FreeandClear®

CHEAT SHEET

What is Private Mortgage Insurance (PMI) and When Do I Need to Pay It?

- If you make a down payment of less than 20% when you buy a home, lenders require the borrower to purchase private mortgage insurance, which is also known as PMI
    - PMI is insurance against loss from mortgage default provided to the lender by a private insurance company
- PMI typically requires that the borrower pay an ongoing annual fee, paid monthly
- PMI rates vary depending on several factors including:
    - Loan-to-value ratio (the ratio of your mortgage amount to the value of the property you are buying): the higher the loan-to-value ratio, the higher the PMI fee
    - Credit score: the higher your credit score, the lower the PMI fee
    - Mortgage term: the shorter the mortgage term, the lower the PMI fee
    - Mortgage amount: if the loan amount is greater than $417,000, the PMI fee is higher than if the loan amount is less than $417,000
    - Mortgage type: fixed rate mortgages have lower PMI fees than other mortgages such as adjustable rate mortgages (ARM)
- The table below shows the estimated annual and monthly PMI fees for a $300,000 30 year fixed rate mortgage with various loan-to-value ratios
    - Please note that PMI fees vary and the figures are estimates only. Please consult your lender to determine the PMI fees that may apply to your mortgage

Loan-to-Value Ratio (LTV)	PMI Fee (as a % of Loan Amount)	Annual PMI Fee	Monthly PMI Fee
95%	0.62%	$1,860	$155
90%	0.44%	$1,320	$110
85%	0.27%	$810	$68

*PMI fees based on a borrower credit score of 720 - 759
*Source: MGIC (May 2014)

- The borrower only has to pay PMI as long as the loan-to-value ratio is greater than 80%
- The loan-to-value ratio decreases as borrower pays down the mortgage balance over time or if the property value increases
- The borrower can request to have the PMI fee removed if he or she believes the loan-to-value ratio is below 80%
    - Requesting the removal of PMI can be a time-consuming process and the borrower may be required to pay for an appraisal
    - Removing PMI can save the borrower a significant amount of money
- It's important to point out that some lenders may charge a higher interest rate instead of charging PMI
    - So the lender may offer you an interest rate of 4.0% if you make a down payment of 20% and an interest rate of 4.5% if you make a down payment of 10%
- In many cases paying a higher interest rate can cost the borrower more than paying PMI fees because the borrower pays the higher interest rate over the life of the mortgage unless they are able to refinance
- If you decide to make a down payment of less than 20% and the lender does not require that you pay PMI, be sure to ask the lender if PMI is included in the interest rate, and if the answer is yes, ask what the interest rate would be if you paid PMI separately
    - If you pay for PMI separately, the interest rate should be lower and you will be able to have the PMI fee removed if your loan-to-value ratio drops below 80% in the future
    - This could save you a significant amount of interest expense over the life of your mortgage