



What is Private Mortgage Insurance (PMI)?

If you are not putting 20% down on your purchase, PMI will be a factor to consider when calculating your monthly housing budget. PMI is insurance that protects the lender against losses in the rare case that a borrower is not able to repay the loan and the lender is not able to recover its costs after foreclosure and sale of the mortgaged property. There are a few ways you can choose to structure your PMI*:

Monthly PMI: The premium is paid monthly to your servicer, along with your principal and interest payment. The monthly premium varies for every borrower and is based on credit score, loan amount and down payment amount. **If you choose this option, there are generally two ways to drop PMI from your home loan:**

A. Requesting PMI Cancellation: You have the right to request that your servicer cancel PMI when you have reached the date when the principal balance of your mortgage is scheduled to fall to 80 percent of the original value of your home. This date is provided on a PMI disclosure form if you obtain a mortgage, and your servicer should be able to help you identify this date as well. You can ask to cancel PMI earlier if you have made additional payments that reduce the principal balance of your mortgage to 80% of the original value of your home. Important criteria for canceling PMI on your loan includes good payment history, being current on your payments, and evidence that the value of your property has not declined. When requesting cancellation of PMI, the request must be in writing, and the servicer may require an appraisal at the borrower's expense.

B. Automatic PMI Termination: Even if you don't ask your servicer to cancel PMI, your servicer must automatically terminate PMI on the date when your principal balance is scheduled to reach 78 percent of the original value of your home. For your PMI to be canceled on that date, you need to be current on your payments on the anticipated termination date; otherwise, PMI will not be terminated until after your payments are brought up to date.

Lender-Paid PMI (LPMI): PMI is built into the cost of your loan, resulting in a higher interest rate. The amount of the rate increase will vary for every borrower based on a number of factors, such as credit score, loan amount and down payment amount. If you choose this option, you will not have a monthly PMI payment, and the increase in the amount of interest you will pay each month may be less than a monthly PMI payment would be for the same loan. LPMI is built into the cost of your loan and cannot be removed for the life of the loan, regardless of the equity stake that you gain in your home. The only way to remove LPMI is to refinance or pay off your loan.

Single Premium PMI (SPMI): The borrower pays for the PMI premium as a one-time lump sum payment. The cost of the premium payment varies for every borrower and is based on credit score, loan amount and down payment amount. There are two ways to pay for the premium:

- 1. Financed single premium:** The PMI premium is added to your loan amount and paid for over the full term of the loan as a part of your mortgage payment.
- 2. Non-financed single premium:** The PMI premium is paid at closing with the rest of the standard closing costs.



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