

What Is PMI? And What Does It Mean To Me?

Private Mortgage Insurance (or PMI) was developed to help borrowers purchase a home without putting 20% down as was required by banks and lenders many years ago. Think of it as a “hired co-borrower.” Two out of every five borrowers use PMI to get into homes years sooner than they would otherwise be able to. In fact, in the past 40 years PMI has helped make home ownership a reality for more than 19 million families!

Different types of loans refer to PMI in different ways, and some loans have different requirements for the amount of coverage needed, but it essentially serves the same purpose. PMI helps protect the lender. Not all loans require mortgage insurance and the premium varies due to different criteria.

Conventional Mortgages

When the loan to value for an owner-occupied residence is more than 80% (or the borrower is putting less than 20% down), then PMI is typically required. The premium may be paid on an annual, monthly or single premium plan. (The most popular method of payment is the monthly method). The premiums are based on the amount and terms of the loan and may vary according to the loan-to-value, type of loan, term of loan and the amount of coverage required by the lender. In most cases, the less the borrower puts down the higher the premium tends to be. PMI may be waived when the loan reaches 80% or less of the value of the property.

VA Mortgages

A VA loan is guaranteed by the Veterans Administration (VA) and the lender is required to collect an up-front, one-time fee at closing called the “Funding Fee.” This amount varies between 1/2% and 3% of the loan amount depending upon the status of the Veteran, and if the Veteran has used his VA benefits previously to purchase a home. There is no monthly premium and there is no refund of the Funding Fee when the loan-to-value is reduced below 80% or if the loan is paid off early.

FHA Mortgages

Regardless of the amount of the down payment, FHA requires a one time up-front fee of 2.25% of the loan amount, which may be financed in with the loan. In addition to the up-front fee, there is a yearly fee of 1/2% of the unpaid balance of the loan, which is divided into 12 equal payments and paid monthly in the house payment. If the loan is paid in full within the first 7 years there may be a prorated refund of the up-front premium paid. The monthly mortgage insurance premium may not be waived regardless of the loan to value.

Homeowners Protection Act

A federal law, called the Homeowners Protection Act, affects many loans originated after July 29, 1999. The law ensures that your PMI will be cancelled when you have reached a certain level of equity

in your home. This means two things to you:

- Your lender must inform you, both at the time of closing and annually, about your right to request the cancellation of PMI.
- Your lender may be required to automatically cancel PMI at a certain point if you have not already requested that it be dropped.

How Does the Law Work?

The law is designed to help you better understand PMI. Here is what the law requires:

Initial Disclosure

At closing, your lender must provide you with written notification explaining that you have PMI on your loan and how it may be cancelled.

Annual Disclosure

Each year, your lender must send you a reminder that you have PMI and that you may request cancellation once you have met certain requirements.

Borrower Initiated Cancellation

When your mortgage balance reaches 80% of your home’s original value, your lender must cancel the PMI at your request if you are current on your mortgage payments, have no other loans on the house and satisfy any lender requirements confirming that your property value has not declined.

Automatic Termination

When your mortgage balance reaches 78% of your home’s original value, your lender will automatically cancel the PMI if you are current on your mortgage payments.

Note: If your mortgage is classified as a “High-Risk” mortgage, certain other conditions may apply. See your lender for more information.

If you have any questions about Private Mortgage Insurance (PMI), feel free to contact your local mortgage professional today.

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10 Ways to Save Money on Home Insurance!

Friends, family, the phone book, and the Internet are just some of the potential sources you can use to find homeowners insurance. Obtain a range of prices from several companies. But don't make the mistake of considering price alone. The insurer you select should offer both a fair price *and* excellent service. Quality service may cost a bit more, but you buy insurance in case you need to make a claim, so it's important to get a company with a good reputation. Talk to a number of insurers to get a feeling for the type of service they give. Ask them what they would do to lower your costs. Check the financial ratings of the companies with AM Best or Standard and Poor's.

1. Consider Raising Your Deductible

The deductible is the amount of money you have to pay toward a loss before your insurance company starts to pay. The deductible on homeowners' policies typically start at \$250. Increase your deductible to:

- \$ 500 — save up to 12 percent
- \$1,000 — save up to 24 percent
- \$2,500 — save up to 30 percent
- \$5,000 — save up to 37 percent

2. Buy Your Home/Auto Policies From the Same Insurer

Some companies that sell homeowners, auto and liability coverage will take 5-15 percent off your premium if you buy two or more policies from them.

3. When You Buy a Home...

Consider how much insuring it will cost. For example, a new home's electrical, heating and plumbing systems and overall structure are likely to be in better shape than those of an older home. Insurers may offer you a discount of somewhere between 8-15 percent if your house is new. Check the home's construction: In the Eastern part of the country brick is generally better, because of its resistance to wind damage. In the West frame is generally better, because of its resistance to earthquake damage. Choosing wisely could cut your premium by 5-15 percent. Avoiding areas that are prone to floods can save you about \$400 a year for flood insurance. Homeowners

insurance usually *does not* cover flood-related damage. Also, the closer your house is to firefighters and their equipment, the lower your premium should be.

4. Insure Your House, Not the Land

The land under your house isn't at risk from theft, windstorm, fire and the other perils covered in your homeowners' policy. So don't include its value in deciding how much homeowners insurance to buy. If you do, you may pay a higher premium than you should.



5. Improve Your Home Security & Safety

You can usually get discounts of at least 5 percent for a smoke detector, burglar alarm, or dead-bolt locks. Some companies offer to cut your premium by as much as 15-20 percent if you install a sophisticated sprinkler system and a fire/burglar alarm that rings at the police station or other similar monitoring facility. These systems aren't cheap, and not every system qualifies for the discount. So before you purchase such a system, find out what kind your insurer recommends, how much the device would cost, and how much you might save on premiums.

6. Stop Smoking

Smoking accounts for more than 23,000 residential fires a year! That's why some insurers offer to reduce premiums if all the residents in a house don't smoke.

7. Seek Out Discounts for Seniors

Retired people stay at home more and spot fires sooner than working people, and have more time for maintaining their homes. If you're at least 55 years old and retired, you may qualify for a discount of up to 10 percent at some insurance companies.

8. See If You Can Get Group Coverage

Alumni and business associations often work out an insurance package with an insurance company, which includes a discount for association members. Ask your association's director if an insurer is offering a discount on homeowners insurance to you and your fellow graduates or colleagues.

9. Stay With an Insurer

If you've kept your coverage with a company for several years, you may receive special consideration. Some insurers will reduce their premiums by 5 percent if you stay with them for 3-5 years; by 10 percent if you remain a policyholder for 6 years or more.

10. Compare the Limits In Your Policy to the Value of Your Possessions at Least Once a Year

You want your policy to cover any major purchases or additions to your home. But you also don't want to spend money for coverage you don't need.

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