Arch | MI

One important question you must consider:

Can you only afford a down payment that is less than 20 percent of the home's purchase price? **If the answer is yes,** you should know about private mortgage insurance (PMI), as your lender may require it for your loan.

Basics of Private Mortgage Insurance

What is private mortgage insurance?

Private mortgage insurance, or MI, is a type of financial guaranty that helps protect your lender from losses should you lose your home due to default on your loan. Private MI allows your lender to accept a lower down payment than might normally be required without this added protection.

Why does my lender need private MI on my loan?

Private MI is usually required by lenders when the borrower is unable to contribute at least 20 percent of their own funds to purchase the home, as there is a greater risk of default associated with such loans.

By limiting the lender's risk, private MI enables the lender to make low down payment mortgages affordable and available to you.*

What is covered by private MI?

Private MI protects the lender in the event of borrower default and subsequent foreclosure on the home. Even if you have an excellent credit record and the capability to meet mortgage payments, private MI may be required for any loan with a down payment of less than 20 percent of the purchase price of the home.

Who pays for this insurance?

Your lender takes care of applying for MI coverage on your loan after determining the kind of plan you can afford and that best fits your needs.

Typically, the lender will remit the MI premium to the mortgage insurer, similar to the way a mortgage servicer may remit the property taxes and homeowner's insurance premium.

The cost may be added to your monthly principal and interest payment (along with your property taxes and homeowner's insurance) or premiums may be financed into the loan amount. Premiums may be payable monthly, annually or in a single upfront payment, depending on the payment plan your lender selects.

Why is it called private MI?

It is called "private" because it is offered through private MI companies as opposed to similar products available from public agencies such as the Federal Housing Administration (FHA) or Veterans Administration (VA).

Basics of Private Mortgage Insurance (cont'd)

What are the advantages to using private MI instead of the public programs?

- FHA does not offer a choice in premium plans to consumers.
- FHA requires both upfront and monthly premiums.
- For borrowers with good credit profiles who make at least a 5 percent down payment, private MI coverage is usually less expensive than FHA.
- FHA insurance is not cancelable for LTVs > 90 percent.

Is private MI tax-deductible?

Congress has extended the mortgage insurance tax deduction for MI premiums through December 31, 2017. For more information, consult your tax advisor.**

Will this policy make mortgage payments in the event of my death or disability?

No. Credit life insurance and credit disability insurance protect you from losing your home in the event of death or disability, according to the terms of the insurance policy. MI protects only the lender in the event you lose your home due to default for any reason.

How does private MI affect my monthly mortgage payments?

The private MI premium may be added to your monthly payment, along with property taxes and homeowner's insurance, or it may be included in your monthly principal and interest payment if the premiums are financed or if the lender chooses not to directly pass on the costs of the premiums to you.

The amount of that premium is based on the amount and terms of the mortgage and will also vary according to such other factors as the amount of your down payment, type of loan and level of insurance coverage required by your lender.*

How are premiums paid?

The premiums may be paid in several different ways:

- A monthly plan, where no initial premium may be required but a regular monthly premium is added to your monthly mortgage payment and sent to the mortgage insurance company by your lender. This plan can minimize the costs needed at closing.
- An annual plan, which is less expensive than monthly mortgage insurance, requiring you to pay an initial premium at closing and a renewal premium each year. The renewal premium will be included in your monthly mortgage payment and put into escrow for annual collection. The initial premium may be financed into the mortgage loan. You may receive a refund of the unearned premium when the coverage cancels.
- A single premium plan, where the entire premium is paid at one time, up front, and depending on the amount of your down payment, may be financed into the loan amount at closing. This option generally minimizes the monthly mortgage payments of the borrower, and a portion may be refundable in the event your loan is paid off or meets the mortgage insurance cancellation requirements outlined below. In addition, the interest on the portion of the loan amount used to finance the MI premium may be tax-deductible.**
- Premiums may also be paid by your lender without directly passing along the cost to you. In such circumstances, the lender may offset the cost of mortgage insurance by increasing the finance charges for the loan by a corresponding amount, potentially making the entire cost of the premium tax-deductible.**

Are private MI costs paid for the life of the mortgage?

The Homeowners Protection Act of 1998 requires lenders to cancel mortgage insurance when a home loan amortizes to 78 percent of the home's original value, subject to certain conditions, or at the mid-point of the amortization period, whichever comes first.

When specific cancellation requirements are met, borrowers have the right to request cancellation of their private MI. Certain high-risk mortgages are treated separately. For more detailed information about the Homeowners Protection Act, please consult your lender's mortgage loan specialist. ***

Ask your loan officer about the various private MI products and payment options available to your lender from Arch MI.

* Consult with your lender for a homebuying decision that makes financial sense for you.

** Arch MI cannot provide tax advice. Taxpayers should consult their own tax advisors concerning applicability of the deduction to their particular circumstances under the Internal Revenue Code and the laws of any other taxing jurisdiction. This information is not intended or written to be used, and it cannot be used, for the purposes of avoiding U.S. federal, state or local tax penalties.

*** Certain other conditions apply. Consult your lender.

ARCH MORTGAGE INSURANCE COMPANY | 230 NORTH ELM STREET GREENSBORO NC 27401 | **ARCHMI.COM**

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