



Home-Buying Process

The Mortgage Payment

Home-Buying Process: The Mortgage Payment

Ivan Hernandez

The conventional monthly mortgage payment includes the principal, interest, taxes and insurance, also known as PITI, if you are required to put your taxes (T) and insurance (I) in an escrow account. Your payment may differ from what was quoted on your Good Faith Estimate or Truth In Lending Disclosure. This can be because what is quoted on these documents does not include taxes and insurance.

PITI:

P = Principal – The amount applied to your loan to lower the outstanding balance.

I = Interest - This is the cost of borrowing money.

T = Taxes – 1/12th of the estimated annual property tax. The amount paid to your local tax office for owning property in a specified county.

I = Insurance – 1/12th of the annual homeowner's premium. This figure can include flood insurance and mortgage insurance. Mortgage insurance (also known as MI), is there to protect the mortgage holder in case the borrower defaults on the loan. This type of insurance is usually required for government-secured loans or loans in which the amount financed is more than 80 percent of the value of the property.

If the lender requires you to pay the taxes and insurance as part of your monthly payment, an escrow account will be opened to hold this money until the payments are due. Many people consider

this convenient because they do not have to make separate payments. In some cases, however, the lender may allow you to pay taxes and insurance separately from your mortgage payment.

References:

American Homeowner Education & Counseling Institute. (2000). Core curriculum: National standards for homeowner educators and housing counselors. Author.

FDIC Money Smart Curriculum. (n.d.). An adult education program - Building knowledge, security, confidence. Author.

This resource is one in a series on the Home-Buying Process which include:

Financial Readiness

What Creditors Look For
Finding Mortgage Money
Types of Financial Institutions
Mortgage Options
Down Payment and Closing Costs
Pre-Qualification or Pre-Approval

Factors to Consider in Housing Selection

Personal Needs and Wants
Location
Type and Style of House
Type of Construction
Interior and Exterior Space
Special Needs
Building as an Option

Locating a House

Finding the House
Using Real Estate Professionals
Buying Direct From Owner

The Sales Contract

Components
Acceptance

Home Inspections

Reasons for Home Inspections
Locating an Inspector
What Inspections Include
Limits of Liability

The Mortgage Process

Loan Application Process
Approval or Rejection
The Mortgage Payment

Purchasing Homeowners Insurance

Before You Start Looking for a Home
Stability of the Insurance Company
Costs and Coverage
Customer Service

Warranties

The Closing

Preparation for Closing
Final Walk Through
Closing Day Procedures

Sponsored by New Mexico State University and the City of Las Cruces. Supported by U.S. Department of Housing and Urban Development. New Mexico State University is an equal opportunity/affirmative action employer and educator. NMSU and the U.S. Department of Agriculture cooperating. © 2005 NMSU Board of Regents. All rights reserved.



Home Buying Process: The Mortgage Payment
