

Upfront Mortgage Insurance

FHA collects a one-time Up Front Mortgage Insurance Premium (UFMIP) and an annual insurance premium (MIP) which is collected in monthly installments. Most FHA loan programs make the UFMIP a requirement for the mortgage and allow borrowers to finance this cost into the mortgage. Mortgage insurance protects lenders because low down payment loans are riskier than loans where borrowers have more equity.

The cost of this up front premium is 1.75% of the loan amount. If you choose to roll this cost into your loan, you must do so for the whole amount. Otherwise, you can pay entirely in cash up front, but you can't split this cost into two payment methods.

Since UFMIP premiums are based on a percentage, there is no fixed dollar amount for either UFMIP or MIP. All loans are different, so actual dollar amounts will be based on the calculations provided by your lender.

Borrowers often ask if they're entitled to a refund of the Up Front Mortgage Insurance Premium when refinancing, but FHA loan rules in HUD 4000.1 state, "The UFMIP is not refundable, except in connection with the refinancing to a new FHA-insured mortgage."

They go on to say, "If the borrower is refinancing their current FHA-insured mortgage to another FHA-insured mortgage within 3 years, a refund credit is applied to reduce the amount of the Up Front Mortgage Insurance Premium (UFMIP) paid on the refinanced mortgage."