SCOTT LYLE REALTORS

483 North Palm Canyon Drive • Palm Springs, CA 92262
760-778-6200 • 760-778-6206 fax • www.palmspringsfinesthomes.com

Mortgage Basics

Likely the largest debt you'll ever take on, a mortgage is a loan to finance the purchase of your home.By Broderick Perkins

Your home is collateral for your mortgage loan, which is also a legal contract you sign to promise that you'll pay the debt, with interest and other costs, typically over 15 to 30 years.
If you don't pay the debt, the lender has the right to take back the property and sell it to cover the debt. To repay the debt, you make monthly installments or payments that typically include the principal, interest, taxes and insurance, together known as PITI.

Principal -- The principal is simply the sum of money you borrowed to buy your home. Before the principal is financed you can give the lender a sum of cash called a down payment to reduce the amount of money that will be financed.

Interest -- Usually expressed as a percentage called the interest rate, interest is what the lender charges you to use the money you borrowed. As well as the given rate, the lender could also charge you points, and additional loan costs. Each point is one percent of the financed amount and is financed along with the principal.
Principal and interest comprise the bulk of your monthly payments in a process called amortization, which reduces your debt over a fixed period of time. With amortization, your monthly payments are largely interest during the early years and principal later.

In addition to your principal and interest, your mortgage payment could include money that's deposited in an escrow or trust account to pay certain taxes and insurance.

Generally, if your down payment is less than 20 percent, your lender considers your loan riskier than those with larger down payments. To offset that risk, the lender sets up the escrow account to collect those additional expenses, which are rolled into your monthly mortgage payment.

Taxes -- The taxes are property taxes your community levies based on a percentage of the value of your home. The tax is generally used to help finance the cost of running your community, say to build schools, roads, infrastructure and other needs. You must pay property taxes even if you don't need an escrow account and even after your mortgage is paid off.