



Mortgage Insurance: Friend or Foe and What the Heck is MI....Anyway!

PART I

Be glad we have Mortgage Insurance (MI) today. MI is providing opportunities for home buying.

Creative loan structuring by most all lenders from 1999-2007 greatly reduced the number of loans with mortgage insurance. There has never been more of a need for mortgage insurance than the present. I hope the information below provides the purpose of mortgage insurance, clarification of terminology on the major three types of financing (Conventional, FHA, VA) and when a buyer can request for MI to be dropped.

Mortgage Insurance (MI) is used to diversify the risk of foreclosure for a lender. Many people see MI as penalty or useless to the buying process. I completely understand their perspective. In economic prosperity MI is seen less as benefit but rather an ugly, unwanted necessity. However I would like to suggest MI is a reason that today people can still get residential financing with less than 20% down. If the risk was not diversified for the banks making home loans, minimum down payment requirement would easily be 20%.

Today very few if any borrowers in metro Atlanta can get a primary residence 95% conventional loan with mortgage insurance, which proves my point that without PMI (private mortgage insurance) more money is required for down payment. While lenders are willing to lend to borrowers with 5% down the MI companies are not (except on rare occasions). Additional proof of what the mortgage lending landscape looks like when MI companies do not participate in loans is in the arena of second homes and investment properties. In the majority of cases on both of these classifications, 20% down payment is required, which eliminates the need for mortgage insurance.

It appears that for the foreseeable future, mortgage insurance will be issued on primary residences with at least 10% down. In time as the real estate market begins to heal I hope we see a MI companies re-enter the game and issue MI on primary residences for 95% conventional financing as well as second homes and investment properties. When will that be? Once home values start to rise again and foreclosure rates drop.

PART 2

FHA is a great solution for filling the void for 95% conventional financing. FHA offers down payment for 3.5% of the sales price. FHA requires a very reasonable monthly MI fee plus a one time upfront fee. FHA refers to its MI as MIP (mortgage insurance premium). The upfront fee is currently 1.75% of the base loan amount. There is an option to either pay that fee out of pocket at closing or finance back into the loan amount. 99.5% of the buyers elect to finance the fee back into the loan amount, preferring to bring less cash to closing table and finance the amount over the term of the loan.

TWO NOTES ON FHA MIP:

1) When a homebuyer sells his/her home they should contact HUD (the government lending body providing FHA financing) and see if they are eligible for MIP refund of the original 1.75% upfront fee. Refund amount and eligibility will be based on length in the loan among other factors.

2) After having the FHA loan for five years, home owner can petition FHA to drop monthly MIP premium. Contact HUD for more details on what requirements are.

NOTES ON VA AND CONVENTIONAL MI:

VA

The best loan available today! AND to the most deserving! No monthly MI. 100% financing if veteran has full eligibility. VA loan does require a VA Funding fee that can either be paid out of pocket or financed back into the loan amount. VA funding fee will depend on number of times veteran has used VA eligibility to purchase home.

CONVENTIONAL

Expect minimum of 10% down and increase in MI premiums due to perceived market risk, past losses due to non-performing loans, and dropping home values. Frequently a buyer will ask if MI is required if the house appraises for substantial higher value than purchase price. **Lenders will go off the appraised value or sales price, the lesser of the two.** Instant equity can be realized on a refinance, establishing an equity line, or when sold, but not on the purchase.

Check with lender servicing your loan on what requirements are to drop PMI (private mortgage insurance). Expect a two year seasoning period from the date you purchase until one can petition for MI to be dropped and a loan to value of less than 80%.

Finally if you are pursuing conventional financing (purchase or refinance) ask your mortgage consultant to educate you on "lender paid mi".