An introductory guide to mortgage

Many homes, which you will find in the real estate markets of today, that live up to your personal desire, are likely to have a price tag that you cannot afford. However, you still can own the house. How? By obtaining a mortgage, of course. Mortgage is a loan that you take from a lender while submitting to the lender, a property that you own, as an assurance of repayment. If you repay the loan successfully, you get the property back; otherwise, it is kept by the lender as a form of repayment of the loan. The monthly repayment of the loan usually consists of two major parts, the principal and the interest. The principal is the amount that you actually borrowed that is paid part by part each month and the interest is a charge that is made by the lender for letting the borrower use their money. So, basically, the interest is an added cost that a borrower needs to pay to the lender.

Mortgage loans are usually of very high amounts and it is for this reason that the repayment time of the loan is very long, such as fifteen or even thirty years. At the beginning stages of the repayment of the loan, a large portion of the amount usually comprises of the interest and comprises of far less principal.

However, as the life of the mortgage gradually comes to an end, the interest that needs to be paid keeps decreasing and the amount of principal keeps increasing. This is because the interest is based on the amount pending to be paid back, which gradually decreases as the amount owed to the lender decreases.

In most cases, the monthly repayment amount is usually more than just the interest and the principal, it also consist of other amounts that a borrower needs to pay, such as taxes and insurance. During the repayment period, if the borrower fails to pay up at least twenty percent of the amount, the lender considers the loan to have become risky and needs the borrower to pay up another amount known as the escrow amount which is in turn used to pay for tax and insurance in future, on the loan. Hence, in the future, all a borrower needs to pay for is the interest and the principal, hence, making it easier for the borrower to pay up.

Sometimes, when a borrower fails to pay up twenty percent of the amount, the lender also requires the borrower to pay another mount known as a private insurance. The amount is included only when the lender considers the loan to have become risky. However, the amount is not paid up all at one. The private insurance amount is divided up and added with the principal and interest and the other costs to get the total monthly amount that needs to be paid. Whatever may be the case, mortgages are any prospective home buyers’ best friend. It does a lot to make the dreams come true. The monthly repayment of the loan usually consists of two major parts, the principal and the interest. The principal is the amount that you actually borrowed that is paid part by part each month and the interest is a charge that is made by the lender for letting the borrower use their money. So, basically, the interest is an added cost that a borrower needs to pay to the lender. If you repay the loan successfully, you get the property back; otherwise, it is kept by the lender as a form of repayment of the loan. Many homes, which you will find in the real estate markets of today, that live up to your personal desire, are likely to have a price tag that you cannot afford. However, you still can own the house. How? By obtaining a mortgage, of course.

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About the Author

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