

The Magic of Compound Interest on a “6%” Loan

30-year \$100,000 loan at 6%; so the real, compounded interest is 115.9%.

Summary

Principal borrowed:	\$100,000.00	Annual Payments:	12
Regular Payment amount:	\$599.55	Total Payments:	360 (30.00 years)
Final Balloon Payment:	\$0.00	Annual interest rate:	6.00%
Interest-only payment:	\$500.00	Periodic interest rate:	0.5000%
*Total Repaid:	\$215,838.00	Debt Service Constant:	7.1946%
*Total Interest Paid:	\$115,838.00	*Total interest paid as a percentage of Principal:	115.838%

15-year \$100,000 loan at 6%; so the real, compounded interest is 51.9%:

Summary

Principal borrowed:	\$100,000.00	Annual Payments:	12
Regular Payment amount:	\$843.86	Total Payments:	180 (15.00 years)
Final Balloon Payment:	\$0.00	Annual interest rate:	6.00%
Interest-only payment:	\$500.00	Periodic interest rate:	0.5000%
*Total Repaid:	\$151,894.80	Debt Service Constant:	10.1263%
*Total Interest Paid:	\$51,894.80	*Total interest paid as a percentage of Principal:	51.895%

6-year \$100,000 loan at 6%; so the real, compounded interest is 19.3%:

Summary

Principal borrowed:	\$100,000.00	Annual Payments:	12
Regular Payment amount:	\$1,657.29	Total Payments:	72 (6.00 years)
Final Balloon Payment:	\$0.00	Annual interest rate:	6.00%
Interest-only payment:	\$500.00	Periodic interest rate:	0.5000%
*Total Repaid:	\$119,324.88	Debt Service Constant:	19.8875%
*Total Interest Paid:	\$19,324.88	*Total interest paid as a percentage of Principal:	19.325%

(source: <http://www.bretwhissel.net/cgi-bin/amortize>)

Most people don't understand how great the compounded interest is when you take out a longer-term loan. It amounts to debt slavery: you must fork over much of your income to the banks who then “own you.” That's why in the Bible, the Lord put a six-year limit on loans: “*In the seventh year you must declare a cancellation of debts. This is the nature of the cancellation: Every creditor must remit what he has loaned to another person; he must not force payment from his fellow Israelite, for it is to be recognized as 'the LORD's cancellation of debts'*” (Deuteronomy 15:1-2) And: “*If your fellow Hebrew, whether male or female, is sold to you and serves you for six years, then in the seventh year you must let that servant go free*” (v. 12).

At the end of six years the creditors were commanded to cancel debts and free their slaves: this is because slavery was often the result of debt. These rules state that servants are to be indentured for only six years and lenders make no more than six-year loans. Why? Because money-lenders knew **The Magic of Compound Interest** over longer terms: it can amount to more than the principal borrowed. In year 1 of a 30-year \$100,000 loan, you've reduced the principal by only \$1,228.00 and you've given the bank \$6460 interest / \$1223 principal = 528% interest. After 6 years it's \$24,566 in interest / \$8,602.03 in principal, or 439% interest. This is also why lenders want you to refinance – “get the cash from your equity” – or move and buy another house: they make much more money up-front, in the first six years, on new 30-year mortgages. Most people who move take out another 30-year mortgage.

Bankers would much rather lend \$300,000 for 30 years to one person who buys a \$300,000 home (the bank gets 439% interest in the first 6 years) if you refinance or move, than lending \$300,000 for 6 years to four people who buy \$75,000 “fixer uppers” and pay it off in 6 years (the bank gets 19.3% interest). Now you know The Magic of Compound Interest too! What's the solution? Borrow no more than what you can pay off in six years! Start at age 22 with a smaller loan on a “fixer-upper” and pay it off in 6 years, at age 28 use that equity to buy a bigger home and pay it off in 6 years, at age 34 buy your dream home and pay it off in 6 years, then you can semi-retire at age 40. We did something similar: our \$200 down payment became \$200,000 – so can you!