First Time Homebuyer, Campaign Topic-Mortgage Insurance.

Many first-time homebuyers have never heard about mortgage insurance, and yet, may find themselves needing it down road. The following is a small breakdown of how it works, and when you may find yourself required to carry it.

**What is mortgage insurance?** Mortgage insurance, also commonly referred to as private mortgage insurance, is a type of mortgage insurance that companies offer in tandem with conventional loans. Private mortgage insurance, or PMI, protects the lender if you were to abruptly stop making payments on your home.

**What are the varying types of PMI?** When it comes to insurance of any kind, there are variations of packages based on your specific needs. In general, when it comes to mortgage, you can either receive insurance provided by the government, designed for those with FHA loans, or, buyers follow the route of private, conventional loans, that are administered by private sector companies. In essence, your mortgage loan type will be determined by the type of home loan you receive.

**Am I required to have mortgage insurance?** Not necessarily, however certain lenders are more likely to require PMI depending on your extenuating financial circumstances. Typically, if your down payment is less than 20 percent of the value of the home, lenders will require you to carry PMI. Lenders prefer to finance buyers who are low risk, furthermore, a buyer who is unable to make a down payment of 20 percent will be categorized as a higher risk client. Therefore, PMI acts as a fail safe to lenders, when they choose to cover higher risk clients. At first glance, PMI’s appear to be solely beneficial for lenders, however, they give buyers the opportunity to receive financing if they are unable to conjure up a traditional down payment sum.

**The duration of your mortgage insurance, will vary by case.** There is no ‘one size fits all’ answer regarding how long you’ll pay for mortgage insurance. However, the industry standard usually has buyers paying mortgage insurance premiums until they have enough equity in their home to acquire a loan-to-value ratio, or LTV. To put it simply, this ratio is the amount of money you borrowed, divided by the value of the property you bought. Understandably, this ratio will vary drastically depending on numerous factors. If you are required to have PMI, your lender will be able to provide you with a far more definitive answer.

**How much does mortgage insurance cost?** Similarly, to the question of duration, there is no universal answer to questions regarding cost. Conventional mortgage insurance rates vary. Usually, they will be lower than your down payment. However, the lower your credit score, the higher you can anticipate your premium will be. For every $100,000 borrowed, buyers can anticipate paying anywhere between $30-70 per month. Therefore, it is impossible to provide reliable numbers, until your specific situation is assessed.

**When you no longer need mortgage insurance, you can petition its cancellation.** You have the right to request that your lender/servicer cancel your insurance when the principal balance of your mortgage is scheduled to fall to 80 percent of the original value of the home. When crafting a PMI agreement, this date should be provided to you by your lender. Furthermore, you can petition to drop your mortgage insurance earlier, if you are able to meet the requirements before the specific date contractually agreed upon. However, this can be a tedious process, and will require you to be in exceptional standing with your payment history. Your lender may ask for you to provide proof that no second mortgages exist on the home, or that the value of your home hasn’t decreased since its original appraisal at the time of closing. All that said, if you meet the requirements outlined in the agreement, by the specific date as provided in your contract, your PMI will automatically terminate.

**If you’re nervous about being on the hook for mortgage insurance, it can be avoided.** The best way to ensure you can bypass mortgage insurance, is to simply, be in ideal financial standing. This is why it’s universally encouraged for buyers to be cognizant of their financial standing *before* purchasing a home. The best way to indicate you are a low risk buyer? Putting 20 percent down. Even if you are able to avoid the initial cost of a 20 percent down payment, you will still be required to make financial restitutions by way of PMI or other fees in the long run.

**Like always, the best course of action is to get your financial ducks in a row.** Mortgage insurance is not the worst course of action if you’re unable to make an initial down payment, however, it’s still important to recognize the potential drawbacks of opting in to an insurance plan. Ultimately, you have far more to lose than the lender should you be unable to make payments on your home. In order to avoid these worst-case scenarios, be honest about your financial standing. If you are unsure of what to do next, speak with your lender before making any rash decisions. Lenders are here to help you make the best investment long term, and that can only be determined by mapping out your restrictions.

<https://www.bankrate.com/finance/mortgages/the-basics-of-private-mortgage-insurance-pmi.aspx>

<https://www.zillow.com/mortgage-learning/private-mortgage-insurance/>

<https://www.consumerfinance.gov/ask-cfpb/when-can-i-remove-private-mortgage-insurance-pmi-from-my-loan-en-202/>