Loans and Mortgages

Components of a Mortgage Loan Payment

Your mortgage payment (PITI) will reflect the following costs:

P = Principal. The amount applied to the outstanding balance of the loan.

I = Interest. The amount of the charge for borrowing money.

T = Taxes. 1/12th of the estimated annual real estate taxes on the home.

I = Insurance. 1/12th of the annual homeowner’s insurance premium.
This figure will include flood insurance and private mortgage insurance (PMI), if required.

You will most likely pay the taxes and insurance along with the principal and interest to the lender every month. In some cases, however, the lender may allow you the option to pay the taxes and insurance separately.

If the lender requires you to pay the taxes and insurance as part of your mortgage payment, the lender will open an escrow account to hold this money until the payments are due. Many people consider this convenient because they don’t have to make separate payments. If you live in certain states, the escrow account will also earn interest.