Buying a home is likely the biggest purchase of your life, and you’ll usually need a loan to make it happen. Rates are always changing, so it’s important to understand what they mean. By familiarizing yourself with how mortgages work, you’ll be well-equipped to make the right decision for you.

How does the mortgage repayment work?

A mortgage repayment is broken down into regular installments over the term of the loan. This is how your loan is amortized:

- **Interest**: The amount paid by the borrower every month that ensures the loan is paid off in full with the least amount of interest.
- **Principal**: The amount paid by the borrower every month that reduces the outstanding balance.

An amortization schedule is how your loan is broken down, with an example shown below.

### **25-Year Mortgage**

- **Total Payments**: $213,395
- **Annual Interest Rate**: 3%
- **Monthly Interest**: $711
- **Monthly Principal**: $336

<table>
<thead>
<tr>
<th>Month</th>
<th>Total Payment</th>
<th>Interest</th>
<th>Principal</th>
<th>Outstand Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$711</td>
<td>$375</td>
<td>$336</td>
<td>$149,664</td>
</tr>
<tr>
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<td>$711</td>
<td>$374</td>
<td>$337</td>
<td>$149,327</td>
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<td>$104,949</td>
</tr>
<tr>
<td>30</td>
<td>$711</td>
<td>$335</td>
<td>$376</td>
<td>$104,573</td>
</tr>
</tbody>
</table>

### **Adjustable Rate Mortgage (ARM)**

- **Fixed-rate mortgage**: The interest rate is set when you take out the loan and stays the same throughout the term of your loan. The amount you pay monthly will stay the same for the entire term of your loan.
- **Variable-rate mortgage**: Changes based on a chosen index, so it changes in the future. If the index goes up, so does your rate and the amount of your payment. If the index goes down, so does your rate and the amount of your payment. It’s a trade-off—FOR EXAMPLE—

- **PRINCIPAL**: The part of your payment that reduces the outstanding balance.
- **INTEREST**: The part of your payment that is applied towards the interest that you have accrued.
- **TOTAL PAYMENTS**: The total amount paid over the life of the loan.

### **Understanding the APR**

The **Annual Percentage Rate (APR)** is the cost of a loan expressed as a yearly rate. It includes all fees and other charges that may be assessed. The APR does not tell the whole story—make sure you understand the type of mortgage they are promoting.

### **Fixed-rate or Adjustable-rate?**

You’ll need to decide between a fixed-rate and an adjustable-rate mortgage.

**Fixed-rate mortgage**: The interest rate is set when you take out the loan and stays the same throughout the term of your loan. The amount you pay monthly will stay the same for the entire term of your loan.

**Adjustable-rate mortgage (also known as an “ARM”)**: Changes based on a chosen index, so it changes in the future. If the index goes up, so does your rate and the amount of your payment. If the index goes down, so does your rate and the amount of your payment.

### **Amortization Schedule**

An amortization schedule shows how much of your payment goes towards interest and how much goes towards the principal. Each payment is going to be different, so it’s important to understand how your payments will change over time.

### **Cost of a Loan**

The **APR** is the true cost of loan. It’s a Money Thing is a registered trademark of Currency Marketing.