PRIVATE MORTGAGE INSURANCE BASICS

Congratulations! You've decided to buy a home of your own. This is a major life decision that requires careful planning to ensure adequate finances. Can you only afford a down payment that is less than 20% of the purchase price? If the answer is yes, you should know about private mortgage insurance. It's easy to get, easy to afford, easy to understand, and allows your Credit Union to qualify you for a home purchase now — not years down the road.*

What is private mortgage insurance?

Private mortgage insurance is a type of financial guaranty that helps protect your Credit Union from losses should you lose your home due to default on your loan. Private mortgage insurance allows your Credit Union to accept a lower down payment than it might normally require without this added protection.

Why does my Credit Union need private mortgage insurance on my loan?

Private mortgage insurance is usually required by Credit Unions and other mortgage lenders when the borrower is unable to invest at least 20% of their own funds in the home. Plainly put, private mortgage insurance limits the Credit Union's risk and as a result allows it to make low-down-payment mortgages affordable and available to you.*

What is covered by private mortgage insurance?

Private mortgage insurance protects the Credit Union in the event of Member default and subsequent foreclosure on the home. Even if you have an excellent credit record and the capability to meet mortgage payments, private mortgage insurance may be required for any loan with a down payment of less than 20% of the purchase price of the home.

Who pays for this insurance?

Your Credit Union pays the premiums to the mortgage insurer and may require you to reimburse it for the cost of the mortgage insurance premiums. If so, the cost may be added to your monthly principal and interest payment (along with your property taxes and homeowner's insurance) or premiums may be financed into the loan amount. Premiums may be payable monthly, annually, or in a single up-front payment, depending on the payment plan your Credit Union selects.

Why is it called private mortgage insurance?

It is called "private" because it is offered through private mortgage insurance companies as opposed to similar products available from public agencies such as the FHA (Federal Housing Administration) or VA (Veterans Administration).

What are the advantages to using private mortgage insurance instead of the public programs?

- Traditionally, private mortgage insurers allow much higher loan limits than FHA or VA.
- Also, private mortgage insurance coverage may be less expensive than the FHA's or VA's, and you may also benefit from faster loan approval, less paperwork and more variety in insurance coverage and premium plans.
- Finally, depending on your rate plan, private mortgage insurance coverage may be easier to cancel, meaning your Credit Union may pay less to have your low-down-payment loan insured by a private mortgage insurance company.

Will this policy make mortgage payments in the event of my death or disability?

No. Credit life insurance and credit disability insurance protect you and your family from losing your home in the event of death of disability. However, mortgage insurance protects the Credit Union in the event you lose your home due to default for any reason.

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How will private mortgage insurance affect my monthly mortgage payments?

The private mortgage insurance premium may be added to your monthly payment, along with such items as property taxes and homeowner's insurance, or it may be included in your monthly principal and interest payment if the premiums are financed or if the Credit Union chooses not to directly pass on the costs of the premiums to you. The amount of that premium is based on the amount and terms of the mortgage and will also vary according to such other factors as the amount of your down payment, type of loan and level of insurance coverage required by your Credit Union.*

How are premiums paid?

The premiums may be paid in several different ways:

- A single premium plan, where the entire premium is paid at one time, up-front, when the loan is closed. This option minimizes monthly mortgage payments of the borrower.
- An annual plan, which is less expensive than monthly mortgage insurance, requires payment of an initial premium when the loan is closed and a renewal premium each year.
- A monthly plan, where regular monthly premium payments to your escrow account are added to your monthly loan payment and premium payments are sent to the mortgage insurer by your Credit Union.
- There may be combinations of single premium and annual or monthly premiums to balance up-front costs and monthly payments over the term of the loan.
- Premiums may also be added to the amount of your loan and financed as part of the loan transaction. The interest on financed premiums may be tax-deductible.**
- Premiums may also be paid by your Credit Union without directly passing along the cost to you. In such circumstances, the lender may offset the cost of mortgage insurance by increasing the finance charges for the loan by a corresponding amount, potentially making the entire cost of the premiums tax-deductible.**

Is private mortgage insurance tax-deductible?

Generally yes. Congress has made Member-paid mortgage insurance premiums tax-deductible for eligible Members for 2007 through 2010. Mortgage insurance premiums allocable to those years are fully deductible for eligible taxpayers earning up to $100,000. The amount of this deduction phases out for those who have adjusted gross incomes between $100,000 and $109,000 annually. The deduction applies to both purchases and refinances up to the original loan amount. For more information on your eligibility, consult your tax advisor.**

Are private mortgage insurance costs paid for the life of the mortgage?

The Homeowners Protection Act of 1998 requires Credit Unions to cancel mortgage insurance when a home loan amortizes to 78% of the home's original value, subject to certain conditions, or at the mid-point of the amortization period, whichever comes first. When specific cancellation requirements are met, borrowers have the right to request cancellation of their private mortgage insurance. Certain high-risk mortgages are treated separately. For more detailed information about the Homeowners Protection Act, please consult your Credit Union mortgage loan specialist.***

When can I cancel private mortgage insurance?

Federal law requires your Credit Union to cancel your private mortgage insurance when you mortgage is paid down to 22% of the property's original value, provided you meet certain conditions. Otherwise, private mortgage insurance must be cancelled at the mid-point of the amortization period. You can also request option cancellation of mortgage insurance coverage when your equity has reached 20%.***

Ask your loan officer about the various private mortgage insurance products and payment options available to your Credit Union from CMG Mortgage Insurance Company.

* Consult with your Credit Union for a homebuying decision that makes financial sense for you.

** CMG MI cannot provide tax advice. Taxpayers should consult their own tax advisors concerning applicability of the deduction to their particular circumstances under the Internal Revenue Code and the laws of any other taxing jurisdiction. This information is not intended or written to be used, and it cannot be used, for the purposes of avoiding U.S. federal, state or local tax penalties.

*** Certain other conditions apply. Consult your Credit Union.

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