

How to figure out how monthly interest and principle

The first thing you need to understand is the amount of interest you will pay each month will change. Mortgages are amortized loans and in an amortized loan you pay more interest during the first half of your loan then you will pay during the second half of your loan. Each month in an amortized loan you pay less in interest and more in principle. Figuring out how much interest you pay in a month is simple. Lets say you borrowed \$100,000 with an annual interest rate of %5 over 30 years and your first payment is due on January 1st. The first step in figuring out how much you will pay in interest is to figure out the yearly interest. To do this you take the principle (100,000) and multiply it by the annual interest rate (%5.) So $100,000 \times .05 = 5,000$. This means your yearly interest is \$5,000. Now that you know the yearly interest you can figure out the monthly interests by dividing the yearly interest by the number of months in the year or by 12. So \$5,000 dived by 12 equals \$417. \$417 is the amount of interest you will pay in January. To figure out how much of your payment will go to bringing down your principle. You take your monthly mortgage payment and subtract your interest payment. In an amortized loan of \$100,000 at %5 over 30 years the monthly mortgage payment is \$536. So 6 subtracted by \$417 equals \$119. \$119 is the amount of money that will go towards the principle of the loan. To figure out your next months interest and principle payment you go through the same process except you use your new principle balance. The new principle balance is the last months principle minus the last months principle payment. So in our case to figure out the new principle you take \$100,000 and subtract \$119 giving you the amount of \$99881. This can look scary but as you look at each payment over the years you will pay more toward your principle then in interest. While you could sit there and figure out what each months payment would be it would probably drive you crazy. The best solution is to use a wonderful tool, the amortization or loan calculator. A good loan calculator will figure out your monthly interest and principle payments for you and create an amortization schedule for you.

About the Author

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