

Notice of Information and Examples of Amortization of Home Loans

[Notice to Consumers under North Carolina General Statutes Section 24-1.1A(a1)(1)]

Note: North Carolina law requires a mortgage lender to provide this Office of the Commissioner of Banks Notice to a consumer who applies for a “home loan.” The lender must deliver or mail this Notice to the consumer within three business days after the lender receives the consumer’s loan application or the date of loan closing, whichever is earlier. This law defines a “home loan” as a loan (other than an open-end credit plan) for less than \$300,000, obtained for personal, family or household purposes and secured by a first mortgage or first deed of trust on the consumer’s dwelling.

Information on Home Loan Amortization

When you obtain a home loan from a lender, you will be asked to sign a note that requires you to repay the principal amount you borrow, plus interest. You may also be required to pay sums into “escrow” so that your lender will have sufficient funds to pay your property taxes and insurance premiums when they become due. If you are delinquent in making your payments, you may be required to pay a late charge. The *order* in which your lender applies your payments to these various categories will depend on the specific terms of your loan documents and the manner in which your loan is administered. However, as between principal and interest, most lenders will apply your payment to the interest owed before any portion of the payment is applied to reduce the principal balance of the loan. During the early years of a typical home loan, most of your payment will be applied to interest with the remainder applied to the principal balance. Over time, more of your payment will be applied to and reduce the principal balance with the remainder applied to interest. The gradual process by which periodic payments affect the principal balance is called “**amortization**.”

Your mortgage lender or mortgage broker may offer a variety of home loans with different maturity dates (the final due date) and terms of repayment. An “**amortization schedule**” will show the loan’s (1) principal amount, (2) periodic payment amount, (3) periodic interest payment, (4) amounts, if any, applied to principal reduction, (5) amounts, if any, by which the principal increases if interest payments are insufficient, (6) the number of payments required to pay the loan in full, and (7) the unpaid principal balance after each scheduled payment is timely made.

How *your* loan will amortize will depend upon the specific terms of your loan and how your lender administers your loan. Typically, a conventional fixed rate home loan is payable in substantially equal monthly payments of principal and interest over a 15- or 30-year loan term. For this type of loan, the amount you borrow, the interest rate and the loan term will be the most important factors in determining your payment amount and how your loan will amortize. However, because lenders offer a wide variety of home loan products, you should be aware that other factors may influence your repayment terms and how your loan will amortize. For example:

- Some lenders offer “interest only” home loans. Your payment will cover only the interest that is due, and none of your payment will be applied to principal. As a result, the entire principal balance of your loan will be due at maturity.
- Some lenders offer “balloon” home loans. The required periodic payment is based on an amortization schedule that extends beyond the maturity date of the loan. For example, a lender may offer a 15-year loan with required periodic payments amortized over 20 years. As a result, even though your required periodic payments may be for a fixed dollar amount and all payments are made timely, a substantial portion of the principal balance of the loan will still be due when the loan matures in 15 years.
- Lenders are permitted to use a variety of different methods to calculate the interest due on your loan. In a typical conventional 15- or 30-year fixed rate home loan, most lenders calculate interest on the assumption that each month has 30 (and only 30) days and that each year is 360 days long. In other home loans, lenders sometimes determine the actual number of days the principal amount is outstanding for each period and calculate the interest due based on a 360-, a 365-, or a 365/366-day year. Although most lenders charge periodic interest in arrears, some charge interest in advance. The interest calculation method used by your lender will affect how your loan amortizes. You should ask your lender about the interest calculation method that will apply to your home loan.
- Most amortization schedules assume that your lender will receive payment on your exact due date. If your lender charges periodic interest on the outstanding principal balance of your loan for the actual number of days between payments, your amortization schedule will become inaccurate the first time you fail to make a payment on the exact due date.
- Beware of “negative amortization” loans. The periodic payments required by your loan documents will not be sufficient to pay the interest as it accrues on your loan. As a result, your loan balance will actually increase even though you make the required payments on time.
- Some lenders offer “graduated payment” or “reverse annuity” home loans. These are special-purpose loans designed to meet the specific needs of a small segment of homeowners. These are complicated loans that frequently involve negative amortization and/or increasing payment amounts. These types of loans may require you to pay interest on unpaid interest; as interest accrues, the lender may be permitted to add it to the outstanding principal balance of the loan.

Before you borrow, ask enough questions of your lender to make sure you understand how your loan will be administered and how your loan will amortize. Ask your lender whether your payment amount includes or excludes any required escrow payments. Amortization schedules typically ignore sums you may be required to pay into escrow for taxes and insurance.

See the four Example Home Loan Amortization Schedules on the Next Page.

Examples of Home Loan Amortization Schedules

Examples of amortization schedules are shown for four different home loans of \$150,000 on the charts below and compare how a higher interest rate may affect periodic payments and the differences between conventional 15- and 30-year fixed rate home loans. These examples assume that monthly payments are made on the scheduled due dates. Your lender may be required under North Carolina law to deliver at your loan closing, or mail to you within three days thereafter, an amortization schedule for your loan. These examples are for informational purposes only, and your amortization schedule may differ based on the terms of your home loan. In addition, your actual required periodic payments may differ from these examples based upon various interest calculation methods, escrow payments for insurance and/or taxes, late charges, etc.

15 Years at 8%

Interest Rate: 8% Term to Maturity: 15 years
Monthly Payment: \$1,433.48 Total Number of Payments: 180

The first 12 and final six payments are shown. A total of 180 payments of \$1,433.48 or \$258,026.40 must be made over the life of the loan.

Payment Number	Principal Balance	Monthly Payment Amount	Interest Paid	Principal Applied	New Balance
1	\$150,000.00	\$1,433.48	\$1,000.00	\$433.48	\$149,566.52
2	\$149,566.52	\$1,433.48	\$997.11	\$436.37	\$149,130.15
3	\$149,130.15	\$1,433.48	\$994.20	\$439.28	\$148,690.87
4	\$148,690.87	\$1,433.48	\$991.27	\$442.21	\$148,248.66
5	\$148,248.66	\$1,433.48	\$988.32	\$445.16	\$147,803.51
6	\$147,803.51	\$1,433.48	\$985.36	\$448.12	\$147,355.38
7	\$147,355.38	\$1,433.48	\$982.37	\$451.11	\$146,904.27
8	\$146,904.27	\$1,433.48	\$979.36	\$454.12	\$146,450.16
9	\$146,450.16	\$1,433.48	\$976.33	\$457.15	\$145,993.01
10	\$145,993.01	\$1,433.48	\$973.29	\$460.19	\$145,532.82
11	\$145,532.82	\$1,433.48	\$970.22	\$463.26	\$145,069.56
12	\$145,069.56	\$1,433.48	\$967.13	\$466.35	\$144,603.21
175	\$8,403.08	\$1,433.48	\$56.02	\$1,377.46	\$7,025.63
176	\$7,025.63	\$1,433.48	\$46.84	\$1,386.64	\$5,638.98
177	\$5,638.98	\$1,433.48	\$37.59	\$1,395.89	\$4,243.10
178	\$4,243.10	\$1,433.48	\$28.29	\$1,405.19	\$2,837.90
179	\$2,837.90	\$1,433.48	\$18.92	\$1,414.56	\$1,423.34
180	\$1,423.34	\$1,433.48	\$9.49	\$1,423.99	(\$0.65)

30 Years at 8%

Interest Rate: 8% Term to Maturity: 30 years
Monthly Payment: \$1,100.65 Total Number of Payments: 360

The first 12 and final six payments are shown. A total of 360 payments of \$1,100.65 or \$396,234.00 must be made over the life of the loan.

Payment Number	Principal Balance	Monthly Payment Amount	Interest Paid	Principal Applied	New Balance
1	\$150,000.00	\$1,100.65	\$1,000.00	\$100.65	\$149,899.35
2	\$149,899.35	\$1,100.65	\$999.33	\$101.32	\$149,798.03
3	\$149,798.03	\$1,100.65	\$998.65	\$102.00	\$149,696.03
4	\$149,696.03	\$1,100.65	\$997.97	\$102.68	\$149,593.36
5	\$149,593.36	\$1,100.65	\$997.29	\$103.36	\$149,490.00
6	\$149,490.00	\$1,100.65	\$996.60	\$104.05	\$149,385.95
7	\$149,385.95	\$1,100.65	\$995.91	\$104.74	\$149,281.20
8	\$149,281.20	\$1,100.65	\$995.21	\$105.44	\$149,175.76
9	\$149,175.76	\$1,100.65	\$994.51	\$106.14	\$149,069.61
10	\$149,069.61	\$1,100.65	\$993.80	\$106.85	\$148,962.76
11	\$148,962.76	\$1,100.65	\$993.09	\$107.56	\$148,855.20
12	\$148,855.20	\$1,100.65	\$992.37	\$108.28	\$148,746.91
355	\$6,448.01	\$1,100.65	\$42.99	\$1,057.66	\$5,390.35
356	\$5,390.35	\$1,100.65	\$35.94	\$1,064.71	\$4,325.63
357	\$4,325.63	\$1,100.65	\$28.84	\$1,071.81	\$3,253.82
358	\$3,253.82	\$1,100.65	\$21.69	\$1,078.96	\$2,174.86
359	\$2,174.86	\$1,100.65	\$14.50	\$1,086.15	\$1,088.71
360	\$1,088.71	\$1,100.65	\$7.26	\$1,093.39	(\$4.68)

15 Years at 11%

Interest Rate: 11% Term to Maturity: 15 years
Monthly Payment: \$1,704.90 Total Number of Payments: 180

The first 12 and final six payments are shown. A total of 180 payments of \$1,704.90 or \$306,882.00 must be made over the life of the loan.

Payment Number	Principal Balance	Monthly Payment Amount	Interest Paid	Principal Applied	New Balance
1	\$150,000.00	\$1,704.90	\$1,375.00	\$329.90	\$149,670.10
2	\$149,670.10	\$1,704.90	\$1,371.98	\$332.92	\$149,337.18
3	\$149,337.18	\$1,704.90	\$1,368.92	\$335.98	\$149,001.20
4	\$149,001.20	\$1,704.90	\$1,365.84	\$339.06	\$148,662.14
5	\$148,662.14	\$1,704.90	\$1,362.74	\$342.16	\$148,319.98
6	\$148,319.98	\$1,704.90	\$1,359.60	\$345.30	\$147,974.68
7	\$147,974.68	\$1,704.90	\$1,356.43	\$348.47	\$147,626.22
8	\$147,626.22	\$1,704.90	\$1,353.24	\$351.66	\$147,274.56
9	\$147,274.56	\$1,704.90	\$1,350.02	\$354.88	\$146,919.67
10	\$146,919.67	\$1,704.90	\$1,346.76	\$358.14	\$146,561.54
11	\$146,561.54	\$1,704.90	\$1,343.48	\$361.42	\$146,200.12
12	\$146,200.12	\$1,704.90	\$1,340.17	\$364.73	\$145,835.38
175	\$9,907.09	\$1,704.90	\$90.81	\$1,614.09	\$8,293.00
176	\$8,293.00	\$1,704.90	\$76.02	\$1,628.88	\$6,664.12
177	\$6,664.12	\$1,704.90	\$61.09	\$1,643.81	\$5,020.31
178	\$5,020.31	\$1,704.90	\$46.02	\$1,658.88	\$3,361.43
179	\$3,361.43	\$1,704.90	\$30.81	\$1,674.09	\$1,687.34
180	\$1,687.34	\$1,704.90	\$15.47	\$1,689.43	(\$2.09)

30 Years at 11%

Interest Rate: 11% Term to Maturity: 30 years
Monthly Payment: \$1,428.49 Total Number of Payments: 360

The first 12 and final six payments are shown. A total of 360 payments of \$1,428.49 or \$514,256.40 must be made over the life of the loan.

Payment Number	Principal Balance	Monthly Payment Amount	Interest Paid	Principal Applied	New Balance
1	\$150,000.00	\$1,428.49	\$1,375.00	\$53.49	\$149,946.51
2	\$149,946.51	\$1,428.49	\$1,374.51	\$53.98	\$149,892.53
3	\$149,892.53	\$1,428.49	\$1,374.01	\$54.48	\$149,838.05
4	\$149,838.05	\$1,428.49	\$1,373.52	\$54.97	\$149,783.08
5	\$149,783.08	\$1,428.49	\$1,373.01	\$55.48	\$149,727.60
6	\$149,727.60	\$1,428.49	\$1,372.50	\$55.99	\$149,671.61
7	\$149,671.61	\$1,428.49	\$1,371.99	\$56.50	\$149,615.11
8	\$149,615.11	\$1,428.49	\$1,371.47	\$57.02	\$149,558.10
9	\$149,558.10	\$1,428.49	\$1,370.95	\$57.54	\$149,500.56
10	\$149,500.56	\$1,428.49	\$1,370.42	\$58.07	\$149,442.49
11	\$149,442.49	\$1,428.49	\$1,369.89	\$58.60	\$149,383.89
12	\$149,383.89	\$1,428.49	\$1,369.35	\$59.14	\$149,324.75
355	\$8,289.51	\$1,428.49	\$75.99	\$1,352.50	\$6,937.01
356	\$6,937.01	\$1,428.49	\$63.59	\$1,364.90	\$5,572.11
357	\$5,572.11	\$1,428.49	\$51.08	\$1,377.41	\$4,194.70
358	\$4,194.70	\$1,428.49	\$38.45	\$1,390.04	\$2,804.66
359	\$2,804.66	\$1,428.49	\$25.71	\$1,402.78	\$1,401.88
360	\$1,401.88	\$1,428.49	\$12.85	\$1,415.64	(\$13.76)