UNDERSTANDING THE { MORTGAGE PROCESS }

Your monthly mortgage payment

Your home is likely the largest purchase you'll ever make, with a price tag that might seem overwhelming. Getting pre-approved for a mortgage will help determine how much home you can afford before you start shopping. But the number that most of us can relate to best is the monthly payment.

Your monthly **mortgage loan payment** is actually made up of four parts, commonly referred to as **PITI – principal, interest, taxes and insurance**. Here's an overview of each:

Principal

This is the total amount of money loaned to you by the lender – usually the purchase price of the home minus the amount of your down payment and closing costs. Principal will gradually decrease as you pay down the loan balance.

Interest

This is the amount the lender charges you to use their money. Your interest rate (i.e. 5 percent) and term of the loan (30 years) will affect your monthly interest payment. At the beginning of your loan term, most of your monthly payment will go towards interest. If you have an adjustable rate mortgage (ARM), you will initially pay a low interest rate (which makes your monthly payment lower) but it will increase over time. Interest rate is important: Even a two percent difference on your interest rate can means several hundreds of dollars a month more for your payment.

Taxes

Property taxes on your home are assessed by your city or county and based on the worth (not sale price) of your home. Usually, property taxes are estimated for the year and an amount is added to your monthly payment that is placed in escrow to pay your taxes (usually annually). If the actual tax assessment is more or less than the estimate, your future mortgage payment will be adjusted.

Insurance

Your monthly payment may also include two types of insurance: **homeowner's insurance** and **private mortgage insurance (PMI)**.

- **Homeowner's insurance** protects your home in the event of damage from a hazard such as fire or tornado, as well as protection for you if someone has an accident in your home. Homeowner's insurance must be in place prior to closing and premiums may change annually, affecting your monthly payment. Homeowners insurance is required to be paid as part of your mortgage payment.
- **Private mortgage insurance** is often required by lenders if you make a down payment of less than 20 percent. It protects the lender if you were to default on your loan and is a small percentage of the original loan amount. PMI is usually not required once you reach 20 percent of equity in your home.

There are also several other things to consider when looking at your monthly housing expenses.

HOA

If you live in a community with a homeowners' association (HOA), you will likely pay a HOA fee once or twice a year to help maintain the community and its amenities.

Maintenance

Experts suggest budgeting about 1 to 3 percent per year of your home's purchase price for maintenance and upgrades. The older your home, the more repairs you will likely need to make. A home warranty will help cover unexpected repairs to major home systems and appliances.

Ready to crunch some numbers?

Your Allen Tate Mortgage Consultant can help translate all of this into your monthly payment – and help you see the value of homeownership.