Part III: Extra-credit question.

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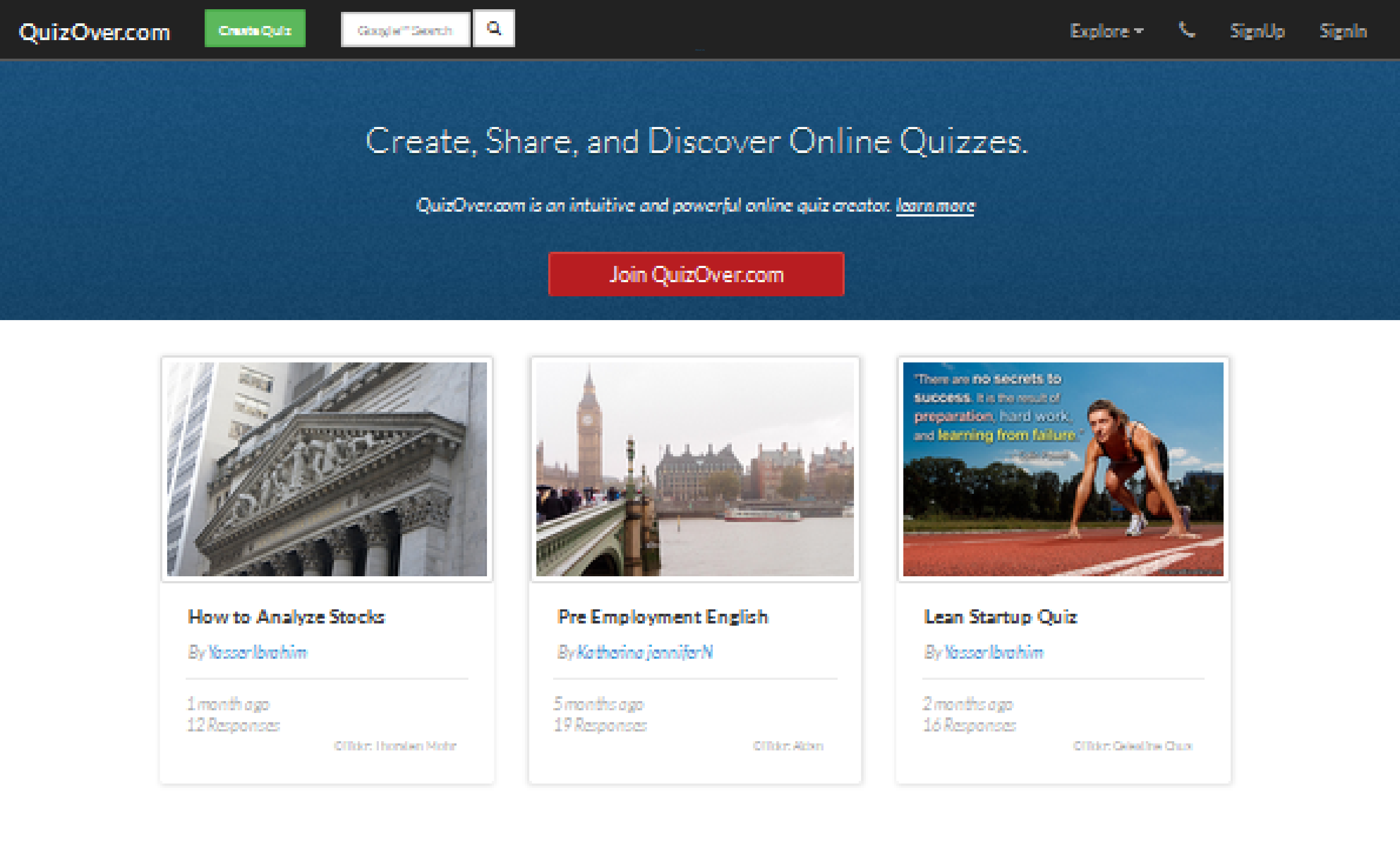

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4. Chapter: Part III: Extra-credit question.

1. Part III: Extra-credit question. Questions

4.1.1. Consider the following fully-amortizing 5-year ARM (contract intere...

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Earn up to 5% extra credit. It can help you but not hurt you. And this time, no

diversification. You must pick only one of the questions below to answer. If the TA cannot tell which one you wanted, he

will simply grade the first. (Aside: Do you get how valuable diversification is if you are risk-averse?)

year maturity, monthly payments. The ARM has initial interest rate 6.5% with 2 points, caps are 2% per jump, 5% lifetime,

margin is 300 basis points, index is Treasury Bonds that are currently yielding 6.0%. The loan amount is $100,000. Under

the "straight line" assumption about future interest rates (i.e., assuming the market rate on the index remains constant), what

is the yield to maturity? (Show your work if you want to possibly get partial credit.)

Consider the following fully-amortizing 5-year ARM (contract interest rate can change once every 60 months) with 15-

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4.1.2. (5 points) Consider a $4,000,000, 7%, 25-year mortgage with monthly...

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the market yield is 7.5% (BEY), how many disbursement discount points must the lender charge to avoid doing a negative

NPV deal from a market value perspective?

(5 points) Consider a $4,000,000, 7%, 25-year mortgage with monthly payments and a 7-year maturity with balloon. If