

QUESTIONS
and
ANSWERS

***Private Mortgage Insurance
and the Federal Homeowner
Protection Act of 1998***



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What Is Private Mortgage Insurance?

Private mortgage insurance (PMI) is insurance against the non-payment of, or default on, an individual mortgage or loan involved in a residential mortgage transaction. It protects a lender against loss if a borrower stops making mortgage payments. It also makes it possible for you to buy a home with as little as a 3-5 percent down payment.

The Homeowner Protection Act of 1998

This federal law, Public Law 105-216, requires automatic cancellation and notice of cancellation rights with respect to PMI, anytime it is required as a condition for entering into a residential mortgage contract transaction. This information must be sent using either the IRS' Form 1098 (Mortgage Interest Statement) or in the lender's annual escrow account disclosure statement on a standardized (the lending industry's or the lender's own) form.

How the Law Works

The Homeowner Protection Act is designed to remove confusion in the private mortgage insurance (PMI) cancellation process. In summary, the law provides:

For Mortgages Originated On or After July 29, 1999

Mandatory Initial Disclosure - At the time the transaction is consummated, the lender must provide written notice of when PMI may be cancelled based on payment schedule (for a fixed rate mortgage) or that the lender will notify the customer when the cancellation date is reached (for an adjustable rate mortgage).

Borrower-Initiated Cancellation - When the balance of the mortgage reaches 80 percent of the original value of the property, the borrower may request in writing that PMI be cancelled.

Automatic Termination - When the balance of the mortgage reaches

78 percent of the original value of the property, the lender must automatically terminate PMI, provided that payment is current.

For Mortgages Originated Prior to July 29, 1999

Annual Disclosure - The lender must provide an annual written statement detailing the rights of the borrower to cancel PMI should qualifications be met. The lender must also provide an address and phone number that the borrower may use to contact the servicer to determine if PMI may be cancelled.

The following are the **types of conditions/terms** usually imposed on homeowners for mortgages originated prior to 7/29/99, before PMI termination will be considered:

- The mortgage contract usually stipulates when PMI termination will be considered; some lenders will consider it when the homeowner attains 20%, others will not until 30% has been attained— this is why it is most important to read your original contract.
- A request to initiate PMI termination must be in writing.
- Payment history is a very important factor; the lender will not approve a termination request unless payments have been made in a timely manner; even one late or non-payment in ten years is enough to disqualify you, the homeowner.
- Some lenders refuse PMI termination requests based on rising property values (i.e., a new appraisal) because the contract stipulates that **ONLY** the original appraised value of the property can ever be considered.
- In instances where a new appraisal of the home will be considered, the lender uses an appraiser of its choice and requires the homeowner to pay for the new appraisal.

Mortgages not covered by the new law

- Government-owned loans, such as those by federal HUD, FHA, and the VA, are not regulated by the Homeowner Protection Act. These programs impose their own requirements for PMI cancellation, if at all.
- Second mortgages are also not regulated by the Homeowner Protection Act and, hence, do not qualify for PMI termination.

Why do I need PMI?

Studies have shown that homeowners with less than 20 percent invested in a home are more likely to default on their loans, making low down payment mortgages risky to lenders. Lenders require PMI on low down payment mortgages to reduce their risk should the borrower default on the loan.

How Does PMI Help Me?

Private mortgage insurance makes it possible to buy a home sooner because you don't have to put down as much money up front.

- First time buyers benefit because they do not have to save as much money to buy that first home.
- If you are trading up, PMI allows you to consider homes in a wider price range.
- Whether you are buying your first home or moving to another, you can make a smaller down payment and keep more of your savings for other uses.

Does PMI Offer Any Tax Advantages?

- The larger loan possible with PMI boosts your tax deductions for mortgage interest.

How much does it cost?

Premiums vary. They are determined by the size of the down payment, the type of mortgage and amount of insurance. Premiums are typically included in your monthly mortgage payment. The average range for a \$100,000 loan is \$25 to \$65 per month. Different payment schedules are available. Contact your lender to discuss your options.

How to terminate your PMI

1. Pay down your mortgage.

If the current balance of your mortgage is less than 80% of the original purchase price of your property and your mortgage was originated prior to 7/29/99, it is possible you may no longer be required to continue paying PMI. Contact your lender for more information. If it was originated after 7/29/99, it must **automatically terminate** when your balance reaches 78% of the original value of your home. You may also **initiate** termination, in writing, when your balance reaches 80% of the original value.

2. Increase the value of your property.

If the value of your property has increased, due to home improvement or market conditions, you may no longer be required to pay PMI. If the current balance of your mortgage is less than 80% of the current value of your property, your lender may allow you to terminate PMI. Most lenders will require an appraisal (at cost to you). For example, a homeowner who owes \$160,000 on a \$200,000 home still owes 80% of the home's value. But if that home's value has grown to \$400,000, the debt now represents only 40% of the home's value. Contact your lender for more information.

Recent federal data has shown that the average home value in Massachusetts increased 7.9% in the past year alone. Now might be a good time to see if you qualify to cancel your PMI.

Where to call for enforcement

For loans obtained through a depository lender insured by the Federal Deposit Insurance Corporation, the FDIC shall enforce the requirements of this statute. Contact the FDIC's Boston regional office at:

Division of Compliance and Consumer Affairs
15 Braintree Hill Office Park
Braintree, MA 02184
(781) 794-5500
www.fdic.gov

For loans obtained through a non-FDIC-insured THRIFT depository lender, contact the Office of Thrift Supervision's Northeast office at:

10 Exchange Place, 18th floor
Jersey City, NJ 07302
(201) 413-1000
www.ots.treas.gov

For a loan owned by a credit union, contact the National Credit Union Administration's regional office at:

Region One Office
9 Washington Square, Washington Avenue Extension
Albany, NY 12205
(518) 862-7400
www.ncua.gov

To obtain a copy of the federal statute visit the federal government's website where this public law (P.L. 105-216) is posted:

<http://www.access.gpo.gov/nara/publaw/105publ.html>

For other helpful consumer information on banking issues, contact:

Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02106
(617) 973-FIND (3463)
www.bos.frb.org

Contact your lender for more information.

***HERE IS A QUICK FORMULA TO
DETERMINE IF YOU MAY BE ELIGIBLE
TO CANCEL YOUR PMI:***

Box A: Present balance
of your mortgage.

$\times 1.25$

=

Box B: Minimum
value of your property
to cancel PMI.

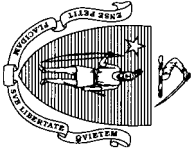


Box C: The amount
you purchased your
property for, or a cur-
rent appraisal* on your
property (whichever is
greater).

- ◆ If the result of Box B is greater than Box C,
your lender will probably continue to require PMI.

- ◆ If the result of Box B is less than Box C,
you may be able to cancel PMI.

* An appraisal that is acceptable to the holder of the mortgage.



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