The Mortgage Guide

> A mortgage is a long story about interest. This guide shows how amortization works, what your payment really covers, and how much the loan actually costs.

A mortgage payment feels like one flat number, but underneath it is splitting your money between interest and principal in a ratio that shifts every single month. Understanding that split is the difference between feeling trapped by a mortgage and using it well.

What amortization actually does

Each month you are charged interest on the balance you still owe. Whatever is left of your payment after that interest goes to principal, which lowers the balance. Because the balance is highest at the start, the early payments are mostly interest and barely dent what you owe.

As the balance falls, the interest slice shrinks and the principal slice grows. The payment stays the same, but its composition flips over the years. This is why paying a little extra early has an outsized effect. Every extra dollar of principal now removes all the future interest that dollar would have carried.

A worked example you can reproduce

Borrow 320,000 dollars at a 6.5 percent fixed rate over 30 years. The principal-and-interest payment is about 2,023 dollars a month. Nothing surprising there.

The surprise is the total. Over 30 years you pay about 728,000 dollars, of which roughly 408,000 dollars is interest. You pay more in interest than the original loan amount. Enter these numbers in the Mortgage Calculator to see the balance fall and the interest pile up month by month.

Your payment is more than principal and interest

Lenders describe the full payment as PITI, which is principal, interest, taxes, and insurance. Property tax and homeowners insurance are usually collected monthly and held in escrow. If your down payment is under 20 percent, private mortgage insurance is added until you reach 20 percent equity, and many homes also carry an HOA fee.

Those extra pieces can add hundreds of dollars a month and are easy to forget when you only look at the loan itself. The Mortgage Calculator builds the full PITI figure and drops PMI automatically once you cross 20 percent equity.

How to pay less interest

There are three common levers. Extra principal payments shorten the loan and cut total interest, which the Mortgage Payoff and Biweekly Mortgage tools quantify. A lower rate through refinancing can help if you stay long enough to recover the closing costs, which the Refinance Calculator checks. And a larger down payment avoids PMI and lowers the balance you pay interest on.

None of these require paying the loan off overnight. Even modest extra principal in the early years, when the balance and the interest slice are largest, saves a striking amount.

> **Key takeaway.** The early years of a mortgage are almost all interest. That is exactly why extra principal early, not late, is where the big savings live.

Assumptions

- The interest rate is fixed for the life of the loan and payments are monthly. Adjustable-rate loans reset over time.
- Property tax, insurance, PMI, and HOA are estimates the borrower supplies. They vary by location and lender.

Sources

- Consumer Financial Protection Bureau, understanding mortgages
- CFPB, what is PMI and when it can be removed