MORTGAGE STATISTICS

The Long-Term Economics of American Home Financing

A Case Study of Interest, Equity, Lending Costs, and Household Wealth

White Paper
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Executive Summary

Homeownership has traditionally been one of the principal mechanisms through which American households accumulate wealth. Yet the financing structure used to obtain that ownership can transfer a substantial portion of household income to financial institutions and mortgage investors before a homeowner acquires the property free and clear.

This paper illustrates that relationship using a straightforward hypothetical case:

Five homes, each financed with a $180,000, 30-year fixed-rate mortgage at 8 percent, with every scheduled payment made for 20 years.

The households collectively borrow **$900,000**.

Their combined scheduled principal-and-interest payment is approximately **$6,604 per month**.

Over the first 20 years, they make approximately **$1.585 million in payments**.

Yet after making 240 consecutive payments, they still owe approximately **$544,000**.

Approximately **$1.229 million of the money paid during those first 20 years represents interest**, while only approximately **$356,000 reduces the original principal.

The example raises an important housing-policy question:

> How much household wealth could potentially be retained if alternative housing-finance structures reduced financing costs while maintaining prudent underwriting, adequate reserves, servicing, risk protection, and access to capital?

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1. The Five-Mortgage Case Study

Assume five borrowers each obtain:

Original mortgage: $180,000
Number of mortgages: 5
Combined principal: $900,000
Interest rate: 8.00% fixed
Amortization: 30 years
Payments completed: 20 years / 240 payments

The monthly principal-and-interest payment on each mortgage is approximately:

$1,320.78

Across five mortgages:

$6,603.88 per month

Over 20 years, the five households collectively make approximately:

$1,584,931 in mortgage payments.

The allocation of those payments is revealing.

Measure	One Mortgage	Five Mortgages
Original amount borrowed	$180,000	**$900,000**
Monthly P&I payment	$1,320.78	**$6,603.88**
Payments during first 20 years	~$316,986	**~$1,584,931**
Principal repaid	~$71,140	**~$355,698**
Interest paid	~$245,847	**~$1,229,233**
Balance after 20 years	~$108,860	**~$544,302**

Thus, households that originally borrowed **$900,000** have paid approximately **$1.585 million** over two decades and nevertheless retain approximately **$544,000 in mortgage debt**.

This is not evidence of improper lending. It is principally a consequence of the mathematics of long-term amortization at relatively high interest rates.

It does, however, illustrate the enormous economic significance of the cost of housing capital.

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2. More Than $1.2 Million in Interest

During the first 20 years:

Original capital advanced: $900,000

Interest paid: approximately $1,229,233

The interest paid therefore equals approximately **137% of the amount originally borrowed**, even though substantial principal remains outstanding.

This is one reason interest rates have such a profound effect on household wealth creation.

Mortgage affordability is not simply a question of the purchase price of a house.

It is also a question of the **price of the money used to purchase it**.

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3. Mortgage Interest Is Not the Same as Bank Profit

A critical distinction must be made.

The approximately **$1.229 million in interest paid by borrowers should not be characterized as $1.229 million in bank profit.**

Mortgage lenders themselves have costs.

Banks can fund lending through deposits and other borrowing, while mortgages can also be sold into the secondary market and securitized. Federal Reserve Bank research describes both portfolio lending and securitization as important components of the American mortgage system.

Therefore, comparing an 8% mortgage rate directly with the Federal Reserve's policy rate does **not** establish the lender's actual profit margin.

The federal funds rate is an overnight interbank benchmark, not a 30-year mortgage funding rate.

Nevertheless, funding-cost scenarios are useful for illustrating the economics of the interest spread.

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4. Illustrative Cost-of-Capital Scenarios

Over the first 20 years, approximately $1.229 million of mortgage interest is collected in our hypothetical portfolio.

If, strictly for illustration, the declining mortgage balances were assigned different constant funding costs, the approximate gross spread would look like this:

Illustrative Funding Cost	Approx. Funding Interest	Mortgage Interest Received	Illustrative Gross Spread
4.97%	~$764,000	~$1,229,000	**~$466,000**
1.00%	~$154,000	~$1,229,000	**~$1,076,000**
0.25%	~$38,000	~$1,229,000	**~$1,191,000**

These are **economic illustrations, not estimates of actual bank profits**.

Actual profitability would depend upon funding structure, deposit costs, servicing expenses, credit losses, regulatory capital, hedging, prepayment, securitization, personnel, technology, taxes and numerous other factors.

Likewise, lenders may receive origination, servicing and secondary-market revenue not represented by this simplified model.

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5. The Historical Federal Reserve Context

The often-repeated idea that banks simply obtained mortgage money from the Federal Reserve at 0.25% and lent it to homeowners at much higher rates oversimplifies the financial system.

Around 2006—the approximate origination year for a mortgage that has now been outstanding for 20 years—the federal funds rate was considerably higher than the near-zero rates subsequently associated with the financial crisis.

Federal Reserve data define the effective federal funds rate as a volume-weighted measure of overnight unsecured borrowing among eligible financial institutions.

The mortgage-finance system is considerably more complex.

Historically, deposits were a major funding source for mortgage lenders. Over time, the United States increasingly moved toward capital-market financing and mortgage securitization.

According to the Financial Crisis Inquiry Commission's historical review, by 1998 approximately **64% of originated mortgages were being sold by originators** to institutions that could package mortgages and transfer rights to principal and interest payments to investors.

Consequently, the ultimate recipient of mortgage interest may be a bank, mortgage investor, pension fund, insurance company, government-sponsored enterprise investor, mortgage-backed-securities holder or another participant in the financial system.

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6. The Remaining Debt After Twenty Years

Perhaps the most understandable statistic for policymakers and households is the relationship between payments already made and debt still outstanding.

After twenty years:

Borrowed:
$900,000

Paid:
approximately $1,584,931

Interest component:
approximately $1,229,233

Principal retired:
approximately $355,698

Mortgage debt remaining:
approximately $544,302

The households have therefore paid approximately **176% of the amount originally borrowed in total payments** while still owing approximately **60% of the original principal**.

Again, this is the mathematically expected result of an 8%, 30-year amortizing mortgage—not evidence that the amortization itself is improper.

But it demonstrates why relatively small changes in financing cost can translate into very large differences in lifetime household wealth.

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7. Refinancing the Remaining Balance

As of September 3, 2026, Freddie Mac reported an average U.S. 30-year fixed mortgage rate of **6.71%**.

If the approximately **$544,302 remaining balance** were refinanced, extending the debt back to another 30-year term could reduce the monthly payment substantially.

However, lower monthly payments do not necessarily mean lower lifetime costs.

Extending an already 20-year-old mortgage balance over another 30 years potentially creates **50 years of combined mortgage-payment history**.

This distinction is important in housing policy:

> Affordability should not be measured solely by the monthly payment. It should also consider the lifetime cost of financing and the amount of household equity ultimately accumulated.

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8. Mortgage Finance as a Household-Wealth Question

Traditional mortgage lending performs an essential economic function.

A household that does not possess $180,000 in cash can obtain a home immediately and repay the capital over decades.

The lender assumes meaningful risks and incurs real costs in providing that capital.

Therefore, interest itself should not automatically be viewed as economically unproductive.

The public-policy question is different:

Can the same access to housing capital be provided at lower lifetime cost while maintaining financial stability?

If the answer is yes, some portion of household income currently devoted to financing could instead become:

home equity, retirement savings, maintenance reserves, education funding, neighborhood investment, intergenerational wealth or capital available for future home purchases.

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9. A Potential Alternative: Revolving Housing Capital

This analysis suggests an area worthy of further study: **revolving public, nonprofit, cooperative or public-private housing capital.**

Instead of treating every home purchase as an isolated transaction financed entirely through conventional long-term debt, a housing organization could potentially establish pools of patient capital.

Residents would still make payments.

But payments could potentially be divided differently among:

Principal repayment
Reasonable financing expense
Property reserves
Insurance and risk reserves
Program administration
Resident equity
Revolving capital for the next household

The objective would not be to eliminate legitimate financing costs.

It would be to determine whether more of every housing dollar could remain within the household and community wealth system.

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10. Scaling the Example

The significance becomes clearer when the five-mortgage example is scaled.

If **five mortgages** produce approximately **$1.229 million in interest payments over their first twenty years**, then portfolios of similar loans would produce approximately:

50 mortgages: ~$12.3 million
500 mortgages: ~$122.9 million
5,000 mortgages: ~$1.23 billion

These figures are mathematical extrapolations from the hypothetical 8% loans and should not be interpreted as estimates of actual national mortgage portfolios.

Nevertheless, they demonstrate why even modest improvements in financing efficiency can become economically significant at scale.

A reduction of only one or two percentage points in effective long-term financing costs, when applied across thousands of households and decades, can redirect substantial capital.

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11. The Central Policy Question

The relevant debate should therefore not be framed as:

Banks versus homeowners.

Banks, credit unions, mortgage companies, investors and capital markets perform necessary functions in the American housing system.

A more productive question is:

> **How can America preserve access to mortgage capital while increasing the percentage of every housing payment that ultimately becomes household and community wealth?**

That opens the door to experimentation involving community development financial institutions, nonprofit housing organizations, credit unions, state housing finance agencies, revolving loan funds, shared-equity programs, cooperative ownership structures and public-private partnerships.

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12. Recommended Research

A broader Mortgage Statistics initiative should next examine:

1. **30-, 40- and 50-year household financing costs** across different mortgage rates.
2. **Interest paid versus equity accumulated** by income group.
3. The effects of refinancing and repeated loan-origination costs.
4. Conventional rental assistance compared with ownership-oriented assistance.
5. Mortgage default and foreclosure costs compared with early stabilization assistance.
6. Public and nonprofit cost-of-capital alternatives.
7. Community land trusts, limited-equity cooperatives and shared-equity ownership.
8. The feasibility of revolving housing funds in which repaid principal finances subsequent households.
9. Whether government credit enhancement could reduce financing costs without transferring excessive credit risk to taxpayers.
10. The long-term fiscal effects of moving households from perpetual housing subsidy toward sustainable ownership where appropriate.

Conclusion

The hypothetical five-mortgage portfolio demonstrates a fundamental characteristic of American housing finance.

Five households borrowing a combined **$900,000 at 8% for 30 years** would pay approximately **$1.585 million during their first twenty years**, including approximately **$1.229 million in interest**, while still owing approximately **$544,000**.

Those figures do not establish excessive bank profits, because mortgage interest revenue and lender profit are fundamentally different measurements.

They do establish something equally important:

The cost of capital can be nearly as consequential to long-term housing affordability as the cost of the housing itself.

That creates an opportunity for government, nonprofit organizations, financial institutions and community-development partners to examine new models in which access to capital remains financially responsible while a greater proportion of housing expenditures becomes lasting household equity and community wealth.

The objective need not be the elimination of mortgage lending.

The objective can be better mortgage economics.

Research Note

Calculations in this paper use a hypothetical portfolio of five fully amortizing, $180,000, 30-year fixed mortgages carrying an 8% annual interest rate, with 240 scheduled monthly payments completed and no additional principal payments, refinancing, delinquency, fees, taxes or insurance included.

Funding-rate comparisons are illustrative scenarios and **must not be interpreted as estimates of actual lender profit or actual historical funding costs**.

Current mortgage-rate references are based on Freddie Mac's Primary Mortgage Market Survey. Federal funds references use Federal Reserve Bank of New York data distributed through the Federal Reserve Bank of St. Louis FRED database. Historical mortgage-finance descriptions draw upon Federal Reserve and Financial Crisis Inquiry Commission research.