

# 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. What are your options if you cannot afford a 20% down payment? 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 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. 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 home's purchase price.

## **Who pays for this insurance?**

Generally, the mortgage insurance premiums are included as part of your monthly mortgage payment, similar to property taxes and homeowner's insurance. 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 higher loan limits than FHA or VA.
- Also, for borrowers making down payments of 5% or more, or having stronger credit profiles, private mortgage insurance coverage may be less expensive than the FHA's or VA's premium plans.
- Finally, private mortgage insurance provides more variety. Depending on your rate plan, 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 disability insurance provide this type of protection. Mortgage insurance protects the Credit Union against certain losses associated with a borrower's default.

## **How will private mortgage insurance affect my monthly mortgage payments?**

Generally, the private mortgage insurance premium is collected with your monthly payment, along with such items as property taxes and homeowner's insurance.

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Mortgage insurance may be paid as a single premium and in certain instances financed in the loan amount. The premium amount 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.
- In certain instances, 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.\*\*
- 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.
- CMG MI's EZ Monthly plan requires no upfront premium, just regular monthly premium payments to your escrow account, which are added to your loan payment.
- There may be combinations of single premium and monthly premiums to balance up-front costs and monthly payments over the term of the loan.
- 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 extended tax-deductibility for Member-paid mortgage insurance premiums for eligible Members through 2011. 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 automatically cancel mortgage insurance when a home loan amortizes to 78% of the home's original value, subject to certain conditions. When specific cancellation requirements are met, borrowers also 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.\*\*\* Visit CMG MI's Website at [www.cmgmi.com/micancellation](http://www.cmgmi.com/micancellation) for more details.

### 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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