

WANT A LOWER DOWN PAYMENT ON YOUR HOME? LEARN ABOUT PMI

Banks are all about risk and collateral when it comes to making loans. While it's possible to get a conventional mortgage with less than a 20% down payment, lenders usually require these borrowers to carry private mortgage insurance (PMI). This protects the bank should you default on the loan.

PMI can be expensive. **Learn the facts about PMI and you could save more money than just your down payment!**

How Much Does PMI Cost?

- This insurance will cost you between 0.25% and 2% of your loan balance per year. It all depends on the amount of your down payment, the terms of the loan, and your FICO credit score.
- There are only six major private mortgage insurance providers in the US. All six have similar rates.

Types of PMI

Few people realize there is more than just one type of private mortgage insurance (PMI):

- **Government Mortgage Insurance.** This is for those with government-backed loans, such as FHA or VA loans. Unless you have one of these types of loans, this type of mortgage insurance won't apply to your situation. However, **these government loans are assumable**, so it's helpful to understand the idea of government-provided mortgage insurance.
- **Private PMI.** This is the type of mortgage insurance that everyone likes to complain about. It provides nothing to the borrower other than the ability to purchase a home with a lower down payment. The insurance only covers the lender if you fail to make your payments.

How Long Do PMI Payments Last?

- When your equity in your home reaches 20%, you can request to stop making PMI payments.
- **When the principal you've paid plus your down payment reach 22% of the purchase price, by law, the PMI must be cancelled by your lender, whether you make the request or not.** This is true even if your home has lost value in the interim.

How to Avoid PMI

- One way to avoid PMI is to acquire a second mortgage that will result in only needing a first mortgage at 80% of the home's value. Of course, then you have a second mortgage, which always has a higher interest rate than a first mortgage.
- **The key is appreciation.** If your home is likely to increase in value, this can be a great option.

Private mortgage insurance provides a means of securing a home mortgage without the burden of a large down payment. Ensure you understand the details surrounding PMI before applying for a mortgage or assuming a loan that includes mortgage insurance.