

What is PMI and how to get rid of it

Real estate lenders are a funny lot. It seems they're happy to lend anybody money. Assuming a half-way decent credit rating, any potential home buyer can secure a loan for a house. Why? Because these transactions are secured by a very valuable asset: the home itself. If a borrower defaults on a loan, the risk for the lender is often only the difference between the value of the home and the amount outstanding on the loan, less the amount it costs them to foreclose and resell the property.

For this reason, lenders are very wary of lending more than a certain percentage of a home's value. Traditionally, this has been 80 percent. The cushion this provides the lender helps ensure that their losses from loan defaults are kept to a minimum.

In recent years, however, it has become increasingly more common to see home buyers using down payments of 10, 5 or even 0 percent. Naturally, loaning this much presents the lenders with a lot more risk. To offset this risk, these transactions often require Private Mortgage Insurance or PMI. This supplemental policy protects the lender in case a borrower defaults on the loan, and the value of the house is lower than the loan balance.

PMI has been a large money-maker for the mortgage lenders. The amount of the insurance - often \$40-\$50 per month for a \$100,000 house - is commonly rolled into the mortgage payment. Given the size of the overall payment, this additional fee is often overlooked. Homeowners continue to pay the PMI even after their loan balance has dropped below the original 80 percent threshold. This occurs naturally, of course, as the home owner pays down the principal on the loan. On a typical 30-year loan, however, it can take many years to reach that point.

Until recently lenders were under no obligation to tell home owners when they had reached a point where the PMI can be dropped. That all changed in 1999, when the Homeowners Protection Act took effect. In most cases, this law now obligates lenders to terminate the PMI when the principal balance of the loan reaches 78 percent of the original loan amount. Savvy homeowners can get off the hook a little earlier. The law stipulates that, **upon request** of the home owner, the PMI must be dropped when the principal amount reaches only 80 percent!

It is important to note that this law only applies to home loans - whether first time or refinances - that closed after July, 1999. Also certain other conditions must be met, such as being current on the loan payments. Buyers that purchased before July 1999 can also have their PMI removed, but they must initiate the process and though the lender is under no obligation to do so, most will.

Of course, there is another way that home owner's equity can reach beyond the 80/20 percent ratio. Many areas of the United States have seen significant gains in the value of real estate over the past decade. In fact, certain areas have seen appreciation levels of 100 percent or more. Even those people living in areas with more modest gains may find that the value of their property has quickly grown to the point where the amount of principal they owe on their loan is less than 80 percent of the home's current value. Again, in these cases, the lenders are under no legal obligation to remove the PMI. In most cases, however, as long as the home owner has been prompt on their loan payments and don't represent an exceptional risk, the lenders will agree to remove the extra fees.

The hardest thing for most home owners to know is just when does their home equity rise above this magical 20 percent point? A certified, licensed real estate appraiser can certainly help. It is an appraiser's job to know the market dynamics of their area. They know when property values have risen - or declined. Many appraisers offer specific services to help customers find the value of their homes and remove PMI payments. Faced with this data, the mortgage company will most often eliminate the PMI with little trouble. The savings from dropping the PMI pays for the appraisal in a matter of months. At which time, the home owner can enjoy the savings from that point on.

----- Cancellation of Private Mortgage Insurance: Federal Law May Save You Hundreds of Dollars Each Year

If you put less than 20 percent down on a home mortgage, lenders often require you to have Private Mortgage Insurance (PMI). PMI protects the lender if you default on the loan. The Homeowners Protection Act of 1998 - which became effective in 1999 - establishes rules for automatic termination and borrower cancellation of PMI on home mortgages. These protections apply to certain home mortgages signed on or after July 29, 1999 for the purchase, initial construction, or refinance of a single-family home. These protections **do not** apply to government-insured FHA or VA loans or to loans with lender-paid PMI.

For home mortgages signed *on or after* July 29, 1999, your PMI must - with certain exceptions - be terminated automatically when you reach 22 percent equity in your home based on the original property value, if your mortgage payments are current. Your PMI also can be canceled, when you request - with certain exceptions - when you reach 20 percent equity in your home based on the original property value, if your mortgage payments are current.

One exception is if your loan is "high-risk." Another is if you have not been current on your payments within the year prior to the time for termination or cancellation. A third is if you have other liens on your property. For these loans, your PMI may continue. Ask your lender or mortgage servicer (a company that collects your payments) for more information about these requirements.

If you signed your mortgage *before* July 29, 1999, you can ask to have the PMI canceled once you exceed 20 percent equity in your home. But federal law does not require your lender or mortgage servicer to cancel the insurance.

On a \$100,000 loan with 10 percent down (\$10,000), PMI might cost you \$40 a month. If you can cancel the PMI, you can save \$480 a year and many thousands of dollars over the loan. Check your annual escrow account statement or call your lender to find out exactly how much PMI is costing you each year.

Additional provisions in the law

- New borrowers covered by the law must be told - at closing and once a year - about PMI termination and cancellation.
- Mortgage servicers must provide a telephone number for all their mortgage borrowers to call for information about termination and cancellation of PMI.
- Even though the law's termination and cancellation rights do not cover loans that were signed before July 29, 1999, or loans with lender-paid PMI signed on any date, lenders or mortgage servicers must tell borrowers about the termination or cancellation rights they may otherwise have under those loans (such as rights established by the contract or state law).

Next Steps

Some states may have laws that apply to early termination or cancellation of PMI - even if you signed your mortgage before July 29, 1999. Call your state consumer protection agency for more information about your state's rules. Fannie Mae and Freddie Mac, which buy home mortgages from lenders, also may have guidelines affecting termination or cancellation of PMI on home mortgages signed before July 29, 1999. Check with your lender or mortgage servicer, or call Fannie Mae or Freddie Mac, for more information.

Contact your lender or mortgage servicer to learn whether you're paying PMI. If you are, ask how and when it can be terminated or canceled.

For More Information

Consumer Links : <http://www.ftc.gov/bcp/menu-home.htm>
 : <http://www.ftc.gov/> call toll-free, 1-877-FTC-HELP (1-877-382-4357);
 TTY: 1-866-653-4261.
 Consumer Sentinel : <http://www.consumer.gov/sentinel/>

Needing Information concerning: **PMI / MIP**
Private Mortgage Insurance / Mortgage Insurance Protection
For Conventional loans / For Government related loans

FEDERAL TRADE COMMISSION	FOR THE CONSUMER
1-877-FTC-HELP	www.ftc.gov

Above information obtained from: www.ftc.gov

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