

Mortgages 101

Where does your payment go?



Principal

This is the total amount remaining on your home loan not including interest or other charges. A portion of your monthly payment goes to pay down the principal balance while the remaining amount is applied to the to interest and then to taxes and insurance, if applicable.



Taxes

When you purchase a home, you also purchase the property it lies on. Your local government will assess an annual tax as a percentage of your home and property value. These taxes go toward supporting schools and county and state infrastructure. If applicable, your monthly mortgage payment may include a portion of your annual tax amount which will be placed in an escrow account and paid on your behalf by your lender.



Escrow

This is a non-interest bearing account set up by your lender to collect and hold funds to pay property taxes and insurance premiums on your property. A monthly payment is added to your mortgage bill and analyzed once a year to cover any increases in taxes or insurance premiums. Be sure to confirm with your lender that they are paying these accounts on your behalf, or if you'll need to budget for them outside of your monthly payment.



Interest

Interest is the cost of borrowing money. You will repay your mortgage lender the amount you borrowed plus a percentage of interest. As your principal balance decreases, the amount applied to interest will decrease and more will go to pay down the principal.



Insurance

Not only is it smart to have insurance on your home, it's also required if your home is financed. Lenders require adequate home owners insurance to cover potential loss to the property. If applicable, the premium for your policy will be placed in an escrow account and paid on your behalf to your insurer by the lender. Your monthly mortgage payment will include a portion of that premium to ensure funds are available to pay the insurance company.

Your mortgage payment may also include another type of insurance called private mortgage insurance. If your down payment is less than 20% of the home's price, your lender may require that you purchase this type of insurance, commonly referred to as PMI.

