**What is a Mortgage?**

A **mortgage** is a loan in which property or real estate is used as [collateral](https://investinganswers.com/node/1034). The borrower enters into an agreement with the [lender](https://investinganswers.com/node/5069) (usually a bank) wherein the borrower receives cash upfront then makes payments over a set time span until he pays back the lender in full. A mortgage is often referred to as [home loan](https://investinganswers.com/node/22283) when its used for the purchase of a home.

**How do Mortgages work?**

*Mortgage*[loans](https://investinganswers.com/node/5825) are usually entered into by home buyers without enough [cash](https://investinganswers.com/node/5011) on hand to purchase the home. They are also used to borrow cash from a bank for other projects using their house as collateral.

There are several types of mortgage loans and buyers should assess what is best for their own situation before entering into one. Types of loans are characterized by their [term](https://investinganswers.com/node/5890) dates (usually from 5 to 30 years, some institutions now [offer](https://investinganswers.com/node/3909) loans up to 50 [year](https://investinganswers.com/node/5717) [terms](https://investinganswers.com/node/5890)), interest rates (these may be fixed or variable), and the amount of payments per period.

[If you're ready to buy a home, use our [Mortgage Calculator](https://investinganswers.com/calculators/loan/mortgage-calculator-what-will-my-monthly-principal-interest-payment-be-2084) to see what your [monthly principal and interest payment](https://investinganswers.com/calculators/loan/mortgage-calculator-what-will-my-monthly-principal-interest-payment-be-2084) will be. You can also [learn how to calculate your monthly payment in Excel](https://investinganswers.com/personal-finance/how-calculate-monthly-loan-payment-excel).]

Mortgages are like any other financial product in that their supply and demand will change dependent on the [market](https://investinganswers.com/node/3609). For that reason, sometimes banks can offer very low interest rates and sometimes they can only offer high rates. If a borrower agreed upon a high interest rate and finds after a few years that rates have dropped, he can sign a new agreement at the new lower interest rate -- after jumping though some hoops, of course. This is called "refinancing."

**Why do Mortgages matter?**

Mortgages make larger purchases possible for individuals lacking enough [cash](https://investinganswers.com/node/5011) to purchase an [asset](https://investinganswers.com/node/2278), like a house, up front. [Lenders](https://investinganswers.com/node/5069) take a risk making these [loans](https://investinganswers.com/node/5825) as there is no [guarantee](https://investinganswers.com/node/993) the borrower will be able to pay in the future. Borrowers take risk in accepting these loans, as a failure to pay will result in a total loss of the asset.

Home ownership has become a cornerstone of the American Dream. For most people, their home is their most asset. Mortgages make home buying possible for many Americans. Mortgages are not always easy to secure, however, as rates and [terms](https://investinganswers.com/node/5890) are often dependent on an individual's [credit score](https://investinganswers.com/node/5252) and job status. Failure to repay allows a bank to legally foreclose and auction off the property to cover its losses.

Source: investinganswers.com