HOMEWISE Real Estate Tips and Advice

What is PMI?

By ALEX MASON | Green Shoot Media

Private mortgage insurance, also known as PMI, is an additional fee tacked on to a lender's loan document.

PMI was established by the Homeowner's Protection Act of 1998 to act as a watchdog for the borrower and set forth some guidelines for the lender.

For most home loan borrowers, the PMI annual payment is a welcome fee to add some peace of mind to the borrowing process and allow home buyers with minimal cash flow to get the loan product of their choice.

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Private mortgage insurance can increase your monthly payment when you put down less than 20 percent.

WHO NEEDS PMI?

Not every borrower will benefit from paying the PMI attached to their loan, nor is every borrower required to purchase it.

The ideal PMI candidate will have put down 20 percent or less on the down payment of the property and will be carrying a loan balance of at least 80 percent on the mortgage. The lender offers the PMI to safeguard against a borrower that may default within a short period of time.

The PMI protects the lender so that the institution is more likely to lend to buyers with a limited cash flow and down payment.

The PMI is a win-win for the banks and the buyer, as each party gets what they want from the sale of the property.

BENEFITS

Buyers who wish to purchase a home with the bare minimum down payment may do so with confidence when they are protected by a PMI policy.

The Department of Housing and Urban Development, or HUD, provides low-cost housing with an average of only 4 percent required as the down payment.

The lender who insures the policy with a PMI premium is covered and the home buyer can purchase immediately without waiting to save a whopping 20 percent down on the home.

PMI may be applied to any type of house or condo and is a wise investment to get the home buying process underway.

WHO DOES NOT BENEFIT?

A borrower who has applied a real estate down payment higher than 20 percent and will be carrying a loan balance of less than 80 percent may waive the PMI coverage.

According to the Home Owner's Protection Act of 1998, the date of PMI termination may be determined between both lender and borrower. A borrower who has made timely mortgage payments for set period of time and wishes to cancel the PMI policy may be able to do so by a written request to the lender.

Providing there is sufficient equity in the home, a borrower who wishes to terminate the PMI policy will keep careful records of their payment history and submit a termination request to the lender.

The HPA of 1998 requires the borrower to be notified by the lender when a high-risk loan balance has been lowered to 78 percent of the purchase price. Terms and conditions include that the borrower has not been 30 days or more late with a mortgage payment within a one-year period of the loan.

Since the Great Recession, new rules regarding PMI make it harder or impossible to remove the insurance from a loan without refinancing, so check your loan paperwork.

HOME VALUES

Finally, a home buyer may escape the PMI requirement if the value of the home has increased. An official appraisal is required to verify the current market value and if the appreciation increases the equity, the PMI may be canceled.

PMI premiums are manageable for most home buyers to get the mortgage insurance they need for the purchase.

Paying your PMI premium for a short time will allow you to get into your new home with a 20 percent or less down payment.

REAL ESTATE 101

What's in a mortgage payment?

- Your monthly mortgage payment includes more than just the amount due on your loan. It also can include other housing-related expenses.
- **Principal:** Pays down the balance that you borrowed.
- **Interest:** The cost of borrowing money. Taxes: Typically one-12th of your annual property tax bill is collected with each mortgage payment.
- **Insurance:** One-twelfth of your annual homeowners insurance premium may be collected with each mortgage payment, along with a month's worth of private mortgage insurance, or PMI.

SOURCE: Realtor.com

Private mortgage insurance may allow you to buy a home with less than 20 percent down but will increase your monthly payment.

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Source: Realtor.com

HOMEWISE GLOSSARY

Private mortgage insurance, or PMI: Insurance that protects lenders if you default on your loan. With conventional loans, mortgage insurance is generally required if you do not make a down payment of at least 20 percent of the home's appraised value. (Note, however, that FHA and VA loans have different insurance guidelines.) Mortgage insurance payments are generally included in your monthly mortgage payment and may be tax-deductible. (Check with your tax advisor).

SOURCE: Quicken Loans