Private Mortgage Insurance Q&A

What is private mortgage insurance?

Mortgage insurance is a type of guaranty that helps protect lenders against the costs of foreclosure. This insurance protection is provided by private mortgage insurance companies. It allows lenders to accept lower down payments than would normally be allowed. In effect, it substitutes for the borrower's equity that would be available to cover a lender's losses in the unfortunate event of foreclosure.

If I have a good credit rating and can meet the required monthly mortgage payments, am I obligated to have private mortgage insurance?

Even when you have an excellent credit record and the capability to meet mortgage payments, most lenders require private mortgage insurance as a matter of policy for any loan with a small down payment. Mortgage insurance allows lenders to grant loans that they otherwise would not consider.

Just how small can my down payment be?

Private mortgage insurance makes it possible for you to obtain a mortgage with a down payment as low as 5%. Such mortgages are increasingly in demand in today's home market because potential homeowners, especially first-time homebuyers, are not able to accumulate the 20 to 30 percent down payment that would be required without insurance.

What are the advantages of a low down payment loan?

A low down payment loan allows you to:

1. Afford to purchase a home;
2. Choose from a wider price range of homes;
3. Retain cash to invest elsewhere or to spend on home furnishings, home improvements, college tuition or emergencies; and
4. Receive larger mortgage interest tax write-offs on a larger loan amount.

How will private mortgage insurance affect my monthly mortgage payments?

Minimally. Initial and renewal premiums are based on the amount and terms of the mortgage and will vary according to loan-to-value ratio, type of loan and depth of coverage required by the lender.

Payment schedules for mortgage insurance premiums may vary, depending on your lender. As part of federal truth-in-lending regulations, lenders must identify all costs, including private mortgage insurance premiums, at the time of the loan application and when the loan actually

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closes. Here is an example of how much two typical PMI Mortgage Insurance Co. premium plans will add to your mortgage payments:

	At Closing	Monthly Payments
Fixed Rate Mortgage	$750	$43
Adjustable Rate Mortgage	$900	$55

Of course, premiums will vary according to loan amounts and terms. Above premium based on: Home Value - $166,667, Coverage 20%, Loan Amount - $150,000, Standard 30-year term, LTV - $90%. Based on selected rate schedule

Can I finance my mortgage insurance premium?

In most cases, yes. Many homebuyers choose to finance their mortgage insurance premiums in order to reduce their closing costs.

How does private mortgage insurance differ from insurance programs offered by FHA (Federal Housing Administration) or VA (Veterans Administration) government agencies?

Although the insurance protection concept is similar, there are advantages to using private mortgage insurance. For one, private mortgage insurers have much higher loan limits than FHA or VA. Second, private mortgage insurance is cheaper. In addition, borrowers can expect faster loan approval, less paperwork, and more variety in insurance coverage and premium plans when they choose to do business with private MIs. Finally, private MI is cancelable; meaning you will probably pay less for the advantage of a low down payment loan.

Are private mortgage insurance premiums paid over the life of the mortgage?

Technically, yes. The insurance is renewed annually at the option of the lender, potentially until maturity of the mortgage. However, in many cases the lender will allow cancellation of mortgage insurance when the loan is paid down to 80% of the original property value.

When can the mortgage insurance coverage be dropped?

The decision on when to allow mortgage insurance coverage to run out does not depend solely on the degree of your equity in the home. The final say on terminating a mortgage insurance policy is reserved jointly for the lender and any investors who may have purchased an interest in the mortgage.

Is private mortgage insurance different from other kinds of insurance associated with mortgages?

Private mortgage insurance protects the lender in the event of borrower default and subsequent foreclosure on the home. FHA and VA insurance also protect the lender against borrower default under a government program rather than through the private enterprise system. Credit life insurance (sometimes called mortgage insurance) is life insurance coverage that pays off the mortgage in the event a borrower dies, becomes disabled, or incurs loss of health or income, according to the terms of the insurance policy. Fire, liability, and theft insurance cover the homeowner from losses, according to the terms and conditions of their respective insurance policies.

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