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What you need to know about private mortgage insurance

by Amy Fontinelle

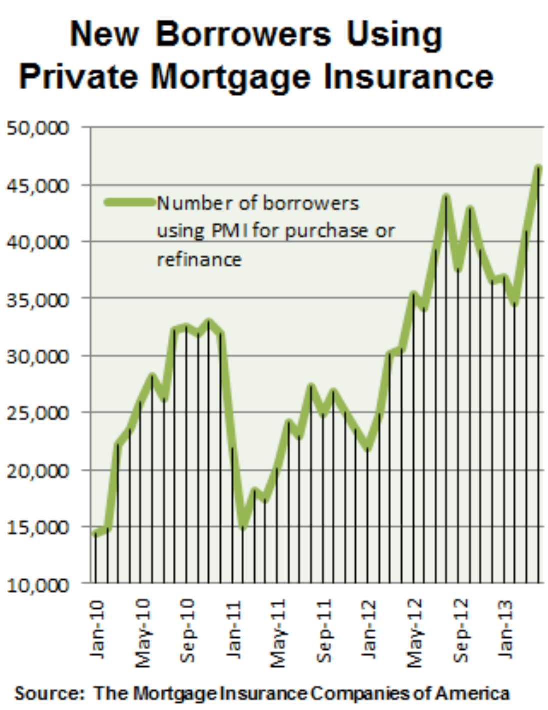
Private mortgage insurance, or PMI, is often bad-mouthed as a terrible deal for consumers.

But without PMI, you might not be able to get a conventional home loan at all.

PMI is required on any conventional loan when the borrower doesn't make a 20% down payment. If you have to get mortgage insurance, you'll be charged about a quarter percent to more than 1% of the value of your loan based on your credit, down payment and loan term.

"(PMI) protects the lender in case the borrower defaults on the loan," says George Beylouny, branch manager of Silverton Mortgage Specialists in the Vinings area of Atlanta. "The less money someone puts down, the more risky the loan is."

For borrowers, PMI is an additional monthly expense on top of principal, interest, taxes and homeowners insurance. But PMI is tax-deductible for homeowners who meet income requirements.



Consider it the price you pay to gain access to the very best mortgage interest rates.

For low-down-payment borrowers, you probably have just two other options, a piggyback loan or an FHA loan.

Neither might beat the cost of PMI, especially the FHA loan, which has made its version of mortgage insurance more expensive.

PMI is priced by risk, so the better your credit profile and the more you put down, the lower your monthly PMI payment, Beylouny says.

How much you'll pay for PMI each month is calculated based on two sliding scales, says Marc Israel, a real estate attorney and executive vice president of the title insurance firm Kensington Vanguard National Land Services in New York City.

The first scale is based on the amount you put down, which could range from 3.00% to 19.99%.

The second is based on the loan term, ranging from 10 to 30 years.

Where your loan falls on these two scales, along with your credit score, gives lenders a number that they multiply against the amount you're borrowing. The result is the annual cost of PMI. Divide that amount by 12 to get your monthly PMI payment.

Because PMI is based on the loan amount and down payment, the higher the loan amount, the higher the monthly PMI you pay; the closer you get to 20% down, the lower the monthly PMI, says mortgage broker Steven Marche of Great American Funding Corp. in Westlake Village, Calif.

We asked Gary Parkes, a lender at Carrington Mortgage Services in Atlanta, to provide us with some examples, which you'll see in the chart below. These numbers should be near universal, as all PMI companies typically charge the same or similar rates.

In these comparisons, our fictional borrower has a credit score between 720 and 759.

How Much Would You Pay?

Loan-to-Value	30-year fixed	15-year fixed	Monthly payment
95.01% to 97%	PMI 1.15% of loan	PMI 1.15% of loan	$96/$96 per $100,000 borrowed
90.01% to 95%	PMI 0.67% of loan	PMI 0.62% of loan	$56/$52 per $100,000 borrowed
85.01% to 90%	PMI 0.49% of loan	PMI 0.39% of loan	$41/$33 per $100,000 borrowed
85% and under	PMI 0.32% of loan	PMI 0.30% of loan	$27/$25 per $100,000 borrowed

Once you’ve committed to paying PMI, you'll probably have to keep it for at least two years, Beylouny says.

After that, you can usually cancel it once you have 20% equity in your home.

How long will it take you to reach 80% loan-to-value?

Say you’re borrowing $100,000 for 30 years at 4.0% and your home’s purchase price was $110,000.

When your loan closes, you’ll have 9% equity ($10,000 down payment divided by $110,000 purchase price).

You’ll have 80% LTV when your loan balance is $88,000 (80% of $110,000).

After plugging your loan amount, interest rate and term into our mortgage calculator, click on the amortization table tab and select the monthly option.

Scroll down until the number in the right column is $87,930 (the first point at which the balance drops below $88,000).

Then look at the date in the far left column. In this example, it’s August 2019, or six years into your mortgage.

That’s when you can contact your lender about canceling PMI.

Your lender also may allow you to cancel PMI if the value of your property has increased to the point where your mortgage balance is 80% or less of the current market value, either because of market appreciation or because of improvements you’ve made.

The federal Homeowners Protection Act requires your lender to cancel PMI automatically when you reach 22% equity.

But you shouldn’t assume your lender will stay on top of things. Also, why not save your money by getting PMI canceled as soon as possible?

PMI cancellation is contingent upon your being current on the mortgage and having a timely repayment history. If you’re behind, you’ll have to catch up before your lender will cancel PMI.

Your property’s value also must be stable or appreciating. Your lender might order an appraisal to prove it.

And you can’t have a second mortgage, such as a home equity loan or home equity line of credit.

Remember, PMI protects the lender against excessive risk. If you’re behind on your mortgage payments, if your property is losing value or if you’ve borrowed more money against your home, you’re a riskier borrower — one who is statistically more likely to wind up in foreclosure.

Contact your lender before you reach the 80% mark to ask what the official process is for canceling PMI so you’ll be prepared to ditch it.

When you reach 80% LTV, submit your cancellation request in writing, making sure to carefully follow the lender’s requirements.

You can find a sample cancellation request letter here: http://www.privatemi.com/loanoptions/benefits/sample_cancel.cfm.

If you end up paying PMI for more months than you were required to, your lender is supposed to refund the excess premiums.