payment + Extra 1/12th  Rates Annuity Amount in 360 Months Rates Annuity Amount in 360 Months | | | |
| 0% |  | 0% |  |
| 1% |  | 1% |  |
| 2% |  | 2% |  |
| 3% |  | 3% |  |
| 4% |  | 4% |  |
| 5% |  | 5% |  |
| 6% |  | 6% |  |
| 7% |  | 7% |  |
| 8% |  | 8% |  |

**Answer the following reflection questions:**

1. What assumptions may not necessarily be valid for a typical family regarding both the loan rate and savings plan rate?
2. Discuss some basic pros and cons to these two very different approaches the Thomas and Jefferson families made with their extra monthly payment. Consider various ideas such as possible changes in the family’s employment situation, market performance, tax deductions, etc.
3. Comment on the merits of the advice you read from the two financial columnists.
4. If you were to pay extra principal on a mortgage, when is the best time to do it (early or later in the loan process) and why?
5. When you pay extra principal on a loan, describe whether you feel you are actually earning interest on that money or not. That is, how does the old adage “a penny saved is a penny earned” apply in this context?