

## What is PITI?

**PITI stands for principal, interest, taxes, and insurance: the components that make up your monthly mortgage payment.**

**Principal:** This is the actual amount of your loan. A portion of the principal is usually paid off with each mortgage payment thereby gradually reducing the outstanding balance you owe and increasing your home equity (the portion of the home you own). The principal component of each payment is typically very small in the first few months, but increases during the life of the mortgage as the mortgage balance drops. Some types of loans do not have principal payments, including interest-only mortgage, which does not include any principal repayment in the monthly calculation.

**Interest:** The interest is the amount a lender charges you for borrowing the money to buy the home. It consists of a percentage of the outstanding principal. Initially, the largest part of your mortgage payment goes toward paying off the interest. However, as time goes by and you begin to pay off your mortgage, more of your monthly payment goes toward paying down the principal and less toward paying off the interest. Your mortgage rate can change periodically if you have an adjustable-rate mortgage. It can also change if you renegotiate your mortgage or make a lump payment to lower the principal.

**Taxes:** Many homeowners also pay their real estate taxes as part of their mortgage payment. The lender passes these on to the local municipality to pay for community schools, roads, police and other municipal services. Taxes can be a significant part of your total mortgage payment, and tax rates can vary significantly from area to area. So it's wise to find out the local tax rate before you purchase a home.

**Insurance:** The fourth component of your payment is homeowner's insurance, which may be collected by your lender and paid to your insurance company. Typical homeowner's insurance protects your home and property against fire or other damage. You may need supplemental coverage for other risks. For example, you may need flood insurance if your home is in an area with a high risk of flooding. If you buy your home with less than a 20 percent down payment, you may also be required to have private mortgage insurance (PMI) to protect the lender from default.

### To calculate your total PITI:

- Enter your current mortgage balance and the term or amortization period of your mortgage into our mortgage to help you calculate the principal and interest components of your monthly payment.
- To calculate your property taxes, divide the assessed value of your home by 100 and multiply by the tax rate. For example, for a \$100,000 home in an area with a tax rate of 2.40, you would divide \$100,000 by 100 (= \$1,000) and multiply by 2.40. Your annual taxes would be \$2,400. Dividing by 12 gives you the monthly installment: \$200. (Some municipalities have a tax structure that requires a home's value be divided by 1,000 — you can check this with your local tax office.)
- To calculate your monthly insurance payments, divide your total yearly premiums by 12.