

## School Loans and Mortgages: Good Debt

### Matthew 25: 19-30: The Parable of the Talents

<sup>19</sup>"After a long time the master of those servants returned and settled accounts with them.

<sup>20</sup>The man who had received the five talents brought the other five. 'Master,' he said, 'you entrusted me with five talents. See, I have gained five more.'

<sup>21</sup>"His master replied, 'Well done, good and faithful servant! You have been faithful with a few things; I will put you in charge of many things. Come and share your master's happiness!'

<sup>22</sup>"The man with the two talents also came. 'Master,' he said, 'you entrusted me with two talents; see, I have gained two more.'

<sup>23</sup>"His master replied, 'Well done, good and faithful servant! You have been faithful with a few things; I will put you in charge of many things. Come and share your master's happiness!' <sup>24</sup>"Then the man who had received the one talent came. 'Master,' he said, 'I knew that you are a hard man, harvesting where you have not sown and gathering where you have not scattered seed. <sup>25</sup>So I was afraid and went out and hid your talent in the ground. See, here is what belongs to you.'

<sup>26</sup>"His master replied, 'You wicked, lazy servant! So you knew that I harvest where I have not sown and gather where I have not scattered seed? <sup>27</sup>Well then, you should have put my money on deposit with the bankers, so that when I returned I would have received it back with interest.'

<sup>28</sup>" 'Take the talent from him and give it to the one who has the ten talents. <sup>29</sup>For everyone who has will be given more, and he will have an abundance. Whoever does not have, even what he has will be taken from him. <sup>30</sup>And throw that worthless servant outside, into the darkness, where there will be weeping and gnashing of teeth.'

### Introduction

Mortgages and school loans are examples of what many people call “good” debt. It is called “good” debt because the interest paid is tax deductible (good) and also the value of the purchase increases while the loan value decreases over time (good). A mortgage is a large loan someone receives through a bank or other lender to buy property, a home or land. Homes can be a great investment, since the taxes and interest accumulated are tax deductible and the price usually increases over time (inflation). This rise in price of one’s home is called equity.

In addition a school loan interest is tax deductible and it also allows a person to go to college to receive an education which will allow them to get a higher paying job (good).

## Questions

Instructions: Complete the following problems. Show Work.

Background: You just finished college, found a job and are looking to buy a house.

- 1) a) You accumulated a \$21,000 student loan with an annual rate of 4.85%. How much will your monthly loan payment be if you wish to pay off the loan in 10 years? (Use the formula  $R = PV \frac{(r/n)}{1 - (1 + (r/n))^{-nt}}$ , where R is the equal payments, PV is present value of the loan, r is the rate, n is the number of payments in a year, t is time in years.)
  
- 2) a) Prices of homes are down, and now is a great time to buy. You put an offer of \$150,000 on a home. Since you can put down a 20% down payment your mortgage would be \$120,000. What would your monthly payment be if you took out a 30-year mortgage at 5.3% APR? (Use the formula  $= PV \frac{(r/n)}{1 - (1 + (r/n))^{-nt}}$ , where R is the equal payments, PV is present value of the loan, r is the rate, n is the number of payments in a year, t is time in years.)
  - b) How much interest would you have paid over the life of the loan?
  
  - c) Is the interest paid over 30-years more than the original price of the home?
  
  - d) If you house appreciates at the standard rate of inflation 3% compound annually, how much would your house be worth after 30-years?

e) Was buying your house a good investment? Explain

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3) a) What would be your monthly payment if you took out a 15-year mortgage at 4.9% APR?

b) How much interest would you have paid over the life of the loan?

4) a) Let say you decide to purchase a cheaper home and take out a \$86,000 mortgage for 30 years at 12% APR. It requires monthly payments of \$884.61. Suppose you decided to make monthly payments of \$1050.00. When would your mortgage be completely paid off?

b) How much do you save with the greater payments compared with the original plan?

**Reflection**

Instructions: If there is time, discuss with those next to you the following question and write a short summary of what was discussed.

**5** (thoughtful reflection; good grammar) **4** (adequate reflection; and/or okay grammar)

**3** (little thought and/or poor grammar) **2** (little thought and poor grammar)

What have you learned about “good” debt? Explain.

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During the real estate boom, banks were offering low teaser variable rates or interest only loans. These loans allowed banks to keep monthly payments down for a short time. After 3-5 year though these rates would increase and the monthly payments would increase two to three times. This was one of the reasons for the credit crisis, housing bubble, and numerous foreclosed properties seen today. Explain why you think these unique loans could cause all this trouble.

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Usually education is a good investment, when would education not be a good investment? Explain.

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