Here's How To Win
The Private Mortgage Insurance Game

Private Mortgage Insurance (PMI) allows home buyers to purchase a home with less than the traditional 20% down payment. It has helped many thousands of Americans become homeowners who would otherwise have been unable to buy for lack of enough cash. We hope you'll call us if you have any questions about PMI or any other real estate matter.

Historically, the less a homeowner has invested in a property, the higher the chance the owner will walk away from it if payments fall behind. PMI protects lenders against the higher risk of low-down-payment loans by paying the losses if those loans go into default.

Of course, the trade-off for the homeowner is a higher monthly payment to cover the cost of the PMI insurance. But the payment doesn't last the life of the loan. Once a homeowner's equity reaches 20%, PMI insurance can be cancelled, along with the monthly PMI payment. That's what The Homeowners Protection Act is all about, effective July 29, 1999.

If you're currently paying PMI or if you're thinking about buying a home with less than a 20% down payment, the information in this report could save you thousands of dollars.

Your Legal Rights

The Homeowners Protection Act of 1998 stipulates that lenders must automatically cancel private mortgage insurance (PMI) once an owner's home equity reaches 22%. The law will save many qualifying homeowners thousands of dollars each year by eliminating their PMI payments. But other qualifying homeowners will save even sooner.

Why? Because the savvy homeowner knows the law also requires a lender to cancel PMI at the 20% equity level if the homeowner makes a written request. Without a written request, the lender is allowed to continue charging PMI until the owner's equity reaches 22% on the loan pay-down schedule.

Low-Down Buyer Beware

Although premiums vary, it is not uncommon for a PMI premium to cost between .5% and 1% of the loan amount per year. A $200,000 loan, for example, could require an annual payment of between $1,000 and $2,000 (or $83 to $167 per month, depending on the percentage of down payment).

Typically, a PMI premium is first paid one year in advance by the buyer at the settlement table. Every month after closing, two things happen. First, 1/12 of that pre-paid amount is credited toward your annual PMI premium. Second, your monthly PMI payment goes into your mortgage escrow account so that enough money is accumulated to make the advance payment each year.

Request vs. Automatic

If you have reached 20% equity in your home through payments and market appreciation, then you can request to have the PMI eliminated. This was always the case before the 1998 law, but most homeowners didn't know they had the option to do so. Now, however, the law requires lenders to send letters to homeowners, letting them know they've reached enough equity in their home from loan pay-down to cancel their PMI policy. But they're not required to send those letters until the equity reaches 22%.

Catch 22

For automatic PMI cancellation, lenders calculate equity using the amount of payments made and the original loan amount. Market value is not considered. To establish equity gained from appreciation, you must order (and pay for) a professional appraisal of the property's worth.

Alternatives To PMI

One alternative is taking a second mortgage to cover the shortfall between your down payment and the requisite 20%. For example, a first trust of 80%, combined with a second trust of 15% and a down payment of 5% (80/15/5) would allow the first-trust lender to eliminate PMI premiums. You would have two house payments,