

# What the heck is 'Amortized' Interest (and why should you care)?



by James (Jay) Beattey

*The guy Wall Street and  
the Bankers hope you'll  
never meet!*

 **Live Interest Free**  
Make more money **your** money!

**am·or·tized in·ter·est  
noun**

*The obscure way banks  
calculate loan payments so  
they get more interest and you  
get less principal reduction.*

*See how amortization works in the  
bank's favor.*

*Turn the tables on the bank and  
pay less interest.*

*Take your savings and turn it into  
even more cash for you!*

## How Amortization Works for the Bank

When a bank loans money – it charges interest for the use of that money. Think of interest as rent. Say we borrow \$12,000 – and agree to repay it over 10 years at an interest rate of 5.46%. Based on those loan terms, our total interest charge will be \$3,600, and our payment will be \$130 a month.

Logic would tell us that our payment would be made up of equal parts principal and interest. We assume the principal portion of our payment would be \$100 a month (\$12,000/120 months); and the interest portion would be \$30 a month (\$3,600/120 months). That way of calculating payments and parsing them between principal and interest is called ‘simple interest.’

But logic doesn’t necessarily prevail at banks. They use a calculation called ‘amortized’ interest because **it collects interest faster than simple interest would allow**. It packs interest disproportionately onto the front-end of the loan and collects less interest toward the back end of the loan. The table here shows the difference.

MONTH	SIMPLE INTEREST	PERCENT COLLECTED	AMORTIZED INTEREST	PERCENT COLLECTED
12	\$360	10%	\$632.21	18%
36	\$1080	30%	\$1737.91	48%
60	\$1800	50%	\$2611.76	73%
120	\$3600	100%	\$3600	100%

**As you can see, the bank collects 73% of its total interest charge in the first half of the loan, leaving just 27% to be collected in years 6-10.**

*As intellectually interesting as that may be, what can we learn from this that can help us?*

## How You Can Pay Less

When we took that loan out, we committed to paying \$3,600 in interest. That's the 'rent' the bank required we pay – and it's the rent we agreed to pay. But we're in control of that rent. We can pay less – after already having agreed – if we're smart!

For example, if we were somehow able to pay the loan off in half the time, we could reduce the rent by 27%, and pay \$2,600 rather than \$3,600.

***That's \$1,000 more that we can use for our family and our needs*** – rather than sending it off to the banker so he can take care of his family and their needs.

That may be little more than mildly interesting – unless we know how to repay that loan in half the time without subjecting the family to major sacrifice – like eating Ramen for five years.

Here are two options:

If we reduced our savings rate by \$100 a month – and used that \$100 to accelerate the repayment of our loan instead – we'd pay it off in 5 years rather than 10, and ***we'd SAVE \$1,000 in interest.***

***or***

If we kept saving that \$100 a month instead – and grew it at the same 5.46%, compounded for 5 years, ***we'd EARN \$881 in interest.***

***So you can either earn \$881 – or save \$1,000.***

***You may be thinking that \$1000 in savings doesn't seem like much of a reward.***

***Think again...***

## How You Can Make More Money YOUR Money

Consider that at the five-year mark, we can not only resume putting that extra \$100 back into savings – but we get rid of that \$130 a month payment. That's like getting a pay raise of \$130/month – and we get it FIVE YEARS SOONER than we would have if we'd just dutifully stuck to the bank's payment schedule.

***That's \$7,800 of extra income for YOU.***

***If you put that into savings also – at 5.46% for the additional 5 years, you'd have just shy of \$9,000 of cash.***

**The 'return on investment' you earn by accelerating the repayment of debt is almost always much greater than you could earn elsewhere.**

The challenge is that most of us don't know how to accelerate the repayment of our debt accounts without painful sacrifice and delayed dreams. By understanding amortized interest, you can focus on the payoff.

***Let us show you how to make more money your money while becoming debt free!***

In the Live Interest Free program, we teach people how to pay off their debt in half the time – without spending any more money – saving a ton of interest in the process, and having a pile of cash to show for their efforts in the end.

**Call (800) 214-6708 today  
or visit [liveinterestfree.com](http://liveinterestfree.com)**