National MI

Private Mortgage Insurance

FREQUENTLY ASKED QUESTIONS

What is private mortgage insurance?

Private mortgage insurance is a type of financial guaranty that helps protect mortgage lenders from losses should a borrower default on their loan. Private mortgage insurance allows mortgage lenders to accept a lower down payment than they might normally require without this added protection.

Why is it called private mortgage insurance?

It is called "private" because it is offered through private mortgage insurance companies as opposed to similar products available from public agencies administered through the government, such as the Federal Housing Administration (FHA) or Veterans Administration (VA).

Why does a lender need private mortgage insurance on a loan?

Private mortgage insurance is usually required by a lender when a borrower is unable to invest at least 20% of their own funds towards a down payment to purchase a home. Private mortgage insurance limits the lender's risk, and enables homeowners to gain access to the housing market more quickly, with as little as 3% down.

Lenders can benefit from mortgage insurance in the following ways:

- Transfer of risk / Loss mitigation tool
- Salability – Ability to originate and sell high LTV loans on the secondary market
- Provides Capital Relief

Fannie Mae and Freddie Mac are prohibited from purchasing or guaranteeing mortgages with greater than 80% LTV without private mortgage insurance on the loan.

- 1 in every 2.5 GSE-securitized purchase mortgages currently are first-time homebuyers
- MI provides the credit enhancement needed for lower down payment buyers

What does private mortgage insurance do for a borrower?

By protecting the lender from loss in the event of borrower default, MI provides increased loan opportunities for homebuyers. Private mortgage insurance enables the ability to buy a home with a lower down payment – meaning homebuyers can purchase sooner or increase their purchasing power.

- MI can reduce the time it takes to save a down payment from approximately 14 years to under 6 years

What is covered by private mortgage insurance?

Private mortgage insurance insures a percentage of the unpaid principal balance, delinquent interest, and certain expenses associated with the default and subsequent foreclosure. It is not hazard insurance, which protects the homeowner from losses due to fire, liability and theft.

How much coverage is required?

Private mortgage insurance offers a variety of coverage percentages for different loan to values. The amount which must be placed on the loan is usually determined by the lender or eventual purchaser of the loan. Fannie Mae and Freddie Mac require certain coverages based on the loan to value percentage and the type of mortgage.

AGENCY COVERAGE REQUIREMENTS

BASE LTV	GSE* STANDARD COVERAGE		HOMEREADY® & HOME POSSIBLE® COVERAGE		HOUSING FINANCE AGENCY (HFA) CHARTER COVERAGE
	>20 YEARS	≤20 YEARS	>20 YEARS	≤20 YEARS	
95.01% TO 97%	35%	35%	25%	25%	18%
90.01% TO 95%	30	25	25	25	16
85.01% TO 90%	25	12	25	12	12
85% AND UNDER	12	6	12	6	6

* Refer to GSE's for standard coverage requirements.

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Who pays for the insurance?

Generally, mortgage insurance premiums are included as part of the borrower's monthly mortgage payment, similar to property taxes and homeowners insurance (Borrower-Paid mortgage insurance). Premiums may be payable monthly, annually, or in a single up-front payment, depending on the payment plan the lender selects.

Mortgage insurance premiums may also be paid by the lender (Lender-Paid mortgage insurance). In such circumstances, the lender may offset the cost of mortgage insurance by increasing the finance charges for the loan by a corresponding amount.

How long must borrowers pay for private mortgage insurance?

The Homeowners Protection Act of 1998 (HoPA) requires lenders to automatically cancel mortgage insurance when a loan amortizes to 78% of the home's original value, subject to certain conditions. HoPA also requires that lenders cancel mortgage insurance when the loan has amortized to 80% of the original value and the borrower requests cancellation.

HoPA only applies to primary occupancy, single family residences and is always based on loan balance vs original value. However, certain investors offer additional options for cancellation — including other occupancies and property types and also the use of a current (reappraised) value. For more details, please refer to the National MI website for detailed information. An FAQ flyer and a mortgage insurance cancellation flyer are available. www.nationalmi.com/mi-cancellation

Will the mortgage insurance policy make mortgage payments in the event of a death or disability?

No, mortgage life insurance and disability insurance provide this type of protection. Private mortgage insurance is intended to protect the lender against certain losses associated with a borrower's default.

What are the advantages to using private mortgage insurance instead of the public government programs?

- Private mortgage insurers allow higher loan limits than FHA and VA in some areas. An FHA loan may not be an option for many borrowers due to the amount they need to borrow.
    - Refer to National MI's Loan Limit Locator, www.nationalmi.com/loan-limit-locator
- For borrowers with stronger credit profiles, private mortgage insurance coverage may be less expensive than the FHA premium plans
- Private mortgage insurance paid for by the borrower is cancellable up to 6 years sooner than FHA

Borrower-Paid private mortgage insurance is always cancellable at 78% loan-to-value (LTV), whereas FHA policies for borrowers with LTV ratios greater than 90% cannot be cancelled. For FHA loans with LTVs under 90%, policies are cancellable after 11 years versus an average 5 to 7 years with private mortgage insurance.

TO LEARN MORE

National MI's MI University offers training on mortgage insurance topics:

www.nationalmi.com/miu

This content is intended to provide an informational overview of mortgage insurance and does not constitute legal advice.
For complete information regarding our products and terms of coverage, please visit www.nationalmi.com.

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