

PMI's Frequently Asked Questions

I have lived in my home for 5 years and am in the process of selling it. I had to buy PMI insurance because I did not have 20% down. Am I entitled to any type of refund once I sell the house?

Entitlement to a refund and the amount would depend on the mortgage insurance plan type and the refundable or non-refundable/limited option chosen at origination. Your best bet is to ask your lender directly, as there are many different mortgage insurance plans and combinations.

I think banks are being very greedy in demanding a secured loan plus PMI and still wanting a perfect credit rating for 7 years. My husband and I are trying to buy a home. We have a good credit rating, but not perfect credit for 7 whole years. If you guarantee the loan, what is their problem in granting it?

Mortgage insurance does not guarantee the loan, it only insures a designated portion (commonly only 12-30%) of the loan against default. The combinations of loan characteristics (credit, collateral, MI, etc.) are established as requirements by investors. Loans usually end up in mortgage backed securities. The mortgage securities may be purchased by investors, for example to go into Individual Retirement Accounts (IRA's), 401K plans, etc. The investment funds for IRAs, 401Ks, etc., have risk and return requirements which ultimately dictate the loan characteristics.

If mortgage insurance is canceled, are any pre-paid premium amounts refunded (particularly if they were originally paid by adding them to the loan amount)?

If all the mortgage insurance was financed at the time of origination and is canceled prior to it's maturity you may be entitled to a refund if the refundable option was chosen at time of origination. However, if the no refund/limited option was chosen no refund is due.

If a borrower currently has an FHA loan w/MI, after the LTV has reached 80% or less can the MI be canceled?

It is best to refer back to your lender for specific information on FHA loans.

Can you give an example of how the mortgage insurance escrow's get applied to the payment?

Your lender collects moneys on escrow and remits to PMI when the premium is due. Typically, on an annual premium plan, the lender collects 14 months premium at closing. Twelve months of the premium is paid to PMI as the initial premium. The remaining two months is used to start the escrow account. The lender then collects 1/12 of the renewal every month thereafter. It is hard to give a general rule on a monthly premium plan. The

plan was developed in 1994 and lenders have developed unique escrow procedures.

Premise: Mortgage insurance covers the lender for the difference between the loan amount and 80% value of the property. So for a borrower who puts 10% down, in effect mortgage insurance covers the 10% difference. What are approximate rates in premium say per \$1000 dollars? Does credit history have a bearing on the premium? Can the borrower negotiate the premium?

PMI actually covers the lender for a percentage they designate. The percent of coverage is usually driven by the investor's (often, Fannie Mae or Freddie Mac) requirements. Therefore, the approximate premium per \$1000 varies based on the required coverage. The premium is fixed based on plan type (loan to value, loan type, loan term, etc.) and not related to individual borrower characteristics. Therefore, the premium is not negotiable.

Are mortgage lenders supposed to provide borrowers with information on the conditions when they can cancel mortgage insurance? Are these conditions supposed to be in the loan documentation? If the borrower pays mortgage insurance monthly, and his equity goes up, should his premiums go down? Is the mortgage lender supposed to notify the borrower when he reaches 20% equity? Which states have laws on this subject? Can the borrower choose the mortgage insurance company or does the lender do that?

Because of the wide variation in lender, investor and state requirements, it is necessary to consult your lender on these questions. Keep in mind when considering mortgage insurance issues that the lender is the insured, not the borrower.

Would mortgage insurance be of use to lenders to help approve loans for higher risk (i.e. self employed) individuals?

PMI does insure loans made by lenders to self employed borrowers. However, it is unlikely that coverage would have any effect on the lender's ability to offer such loans. Generally, mortgage insurance is required due to low down payment and associated risk and not related to borrower credit characteristics or history.

Does mortgage insurance apply for investor properties?

PMI only insures loans on owner occupied residential properties (1 to 4 units).

What is private mortgage insurance?

Mortgage insurance is a type of insurance that helps protect lenders against losses due to foreclosure. This protection is provided by private mortgage insurance companies, and allows lenders to accept lower down payments than would normally be allowed.

Mortgage insurance also enables lenders to grant loans that would otherwise be

considered too risky to be purchased by third party investors like the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). The ability to sell loans to these investors is critical to maintaining mortgage market liquidity, which in turn, allows lenders to continue originating new loans.

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 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. Fire, liability, and theft insurance cover the homeowner from losses according to the terms and conditions of their respective insurance policies.

How small can my down payment be?

Private mortgage insurance makes it possible for a home buyer to obtain a mortgage with a down payment as low as 5% and for low-to-moderate income home buyers as low as 3%. Such mortgages are popular today because potential home buyers are not able to accumulate the 20% down payment that is generally required by lenders if a loan is not insured.

Who pays for mortgage insurance?

The lender does, although they will generally pass that cost on to the borrower. Typically, a portion of the mortgage insurance premium is paid up front at closing, and the rest is paid as part of the monthly mortgage payment.

What are the payment options for mortgage insurance?

Private mortgage insurance can be paid on either an annual, monthly or single premium plan. Premiums are based on the amount and terms of the mortgage and will vary according to loan-to-value ratio, type of loan, and amount of coverage required by the lender.

Under an *annual plan*, an initial one year premium is collected up front at closing, with monthly payments collected along with the mortgage payment each month thereafter. *Monthly plans* allow a borrower to pay the lender only 1 or 2 months worth of premium at closing, and then on a monthly basis along with the regular mortgage payment. Under a *single premium plan*, the entire premium covering several years is paid in a lump sum at closing. Typically, home buyers choose to add the amount of the lender's mortgage insurance premium to the loan amount. By doing this, home buyers can reduce their

closing costs and increase their interest deduction.

Below are examples of how a variety of mortgage insurance premium plans could affect your mortgage payments:

	Annual Plan	Monthly Premium Plan	Single Premium Plan (financed)
Loan Amount(*)	\$150,000	\$150,000	\$150,000
Cash for MI at closing	\$750	\$56	\$0
Financed Premium	\$0	\$0	\$3,000
Total mortgage amount	\$150,000	\$150,000	\$153,000
Monthly P&I(**)	\$1,317	\$1,317	\$1,343
MI Renewal	\$43	\$56	\$0
P&I plus monthly MI	\$1,360	\$1,373	\$1,343

(*)Loan amount of \$150,000; 10% down payment; 30 year fixed rate loan at 10% interest.

(**)P&I stands for monthly Principal and Interest on the mortgage.

Can mortgage insurance coverage be canceled?

Mortgage insurance is maintained at the option of the current owner of the mortgage. In many cases, the lender will allow cancellation of mortgage insurance when the loan is paid down to 80% of the original property value. However, the degree of equity in the home is not the only factor that a lender may take into consideration. Note that the law in certain states requires that mortgage insurance be canceled under some circumstances.

How does private mortgage insurance differ from FHA insurance?

Although the insurance protection concept is similar, there are differences between private mortgage insurance and FHA. FHA insurance is a government-administered mortgage insurance program that does have certain restrictions. FHA has maximum

regional loan limits that are lower than those with private mortgage insurance. FHA may be more expensive, takes longer to receive approval, and has fewer payment plan options. FHA insurance lasts for the life of the loan, unlike private mortgage insurance which is cancelable in most circumstances. FHA is a good choice for some borrowers with credit history problems that might need special assistance.

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