How to get rid of PMI: Removing private mortgage insurance

How to get rid of mortgage insurance for good

Private mortgage insurance, or PMI, is a big cost for homeowners — often $100 to $300 per month.

Fortunately, you're not stuck with PMI forever. Once you've built up some equity in your home, there are multiple ways to get rid of mortgage insurance and lower your monthly payments.

Some homeowners can simply request PMI cancellation once their mortgage balance reaches 80% of the home's original value. But you may be able to get rid of PMI early. Here's what you need to know about your options.

What is PMI?

If you have a conventional loan and your down payment was less than 20%, you're probably paying for private mortgage insurance. PMI is a type of insurance that protects your mortgage lender if you default on your loan repayments.

While you pay for PMI each month, it doesn't benefit you in any way, aside from allowing a smaller down payment when you first bought your home. But as you steadily pay down your mortgage balance and build equity, you'll have several paths to remove PMI once and for all.

There are generally three types of mortgage insurance.

1. Borrower-Paid Mortgage Insurance (BPMI)

Borrower-paid mortgage insurance, commonly referred to as BPMI, is the most traditional form of private mortgage insurance. As its name implies, the borrower pays the premiums in this setup.

BPMI can be canceled once the loan-to-value (LTV) ratio reaches 80%. However, automatic termination is mandated when the LTV ratio hits 78%, as long as the borrower is current on their payments. The

advantage of BPMI is that once it's canceled, the mortgage payment decreases.

2. Lender-Paid Mortgage Insurance (LPMI)

In the case of lender-paid mortgage insurance (LPMI), the lender pays the PMI premium instead of the borrower. However, this doesn't mean that it's a freebie for the borrower. The cost is typically incorporated into the mortgage through either a higher interest rate or a larger loan amount.

While LPMI might result in a lower monthly mortgage payment compared to BPMI, it's more difficult to cancel. Because LPMI is built into the loan's interest rate, it lasts for the life of the loan. The only way to eliminate LPMI is by refinancing the mortgage, which depends on interest rates and could potentially cost more in the long run.

3. Mortgage Insurance Premium (MIP)

The mortgage insurance premium (MIP) is the equivalent of PMI for loans insured by the Federal Housing Administration (FHA). All FHA loans require MIP, regardless of the size of the down payment.

FHA MIP includes both an upfront premium, which is typically 1.75% of the loan amount and can be financed into the loan, and an annual premium, which ranges between 0.45% and 1.05% of the loan. The exact percentage depends on the amount and length of the loan, as well as the LTV ratio.

For loans with an LTV ratio greater than 90%, MIP is required for the entire loan term. For loans with an LTV ratio of 90% or less, MIP is required for 11 years. Unlike BPMI and LPMI, MIP cannot be canceled early unless you refinance into a non-FHA loan or sell the house.

5 ways to get rid of PMI

Understandably, most homeowners would rather not pay for **private mortgage insurance**. Luckily, there are multiple ways to get rid of mortgage insurance if you're eligible.

1. Wait for PMI to automatically cancel

PMI automatically drops off conventional loans once the loan balance is at or below 78% of the home's appraised value. This is called "automatic cancellation." By law, your mortgage lender is required to terminate PMI on your loan at no cost to you.

Even though automatic cancellation should occur without any effort on your part, it's always a good idea to be proactive. You can request a copy of your PMI cancellation schedule from your lender. You'll know the exact month that your PMI should disappear from your mortgage payment.

2. Request PMI cancellation

You can also request PMI removal when your mortgage reaches an 80% loan-to-value ratio instead of waiting for PMI to fall off at 78%. If you're eligible, your lender must terminate. However, unlike automatic cancellation, you'll generally need to submit a request in writing. But the process may vary from one lender to another.

Alternatively, the servicer must cancel the PMI at the halfway point of the amortization schedule for your loan. For instance, the halfway point for a 30-year mortgage would be reached after 15 years. Even if your mortgage balance is less than 78% of the home's original value, the PMI must end. This is referred to as final termination.

Again, review your PMI disclosures to determine when you qualify for cancellation. You can even prepay your loan's principal to speed up your cancellation date. Some homeowners make an extra mortgage payment each year to reach 80% LTV faster. But even $50 extra each month can help cancel PMI sooner.

3. Get a new home appraisal

With home values rising nationwide, some homeowners may reach 80% LTV sooner than their repayment schedules indicate. That's because you can request early cancellation based on your home's

current value, but you'll need a new **home appraisal** to do so. You'll also need to meet one of these criteria.

Here's how early cancellation works:

- If you've lived in your home for at least two years and have a 75% LTV
- If you've lived in your home for at least five years and have an 80% LTV

However, check with your lender before spending money on a new appraisal. Each mortgage servicer will have its own requirements.

You may be able to do this with a new appraisal, but not all lenders will allow this. It usually needs to be based on the original loan terms and home value when you secured your loan. Otherwise, you need to refinance to get the new value considered.

If you meet the requirements to get rid of mortgage insurance, you could start saving on your home loan immediately.

4. Refinance to get rid of mortgage insurance

If interest rates have dropped since you secured your current mortgage, then refinancing could save you money. In addition to fetching a lower rate, a mortgage refinance may get rid of PMI when your new mortgage balance is less than 80% of the home value.

While refinancing to remove PMI can be a smart move, it's not always the right decision.

Refinancing to eliminate PMI will require paying **closing costs**, which can include host fees. You need to make sure refinancing won't cost you more than you save.

You should calculate the savings versus costs to see how long it will take for the savings to cover the cost of the new loan. If it's longer than you will probably stay in the home, it's probably not a smart decision to refinance.

Plus, if your credit score is below 700, note that conventional loans through Fannie Mae and Freddie Mac charge loan level pricing adjusters. This may knock the new mortgage rate up compared to what you are currently paying.

5. Refinance into a non-PMI loan program

It's also possible to refinance into a different program; one that doesn't require PMI, even with an LTV over 80%.

The interest rate [on non-conforming loan products] may be slightly higher than on a conventional loan, but the elimination of mortgage insurance payments ends up reducing your total monthly mortgage payment.

VA loans — mortgages authorized by the Department of Veterans Affairs — do not require ongoing mortgage insurance. And they offer competitive mortgage rates. If you're a veteran or a current service member, the **VA loan program** offers a great way to save money.

When does PMI go away?

Your mortgage lender must automatically cancel PMI for free when your principal balance reaches 78% **loan-to-value** (LTV). In other words, once you've paid 22% of your mortgage, your lender is required by law to terminate PMI.

Furthermore, your lender must cancel PMI at your written request once your mortgage balance reaches 80% LTV.

PMI will also be terminated once you reach the midpoint of your amortization schedule. So, for a 30-year loan, at the midway point of 15 years, PMI should automatically cancel.

Keep in mind that you'll need to have a history of on-time payments and not miss any mortgage payments whatsoever to be eligible.

Also, note that these rules only apply to removing PMI from conventional loans. The rules for government-backed loans, most notably the FHA loan, are quite different. **Removing mortgage**

insurance premiums (MIP) from an FHA loan typically involves refinancing into a new type of loan. But that's not necessarily the case for getting rid of PMI from a conventional mortgage.

How much does PMI cost?

PMI costs vary greatly, but they typically range between 0.5% and 1% of the total loan amount per year. That means that if you have a $200,000 loan and your PMI rate is 1%, you will pay an extra $2,000 per year, or about $166 per month.

The amount of your down payment, your credit score, the insurance provider providing the coverage, and the type of mortgage you have are just a few variables that affect the price of private mortgage insurance. In general, the higher the PMI premium, the lower your credit score, and the smaller your down payment.

It's important to remember that PMI doesn't have the same effect on all buyers. Some buyers may not be able to avoid it because of their finances, but others may be able to negotiate lower rates or even completely avoid it by making a bigger down payment or improving their credit score.

What does PMI cover?

PMI is designed to protect the lender, not the borrower. If the borrower is unable to make their mortgage payments and the house goes into foreclosure, the PMI will reimburse the lender. PMI can cover a portion of the loan or even the entire outstanding balance, depending on the specific policy terms.

While PMI adds an additional cost to the homebuyer, it allows individuals who may not have a substantial down payment to still have the opportunity to purchase a home.

However, keep in mind that PMI is not the same as homeowner's insurance. It does not cover property damage, homeowner's fees, or problems such as job loss. Furthermore, PMI does not absolve the borrower of their obligation to pay their mortgage.

Reasons to get rid of mortgage insurance

While mortgage insurance can be a crucial tool for homebuyers who can't afford a substantial down payment, there are several compelling reasons to eliminate it as soon as possible.

Lower monthly payments

The most obvious benefit of canceling mortgage insurance is the financial savings. Mortgage insurance can cost between 0.5% and 1% of your entire loan amount annually. For a $200,000 mortgage, that can equate to $1,000 to $2,000 per year, or roughly $83 to $166 per month.

Over the span of several years, these costs add up. Homeowners who get rid of mortgage insurance lower their mortgage payments. Those extra funds can be redirected towards other personal finance goals, like paying down other debts, saving for retirement, or creating an emergency fund.

Build more equity in your home

Eliminating mortgage insurance is often tied to building significant equity in your home — typically 20% or more. Not only does this eliminate the need for mortgage insurance, but it also gives you a larger stake in your property.

This is beneficial if you plan to sell your home in the future, as it means more potential profit from the sale. Furthermore, a larger equity stake can also provide more opportunities for financial flexibility, like the possibility of taking out a home equity loan or line of credit for home improvements or other major expenses.

Improved loan-to-value ratio

When you get rid of mortgage insurance, you also reduce your loan-to-value (LTV) ratio, typically to 80% or lower. A lower LTV ratio is beneficial beyond just eliminating PMI. It signifies a lower risk to lenders, which can be beneficial if you choose to refinance your home in the future.

This could potentially lead to more favorable interest rates or terms, further enhancing your financial position.

Process of removing mortgage insurance

The first step in eliminating your PMI is to assess your home equity. The market value of your home and the remaining principal balance are what determine your equity. Once it reaches 20%, you may be eligible to get rid of mortgage insurance.

- To get started, you'll need to contact your lender and request an end to your PMI payments.
- Some lenders may require a formal letter outlining your request
- Be prepared to prove that you have at least 20% equity in your home
- After you have submitted your request, your lender will review it

If you meet the criteria, your lender is legally required to cancel your mortgage insurance.

Your legal right to get rid of mortgage insurance

The Homeowners Protection Act of 1998 is largely responsible for setting the rules governing PMI removal. This legislation is applicable to residential mortgages signed on or after July 29, 1999. This act requires mortgage lenders to automatically cancel PMI once the loan-to-value ratio reaches 78% based on the original value of the property, assuming the borrower is current on their payments.

However, once the loan-to-value ratio reaches 80%, the borrower can request that the PMI on their current loan be canceled. If the borrower has a good payment history, submits a written request, and there are no other liens on the property, the lender is required to comply.

These rules apply to traditional mortgages. The rules are different for government-backed loans, such as those made through the Federal Housing Administration (FHA). If the down payment is less than 10%, FHA loans, for example, require mortgage insurance premiums (MIP)

for the life of the loan. However, if the down payment is 10% or greater, the borrower can request that mortgage insurance be canceled after 11 years.

To fully understand the nuances and implications of PMI removal, it is always recommended to consult with a financial advisor or your loan officer.

Is PMI bad?

PMI annoys a lot of homeowners, and it's easy to understand why: You're paying for coverage that protects your lender, not you. The same is true for the Federal Housing Administration's MIP requirement for FHA loans.

But mortgage insurance coverage isn't all bad. In fact, without it, you'd probably be paying a higher interest rate because your lender would take a bigger risk on your loan. This is especially true for homeowners who made the minimum 3% down payment on a conventional loan or put only 3.5% down on their FHA loan.

Still, when you can stop making this extra payment without erasing your savings in closing costs or a higher mortgage rate, you should do so.

How to get rid of PMI FAQ

Is PMI based on the home's original sales price or the home's current value?

Different lenders and loan servicers use varying strategies to determine your loan-to-value ratio (LTV). Some calculate LTV based on your home's original purchase price; others rely on your original home appraisal. You could also pay for a new appraisal if your home's current value has risen since you first purchased it. An appraisal may cost as much as $500. But the fee would be worth it if your home's current value shows you have 20 percent home equity — enough equity to cancel PMI on a conventional mortgage, which will save you money each month.

Will a lender cancel PMI automatically?

The Homeowners Protection Act of 1998 requires that lenders disclose mortgage insurance requirements to homebuyers. The law requires loan servicers to cancel PMI automatically when your LTV falls to 78 percent. You can request PMI cancellation when the LTV falls to 80 percent.

What if my loan servicer won't cancel PMI even after I reach 80 percent LTV?

First, check your numbers. Your loan servicer may be using your original purchase price to calculate LTV. You may need a new appraisal to show your home's current value has increased since your original home appraisal or sales price. If you think your loan servicer violates the Homeowners Protection Act, report your experience to the Consumer Financial Protection Bureau.

Do you never get PMI money back?

PMI premiums are non-refundable. Think of it like your car insurance: you pay premiums, and the insurer only pays out if something bad happens. The one exception to this rule is for FHA streamline refinances. If a homeowner refinances an existing FHA loan into a new FHA loan within three years, they can get a partial refund of the original loan's upfront MIP payment. Qualifying for this loan is usually easy if you have had a good payment history for the past three consecutive months.

Is it worth refinancing to remove mortgage insurance?

It's worth refinancing to remove PMI if your savings outweigh your refinance closing costs. You should also consider how long you plan to stay in the house after refinancing. If it's only a few years, you might spend more to refinance than you save. But if you stay in the house for another five or more years, refinancing out of PMI is often worth it. It may also be worthwhile to get a no-closing-cost refinance or roll closing costs into your loan balance.

Can you get rid of PMI with a new appraisal?

If you refinance to get rid of PMI, the process will include a new property value to verify that your loan is below 80 percent LTV. For homeowners with a conventional mortgage loan, you can get rid of mortgage insurance with a new appraisal if your home value has risen enough to put you over 20 percent equity. However, some loan underwriters will re-evaluate PMI based only on the original appraisal. So contact your lender directly to learn about your options.

Can you get rid of mortgage insurance on an FHA loan?

All FHA loans include MIP; it's the type of mortgage insurance that's exclusive to FHA loans. But if you have sufficient home equity (at least 20 percent), you can refinance your FHA loan into a conventional loan without PMI.

How can I get rid of PMI without 20 percent down?

If you're still in the process of shopping for a loan, you can avoid PMI by choosing a special, no-PMI loan or by getting an 80/10/10 piggyback loan that simulates a 20 percent down payment. If you already have a mortgage with PMI, you might be able to refinance into a no-PMI loan.

Does a second mortgage also require PMI?

Getting a second mortgage, such as a home equity loan or a home equity line of credit, should not require additional PMI payments. PMI applies only to your home's original lien. In fact, a second mortgage can even help you avoid PMI by covering a portion of your down payment on a home purchase via the 80-10-10 piggyback mortgage option.

Do USDA or VA loans require PMI?

USDA loans require their own brand of mortgage insurance. It tends to be less expensive than the FHA's MIP requirements. VA loans do not require any ongoing mortgage insurance. VA borrowers do pay an upfront VA funding fee. Only active-duty military members and veterans can use a VA loan.

Check your refinance eligibility

Eliminating mortgage insurance provides financial control and flexibility, improves your loan-to-value ratio, and can yield significant savings. Considering your home's equity, loan terms, and future financial plans, decide whether to remove mortgage insurance.

Refinancing to get rid of PMI can cut your mortgage costs by a large margin and save you money for months or years to come. In addition to dropping mortgage insurance, you could potentially lower your rate and save on interest over the life of the loan.