MORTGAGE INSURANCE BASICS

Typically, lenders and investors require mortgage insurance for loans with down payments of less than 20%. Private mortgage insurance is not mortgage life insurance, which pays off a mortgage if the homeowner dies or becomes disabled. It is not homeowners' insurance, which protects homeowners from loss due to theft, fire or other disaster. Private mortgage insurance protects the lender and investor from loss, not the borrower, in the event there is a default on the loan thereby mitigating the risk in providing financing to borrowers with less than a 20% down payment. There are various types of mortgage insurance as explained herein. Borrowers should consult a tax advisor regarding mortgage insurance tax deductibility.

Factors for MI premiums are tiered so the more down, the lower the MI premium. For example, the premium for a 95% loan will be higher than for a 90% loan. Credit scores also are impactful to MI premiums so the better the credit score, the lower the MI.

- **Monthly MI:** This premium is calculated as a monthly amount and is added to your mortgage loan payment. There is no upfront fee, just the costs per month. With monthly MI, once you reach 80% loan to value based on your original transaction then you may request the MI premium be dropped and your payment will go down. If you do not request it at 80% LTV (loan to value) then it will automatically be cancelled at 78% LTV. If you were to pay extra on your loan you will get to this point sooner, however, there is typically a requirement that you have MI on the loan 18-24 months to establish a good payment record before you can request it be dropped.

- **BPMI (Borrower Paid MI):** This is a single premium that is typically financed into the loan amount. It can also be paid as a lump sum cash amount at closing by the borrower or the seller or builder. Generally if you are doing a 90% LTV this program will prove to be the least costly MI over time as well as providing a lower monthly loan payment than with monthly MI. Usually the best pricing is a non-refundable premium so if you expect to pay extra to the principle quickly then monthly MI may be a better option.

- **LPMI (Lender Paid MI) or NO MI:** Lender paid is a single premium that is paid by the lender and is somewhat transparent to the borrower. One way the cost for this premium could manifest is in points on your loan (which are pre-paid interest and would increase closing costs). The other way is with a higher interest rate where the MI premium expense is built into the cost of the loan over time. NO MI is similar. For example, in exchange for paying the mortgage insurance premium, the lender may charge the borrowers a mortgage interest rate of 4.5% rather than 4.25%. With a higher rate you would need to compare how that impacts your overall costs compared to a monthly or financed MI option for your particular loan scenario.

- **Split MI**: Gives you the option of paying part of the MI premium up front in order to reduce the monthly MI premium paid along with the mortgage payment. Borrowers can choose the upfront premium rate, which is a percentage of the loan amount. A third party, such as a builder or a seller, may be eligible to pay the upfront premium as well.

- **FHA UFMIP/MI:** FHA is self-insured and sets their own MI premiums. They have an Upfront Mortgage Insurance (UFMIP) that is financed into the loan amount in addition to a monthly MI that is added to the monthly payment. The MI in not cancellable unless you put at least 10% down initially. On a maximum financing scenario (96.5% LTV) the UFMIP is 1.75% and the Monthly factor is .85. FHA however is more forgiving of credit scores so if you do not have excellent credit then the MI under this program may be more affordable than under a conventional loan.

- **RD/USDA (Rural Development):** Like FHA, they are self-insured. RD charges a 1% guarantee fee that is financed into the total loan amount and a monthly fee of .35 on their loans. This is typically the cheapest option in MI compared to other programs making it an excellent option to consider. This program does have income restrictions for qualifying and is only eligible in designated rural areas (not within the City limits).

- **VA (Veterans Administration):** There is no MI on a VA loan. They charge a Funding Fee which can vary from about 2.15-3.3% depending on the Veterans status and their enlistment service. For disable Vets, the Funding Fee is waived as they are exempt from this charge.

Questions?

Contact me anytime for further information!

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