

How to Use the Amortization Table Tool

The Amortization Table Tool provides a spreadsheet that allows the user to model different loan options. It illustrates how to calculate an amortization table and further demonstrates the use of the following Excel or Google Sheets functions:

- **PMT** - used to calculate the monthly mortgage payment,
- **CUMPRINC** - used to calculate the annual loan paydown, and
- **CUMIPMT** – used to calculate the annual mortgage interest expense.

What is an Amortization Table?

An amortization table shows the monthly breakdown of a loan, including the monthly payment, the interest portion of the payment, the principal portion of the payment, and the outstanding balance owed to the lender.

How Do I Use the Amortization Table?

I use the amortization table to:

1. Compute one of the fixed expenses of a rental property: the mortgage interest,
2. Compute the monthly payment to determine the cash flow, and
3. Compute the annual loan paydown, which is simply the change in the outstanding balance owed to the lender after paying the loan for one year.

It is also useful when evaluating different lending options and scenarios, such as:

1. Determining whether you should pay the interest rate down by purchasing points,
2. Evaluating the merits of a 15-, 20-, or 30-year loan, and
3. Modeling various scenarios, such as the snowball effect, which is a strategy used to pay off debt at an accelerated rate.

Inputs for the Amortization Table

The Amortization Table Tool requires the following variables to calculate:

- **Mortgage Interest Rate** – This is the annual interest rate and it is used to determine the interest portion of the monthly mortgage payment.
- **Borrowed Funds** – This represents the initial outstanding balance or the debt you owe the lender. In the Amortization Table Tool, you can specify either the Borrowed Funds directly or you can specify the Loan-to-Value Ratio and the Purchase Price.
- **Loan-to-Value Ratio** – This is the ratio between the borrowed funds and the value of the property. Lenders typically loan a maximum of 80% or 75% of the appraised value of the property, which defines the loan-to-value ratio.
- **Purchase Price** – The price at which you are purchasing the property.
- **Appraised Value** – The appraised value of the property you are purchasing. Typically, the appraised value and the purchase price are the same, but not always.

Outputs of the Amortization Table Tool

The outputs are:

- **Payment #** - Refers to the number assigned to each loan payment. For example, Payment #1 corresponds to the breakdown of the first monthly payment.
- **Monthly P&I** – This is the monthly principal and interest payment for the loan, determined using the PMT function.
- **Interest** – This portion of the Monthly P&I payment is calculated by multiplying the outstanding debt by the monthly interest rate, which is the annual interest rate divided by 12.
- **Principal** – This portion of the Monthly P&I payment is calculated by subtracting the interest from the total monthly payment.
- **Outstanding Balance** – This represents the remaining debt owed to the lender after each payment and is calculated by subtracting the principal paid from the previous outstanding balance.

These outputs are displayed in the Amortization Table sheet. Another sheet, “Cumulative Breakdown,” shows the total principal and interest paid annually, and the total funds repaid over the life of the loan, with outputs including:

- **Sum of Principal Paid** – The total principal paid for the year, computed using the CUMPRINC function.
- **Sum of Interest Paid** – The total interest paid for the year, computed using the CUMIPMT function.
- **Total Repayment Funds** – The total amount paid over the life of the loan.

Summary

The Amortization Table Tool is a spreadsheet for quickly calculating the amortization schedule of a loan. I primarily use it to estimate mortgage interest expenses and payments and to model any loan-specific questions I may have. If you have questions or need further clarification, please feel free to contact me at

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Thanks for reading,

-Scott

Further Reading

For more information, please refer to my book “Passive Profits: The Turnkey Rental Investor’s Guide”. You can also find a lot of good information searching the internet.