

Components of a Mortgage Payment

Your monthly mortgage payment is made up of several components. This housing expense is commonly referred to as "PITI" or principal, interest, taxes, and insurance. PMI (see below) and homeowner's association dues may also make up a portion of your total payment.

Principal - The original balance of money loaned, excluding interest – Also, the remaining balance of a loan, excluding interest. The interest is calculated on the principal.

Interest - The charges for the use (loan) of money. This number is calculated by your rate.

Taxes - The county assessor charges property tax based on the value of your home. Two tax installments are due each year. The first installment is due November 1 and is delinquent on December 10. The second installment is due February 1 and delinquent on April 10. Taxes may be impounded, depending on the amount of your down payment. Anything less than 20 percent requires an impound account on a 1st mortgage. An impound account is a trust account set up by the lender to which a portion of the monthly payment is credited so that funds will be available for payment of taxes and insurance. *Supplemental taxes will typically come approximately 6 months after your home purchase and are not paid via your impound account. If you have an impound account you would need to send the supplemental statement to your investor and they will adjust your trust impound account to accommodate your supplemental taxes.*

Hazard Insurance - This contract pays for a loss on a home for certain hazards such as fire. You obtain homeowner's insurance from your own insurance agent (or we can recommend one to you). The standard policy pays replacement costs minus depreciated based on the actual cash value of the home, or the loan amount, whichever is lower. (Continued on next page)



"A loan is more than just a purchase or refinance...

it's about the relationship."



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Talk to your insurance agent about the different types of insurance available. Hazard insurance may be impounded. Obtaining home insurance can present a large obstacle in today's market. It is important to start looking for insurance immediately upon your acceptance of your offer.

PMI (Private Mortgage Insurance) - Depending on the amount of your down payment, you may be required to have PMI. A down payment of less than 20 percent requires PMI, unless you are obtaining a new Home Equity Line of Credit. Because loans with small down payments involve substantially more risk for the lender, they need protection in case the loan goes into foreclosure. Because this insurance is available, lenders can offer loans with lower down payments.



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