

## AMORTIZATION

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**Amortization** is defined as the process of paying off a debt through specifically structured periodic payments determined by an **amortization schedule** - this way the total debt is reduced by installments.

The amount and the structure of each periodic payment is calculated differently from other loans and every single payments include both principal and interest. Payments are usually the same amount for each period with a fixed interest rate until the duration of the loan (only the last payment may vary a bit from the payments made throughout the life of the loan). It is one of the simplest debt repayment models. Mortgage loan payment is typically one of the most common form of amortized loans.

If the loan you incur cannot be paid off within a few weeks or months, lenders will amortize your loan. They calculate equal installments to provide you with periodical payments that will take care of the loan and the interest charged for the use of their money until you completely repay the loan. Do not confuse amortized loans with interest-only loans!

**An amortization schedule determines the portion of the loan payment which will be allocated toward principal balance and the portion that will be put towards interest.**

In most amortized loan structures, it takes at least half of the loan's life for the interest and principal payments to become equal. Usually at the beginning of the amortization schedule a greater amount is applied to interest, while more money is applied to principal at the end. In each payment the percentage of interest versus principal is determined in the amortization schedule.

**Do not forget that lower principal produces lower interest payments**, so it's wise to pay an additional amount each month (if you can afford) and to apply that money to the principal balance, since interest is a product of the principal multiplied by the interest rate. In this way you can save money and reduce the life of the debt.

To find out if you can afford the payments on a desired loan, please visit the amortization schedule calculator website. It is a really simple to use amortization calculator with a printable amortization schedule.

In order to create an amortization schedule **loan amount**, **interest rate**, **loan length** and **payment frequency** is required. You will be able to choose from weekly, biweekly, monthly, bimonthly, quarterly, semi-annually and annually periods.

By reviewing an amortization schedule, you'll be able to determine how much interest will be paid to the financial lending institution during the life of the loan and view the amount of principal remaining on your loan.