Mortgage Insurance (MI, PMI)

Mortgage insurance (MI) provides lenders with coverage against financial losses in the event of a default and foreclosure. If you put less than 20% down, your loan will most likely require mortgage insurance. MI can feel like a raw deal—you pay for coverage that protects your lender. But consider the alternative: without it, all loans would require at least a 20% down payment, putting homeownership out of reach for many.

Government versus Private MI

The government offers several mortgage insurance and mortgage guarantee programs through FHA, VA and USDA home loan programs. Government MI programs have fixed costs that vary based only upon how much you are putting down and the term of your loan. Conventional loans require private mortgage insurance (PMI). PMI can take many possible forms.

The Many Faces of PMI

PMI can be paid directly by the borrower or indirectly through the lender, referred to (not all that creatively) as Borrower-Paid MI (BPMI) or Lender-Paid MI (LPMI). PMI can be paid in monthly installments, in a single sum at closing or split between monthly and up-front costs. Single premium MI can sometimes be financed.

Private MI premiums range widely, varying based upon the type of loan, loan term, down payment, credit score, property type and occupancy. Off and on over the past decade, mortgage insurance has been tax-deductible, subject to income limitations. When MI is not otherwise tax-deductible, LPMI can create a tax benefit.

Cancelation of Monthly PMI

Under the Homeowners Protection Act of 1998, monthly PMI policies for single-family primary residences may automatically cancel when the loan is schedule to reach 78% of the original value, but you may be able to cancel your MI earlier if you can demonstrate adequate equity to your lender.

Once you've paid 24 months of timely payments, ask your lender the procedure and requirements for cancelation. Likely, you'll need to prove you have 20-25% equity using an independent appraisal. The appraisal will cost $400-800, so check in with your Realtor about the value of your home before spending any money.

Which MI is Right for You?

If your loan requires mortgage insurance, we'll explain the available options, discuss the relevant variables and help you find the best alternative. MI is, after-all, a bit of a necessary evil, we'll help you minimize the cost and maximize your tax-benefit.

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