**What is an Amortization Schedule?**

The amortization schedule refers to the allocation of loan payments over interest and principal for a determined period of time until a loan is paid off.

Amortization covers two definitions - one focused on business assets and the other focused on loan repayments.

### What Is Amortization for Businesses?

Amortization is an [accounting tool](https://www.thestreet.com/how-to/how-much-accountants-make-14557358) that essentially steers assets off of a [balance sheet](https://www.thestreet.com/personal-finance/education/what-is-a-balance-sheet-14958331) and onto an [income statement](https://www.thestreet.com/personal-finance/education/what-is-an-income-statement-14899351). It does so by writing off (mostly intangible) assets over their anticipated period of use. Such assets may include copyrights, patents and trademarks.

Let's say that a company has a valuable [patent](https://www.thestreet.com/how-to/how-to-patent-an-idea-14564100), which is active for 10 years. If the business shelled out $10 million to develop the patent, then it would write down $1 million for each year as an amortization expense, and report it on the firm's income statement.

### What Is Amortization for Loans?

Consumers may recognize amortization best as a term that describes the itemization of the starting balance of a loan, minus the principal and interest owed in a given time period, such as a [mortgage loan](https://www.thestreet.com/how-to/how-to-preapproved-mortgage-2020) or car loan. On those loans, the amortization schedule weighs [interest payments](https://www.thestreet.com/personal-finance/education/different-types-of-interest-14833335) on a loan much heavier in the early portion of the loan payoff period, with that interest declining throughout the life of the loan.

Let's say a [high-net-worth](https://www.thestreet.com/personal-finance/average-net-worth-by-age-14730772) individual has a mortgage of $1 million. If that individual repays $50,000 on an annual basis, then the borrower has amortized $50,000 of the loan every year.

## Example

John wants to buy a new car. The cost of the car is $21,000, but John cannot afford to buy the car in cash. So, he needs to apply for a loan. The loan officer at the bank offers him an [amortization](https://www.myaccountingcourse.com/accounting-dictionary/amortization) schedule for the loan repayment. The deal includes the repayment of $21,000 in 11 years at an annual interest rate of 7%. This generates a monthly payment of $2,800, out of which $1,470 goes towards interest and $1,330 towards principal.

So, here is the loan schedule with regular payments as well as the allocation of payments on interest and principal:

