<u>8. Understand Private Mortgage Insurance (PMI)…Stop Paying $312 - $732 Yearly for Nothing</u> (4 Minutes)

Q1. What is private mortgage insurance?

A1. When people buy homes with less than a 20% down payment, they are required to have private mortgage insurance. Typically down payments are 20% down when home buying. If the down payment is less than 20%, banks and mortgage companies require that the home buyers buy insurance to protect the banks and mortgage companies from losses if the home buyers/homeowners default on their mortgage. The theory is that with larger down payments, homeowners have more equity in the home and are therefore less likely to default on their mortgages. Conversely, homebuyers with smaller down payments, thus less equity in the home, are more likely to default on their mortgages. So banks and mortgage companies want protection for this possibility in the form of insurance coverage.

Q2. Well, obviously buyers with 5%, 10% or 15% down have been able to buy homes. Is this because they were able to buy private mortgage insurance? And how much does it cost?

A2. Yes, it is because they could buy PMI. Using rates on a government-monitored chart, based on 1997 fees, let's run through an example. The example is of a $100,000 sales price. With 5% down payment, or $5,000, the monthly PMI insurance is $61.00. The yearly premium is $732. With 15% down payment, or $15,000, there is a monthly premium of $26. The yearly premium is $312.

Q3. How long does one need PMI insurance? Forever?

A3. As you gain more and more equity in the home, and as the property appreciates, you may not even need this insurance, but homeowners are often not notified if their equity exceeds 20% and they often keep paying for this unnecessary insurance.

Don't pay an extra $312 or $732 a year for nothing. Multiple this by 10 or 20 years. Couldn't you use the $3,000 to $14,600 better than someone else?
Recently I appraised a home for homeowners whose total motivation was to demonstrate to their bank how much their home had appreciated. They could show how much equity they had in the house, obviously. The $250 appraisal fee saved the homeowner thousands in unnecessary PMI insurance.

Q4. Hasn't there been a change in the law recently?

A4. There has been some correction to this problem. Effective July 29, 1999 the Homeowner Protection Act of 1998 has provided some relief. If you got a mortgage after July 1999, the PMI insurance is to be automatically cancelled when the equity in the home reached 22%.

Q5. Doesn't this solve the problem?

A5. But… GUESS WHO IS AS ASKED TO MONITOR IT? That's right… the banks that require it. Don't you think you should be aware of this and watch for this also?

I want you to become a smart homebuyer, not only in this first home buying experience, but so that you are an authority through multiple home buying experiences over your lifetime.