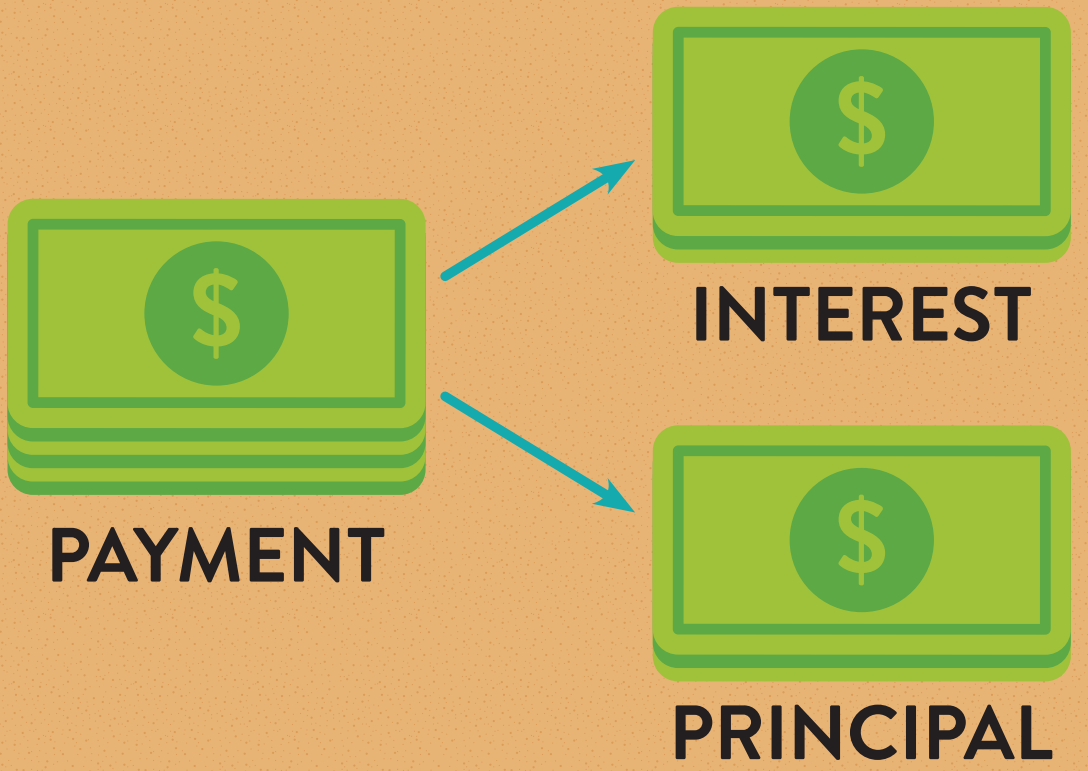
How does the mortgage repayment work?

An amortization schedule is how your loan repayment is broken down into regular installments over the term of the loan.

The schedule shows you how much of each payment is going towards interest and how much of it is going towards the principal.



— FOR EXAMPLE —

Let's say you have a $150,000 fixed-rate mortgage with a 3% annual interest rate amortized over a 25-year period. Your payment will be $711 per month.

25-YEAR MORTGAGE

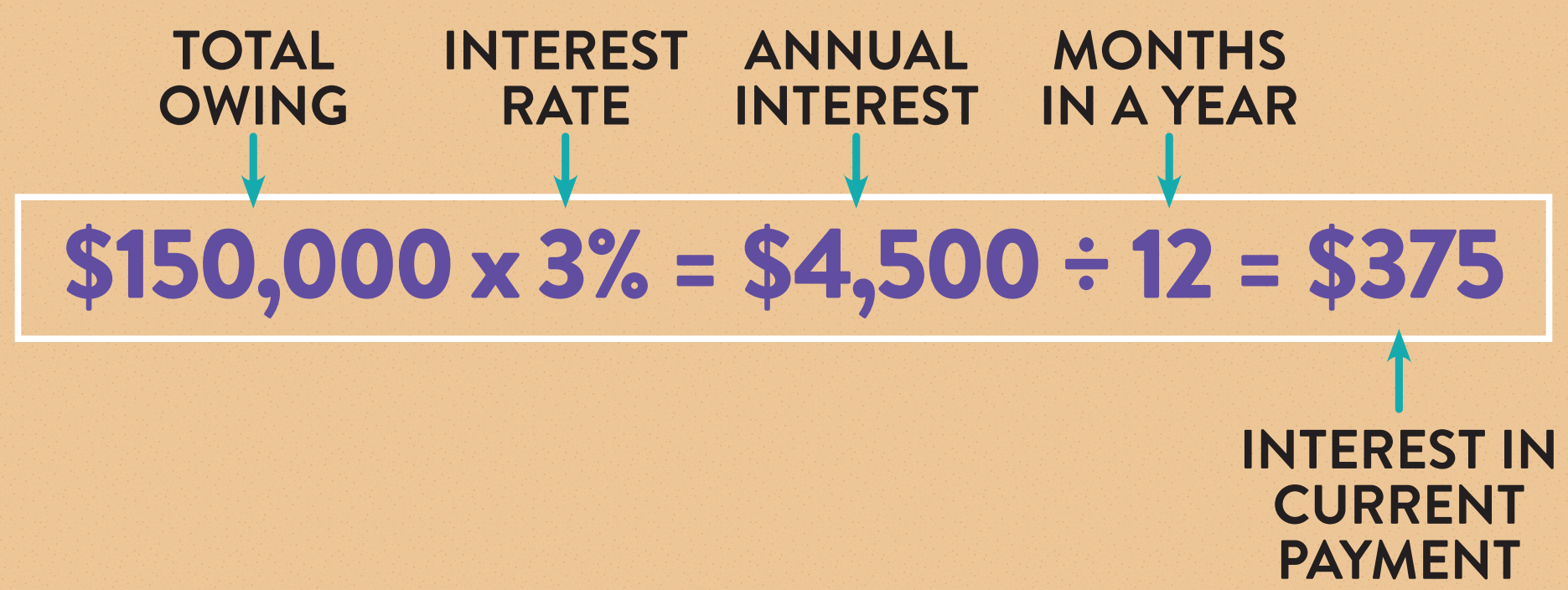
$150,000

3% APR, FIXED

$711 per month

The monthly payment for a fixed-rate mortgage is the amount paid by the borrower every month that ensures that the loan is paid off in full with interest at the end of its term.

This is how the interest is calculated for each payment



In your first payment, $375 will go towards interest and only $336 will go towards your outstanding balance. So even though you've made a payment of $711, your balance has only decreased by $336.

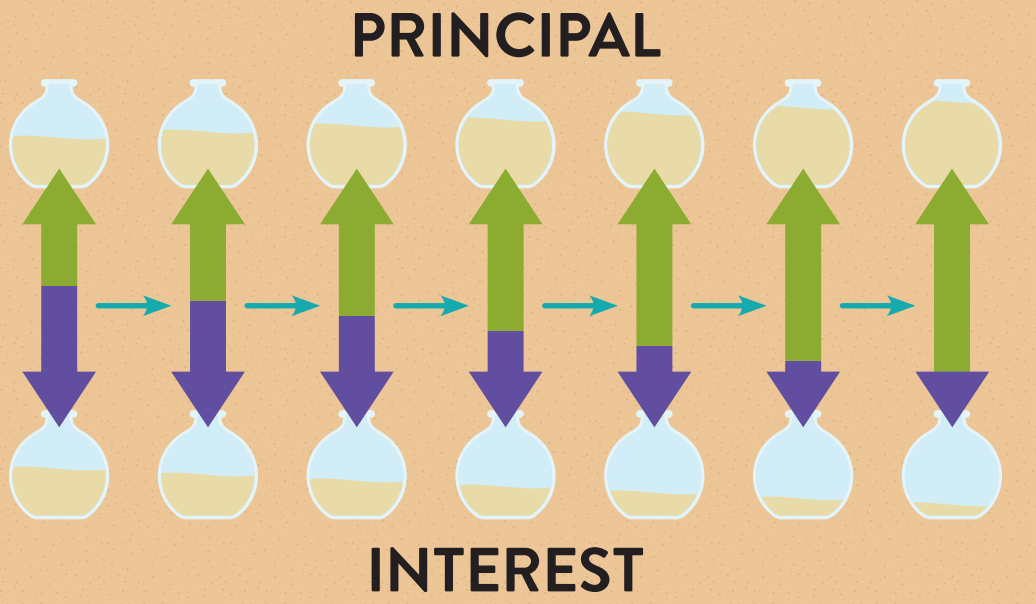
The interest portion continues to decrease over time

$149,664 x 3% = $4,490 ÷ 12 = $374

$149,290 x 3% = $4,479 ÷ 12 = $373

$148,917 x 3% = $4,468 ÷ 12 = $372

A big chunk of your monthly payments go towards interest at the start of the term. Over time, more of your payment will go towards the principal than towards interest.



That 3% interest rate may not seem like much, but after 25 years, you will have made $213,395 in payments on your $150,000 loan!

TOTAL PAYMENTS

$213,395

AFTER 25 YEARS