



**NC** DEPARTMENT  
*of* INSURANCE  
MIKE CAUSEY, COMMISSIONER



A CONSUMER'S GUIDE TO

# **PRIVATE MORTGAGE INSURANCE**



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Insurance Commissioner

The North Carolina Department of Insurance recognizes that insurance is a complex issue, and it is our desire to keep consumers informed. This guide will help explain the basics of private mortgage insurance and provide insurance tips.

This guide is intended to help you understand private mortgage insurance, but it is not a substitute for reading your policy contract. In all instances, the written policy contract language will prevail. It is to your benefit to always read the information provided at the closing of your mortgage and annual statements provided by your lender.

Your Department of Insurance is available to assist you with these complicated insurance matters. I want every North Carolinian to know that help is available by calling our toll-free number 1-855-408-1212 or by visiting the Department's Web site [www.ncdoi.gov](http://www.ncdoi.gov).

## WHAT IS PRIVATE MORTGAGE INSURANCE?



Private mortgage insurance (PMI) helps protect lenders against losses due to the default of a borrower and subsequent foreclosure on the home. Lenders generally require PMI when you are purchasing a house, if the down payment is less than 20 percent of the total value of the house. Depending on the type of policy, the insurer will pay the lender from 20 to 30 percent of the mortgage balance if you default on your mortgage. That is generally sufficient to offset the cost the lender must incur to foreclose, repossess and resell your home.

When determining if a mortgage loan should be made, a lender wants to ensure that the property in question can be sold without loss in the event that the borrower defaults on loan payments. If a borrower applies a down payment of 20 percent, the lender only has to lend 80 percent of the property's value. So if the lender had to foreclose on the property and sell it for 80 percent of its value, the lender would not lose any money.

Lenders require PMI on most conventional mortgages because experience reveals a strong correlation between borrower equity and default. The less money a borrower has invested in a home, the greater the probability of default. Without that financial guaranty, lenders will typically require a down payment of at least 20 percent.

### WHAT SHOULD I KNOW ABOUT PMI?

PMI premiums for a fixed-rate mortgage are often less than the rate for an adjustable loan. Premiums are based on the amount and terms of the mortgage and will vary according to loan-to-value ratio, type of loan and the amount of coverage required by the lender.

Private mortgage insurance is used with conventional financing only. A conventional mortgage is a loan not obtained under a government-insured program. Institutional investors such as banks or insurance companies typically hold conventional mortgage loans.

PMI is usually paid for by the homebuyer on either an annual, monthly or single premium plan. If the lender pays for the private mortgage insurance, they will generally pass that cost on to the borrower. Typically, a portion of the mortgage insurance premium is paid up front at closing and later paid as part of the monthly mortgage payment.

### WHAT DOES PMI DO FOR ME?

PMI can enable you to purchase a home you could not normally afford if you are unable to provide the required down payment of 20 percent in most cases. With PMI, you may be able to purchase a larger, more expensive home than you could without the coverage.

PMI makes it possible for a homebuyer to obtain a mortgage with a down payment as low as 5 percent and for low-to-moderate income homebuyers as low as 3 percent.

With mortgage insurance homebuyers increase their buying power. For example, \$5,000 is equal to a 10 percent down payment on a \$50,000 home; but it is also sufficient for a 5 percent down payment on a \$100,000 home. Another scenario: \$10,000 may constitute a 20 percent down payment on a \$50,000 home; but it can also provide enough financial leverage to help qualifying borrowers buy a \$200,000 home with only 5 percent down.

## WHAT RIGHTS DO I HAVE TO CANCEL MY PMI?



The Federal Private Mortgage Insurance Act took effect July 29, 1999, and states that when you close on your house you must be informed in writing that you have private mortgage insurance, what it is, and how and when you can cancel it. After that, you must be notified annually by your lender about when you can cancel your PMI.

For home mortgages signed on or after July 29, 1999, your PMI must be terminated automatically when you reach 22 percent equity in your home based on the original property value, as long as your mortgage payments are current. The law also states that you may request PMI cancellation once you have reached 20 percent equity in your home, based on the original property value, as long as your mortgage payments are current.

There are certain exceptions. The decision on when to cancel the private insurance coverage does not depend solely on the degree of your equity in the home. One exception is if your loan is “high-risk.” Another is if you have not been current on your payments within the year prior to the time for termination or cancellation. A third is if you have other liens on your property. For these loans, your PMI may continue. Ask your lender or mortgage servicer (a company that collects your payments) for more information about these requirements. The final say on terminating a private mortgage insurance policy prior to 22 percent equity buildup is reserved jointly for the lender and any investor who may have purchased an interest in the mortgage.

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) have incorporated the same guidelines for disclosing to consumers their rights regarding PMI. Fannie Mae and Freddie Mac have also gone one step further. While the new law applies only to mortgages purchased after July 29, 1999, if you purchased a house with a loan before that date through Fannie Mae or Freddie Mac, your PMI must be automatically canceled once the midpoint of your loan is reached.

Consumers should also be aware that these protections DO NOT apply to government-insured loans granted by the Federal Housing Administration or the Veterans Administration, which generally require mortgage insurance for the duration of the loan, or to loans with lender-paid PMI. You may consider refinancing your home through another lending program if you want to avoid paying PMI.

### **ADDITIONAL PROVISIONS IN THE LAW:**

- New borrowers covered by the law must be told — at closing and once a year — about PMI termination and cancellation.
- Mortgage servicers must provide a telephone number for all their mortgage borrowers to call for information about termination and cancellation of PMI.
- Even though the law’s termination and cancellation rights do not cover loans that were signed before July 29, 1999, or loans with lender-paid PMI signed on any date, lenders or mortgage servicers must tell borrowers about the termination or cancellation rights they may otherwise have under those loans.

Contact your lender or mortgage servicer to learn whether you’re paying PMI. If you are, ask how and when it can be terminated or canceled.

The Federal Trade Commission works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or to get free information on PMI or other consumer issues, visit [www.ftc.gov](http://www.ftc.gov) or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261.

## CONSUMER TIPS



- Unfortunately, some people continue to confuse private mortgage insurance with mortgage life insurance. Private mortgage insurance puts people in homes; mortgage life insurance pays all or a portion of your mortgage in the event of your death.
- Low-money-down loans without PMI exist and although they may have slightly higher interest rates, consumers should remember that interest and taxes are deductible while PMI is not.
- Remember that a PMI policy will pay you nothing.
- Since the lender is the policy owner, the lender chooses the insurance company providing PMI.
- If you signed your mortgage before July 29, 1999, you can ask to have the PMI canceled once you exceed 20 percent equity in your home. But federal law does not require your lender or mortgage servicer to cancel the insurance.

**IF YOU HAVE QUESTIONS, THE CONSUMER SERVICES DIVISION OF THE DEPARTMENT OF INSURANCE IS HERE TO HELP.**

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You can find additional information as well as a downloadable copy of our [Request for Assistance](#) form on the NCDI Web site.

**NC Department of Insurance | Mike Causey, Commissioner | [www.ncdoi.gov](http://www.ncdoi.gov)**