

Borrower-paid private mortgage insurance (BPMI) may be cancelled in a few different ways, depending upon a borrower's situation. The Homeowners Protection Act of 1998 established rules for both automatic termination and borrower cancellation of BPMI on certain home mortgages.

HOMEOWNERS PROTECTION ACT

The Federal Homeowners Protection Act (HoPA) requires that BPMI be cancelled when there is a certain amount of equity in the property securing an insured loan. The act covers privately insured first mortgages on single-family primary residences, whose sales were closed on or after July 29, 1999. There are provisions for both borrower-requested cancellation and automatic cancellation based on the "original" property value. A borrower must initiate a borrower-requested cancellation with a written request to the lender or mortgage servicer. In order to actually cancel the BPMI, for both types of cancellation, the lender or mortgage servicer must request cancellation from the MI company.

When can a borrower request cancellation of BPMI under the HoPA?

When the balance on the mortgage is scheduled to reach, or sooner if it actually reaches, 80% of the home's original value, a borrower has the right under the HoPA to request cancellation of the BPMI. In order to cancel, the borrower must be current on the mortgage payments and have a good payment history. In addition, the borrower must satisfy the lender's requirements to demonstrate that there are no subordinate liens on the property and that the property value has not declined below its original value.

With respect to borrower-requested cancellation, who does the borrower notify?

If a borrower wishes to cancel BPMI, he must provide a written request for cancellation to the lender, who, if satisfied that all conditions are met, then cancels the BPMI with the mortgage insurance provider.

How does BPMI get automatically cancelled?

The HoPA requires lenders to automatically cancel BPMI when the mortgage balance is scheduled to reach 78% of the home's original value and payments are current.

Will the borrower get a refund?

Depending on the situation, a borrower may be eligible for a refund of unearned BPMI premiums when the policy is cancelled. The borrower should contact the lender about the particular loan, mortgage insurance premium product, and other conditions that may apply.

FANNIE MAE® AND FREDDIE MAC® LOANS

What if my loan is with Fannie Mae or Freddie Mac?

While the HoPA provides for legally required cancellation of BPMI, Fannie Mae and Freddie Mac have additional guidelines for both borrower-requested and automatic cancellation of BPMI. Fannie Mae and Freddie Mac allow for cancellation of BPMI based on a property's "current" value, in addition to cancellation based on a property's "original" value, as required by the HoPA. With respect to their respective rules for cancellation of BPMI based on the "current" property value, the GSEs typically require that the borrower's payments on the loan be current, the loan be at least 2 years old, and the borrower have an acceptable payment history. See the Fannie Mae and Freddie Mac Seller/Servicer Guides for full details of the GSEs' cancellation requirements.

How is the "current" property value determined?

The mortgage servicer must obtain a new appraisal that is based on an inspection of both the interior and exterior of the property. The servicer warrants to the GSE that owns the loan that it has reviewed the appraisal and is satisfied that the opinion of value is both reasonable and adequately supported by market data. The mortgage servicer may charge the Borrower for the cost of this appraisal.

Where can I get more information?

We've only provided basic information regarding cancellation of BPMI. Additional information regarding cancellation of BPMI can be found on the Consumer Financial Protection Bureau's (CFPB) website at www.consumerfinance.gov

This content is intended to provide an informational overview of BPMI cancellation and does not constitute legal advice. The HoPA contains numerous additional provisions that we do not address herein. To assure compliance with any obligations your organization may have under the HoPA, you should review the HoPA itself along with your independent legal counsel. Individual states may also have mortgage insurance cancellation laws that may apply. Fannie Mae and Freddie Mac requirements were taken from the most recent versions of their Seller/Servicer Guides and are subject to change. See those Guides for the most up-to-date mortgage insurance cancellation information