

PMI

Understanding Private Mortgage Insurance

Relative to the growth in home prices over the last few decades, Americans are earning less and therefore they are saving less. As a result, young families today are having to wait longer than their parents and grandparents to the path of home ownership due to the obstacle of obtaining a sizeable down payment.

WHAT IS PRIVATE MORTGAGE INSURANCE?

Today, buying a home can be a greater reality for many more potential home owners, thanks to the availability of Private Mortgage Insurance (PMI). PMI is a financial guaranty that protects the lender against any loss in the event the borrower should default as well as allowing the borrower to make a lower down payment. Without PMI, lenders would require a down payment of at least 20 percent to guarantee a loan. PMI has made it possible for qualifying buyers to purchase a home with as little as a 3-5% down payment. Such mortgages are increasingly in demand in today's home market. PMI has made homeownership accessible for more than 17 million families.

The capability of PMI can make owning your dream home a reality. PMI can increase the amount of the loan for which you could qualify for and also raise the house price you can afford.

MONTHLY PREMIUMS

The cost of PMI can differ significantly. Monthly premiums are typically \$45 to \$65 per \$100,000 borrowed. These premiums are based on the amount and terms of the mortgage and will vary accordingly to the loan-to-value ratio, the type of loan, and the amount of coverage required by the lender.



PAYMENT OPTIONS

PMI can be paid in one of three types of plans: an annual, monthly, or single premium. Each of these plans should be carefully considered with your lender when choosing which plan will best suit your financial needs.

CANCELLATION OF POLICY

PMI must be carried by the homebuyer until a minimum of 20 percent equity is invested in the home. Equity can be in the form of either payment of the principal or the appreciation of the property. Borrowers should carefully determine at the time the policy is issued, what procedures are required for cancellation of the coverage. In the situation where the buyer believes they have achieved 20% equity, they should contact their service for the specifications. Usually investors will require an appraisal on the property to verify the equity.

For complete information, borrowers should discuss their options with their lender prior to the close of escrow to determine the best plan to suit their individual situation.