

# What is Mortgage Insurance? A Borrower's Perspective

Numerous studies show that one of the most common roadblocks to homeownership is a person's fear of the down payment. Many perceive it to be an unattainable sum. Did you know that your lender is working behind the scenes to lessen the amount of personal funds you need to provide? By using a special type of insurance offered by Triad Guaranty Insurance Corporation (called private mortgage insurance or MI), your lender can approve you for a mortgage with as little as 3 percent down, and in some cases, with no down payment at all.

## Millions of Americans Rely on MI

If you cannot afford a 20 percent down payment, you may still be able to buy your dream house – thanks to mortgage insurance. In fact, since its introduction in the 1950s, millions of Americans have used MI to make their home purchases possible. With mortgage insurance, and with a smaller down payment, you could have cash left to spend on other things!

## Understanding Down Payments

A down payment is a percentage of a home's purchase price that you must "invest" before a lender will provide you with a mortgage. You essentially "own" that portion of the home. Because you have a vested interest in the property, the lender feels more confident that you will stay current with your payments and not default on your loan (i.e. stop making payments).

Decades ago, lenders generally required a 20 percent down payment to purchase a home. But today, with the help of private mortgage insurance (MI), which protects the lender from financial loss in the event of a borrower default, your lender can provide you with a conventional (not government insured) loan with as little as 3 percent, and in some cases no, down payment at all.

Consider a home that costs \$100,000. Would you find it impossible to save the 20 percent (\$20,000) down payment? But, could you manage \$3,000, or even less in some cases? Private mortgage insurance can be the key that will open the door to a home of your own.

## The Cost of Mortgage Insurance

Mortgage insurance isn't free. But its cost is extremely modest, particularly when you consider the benefits it brings. It provides you with your own home and all the tax advantages and equity build-up that you don't get when you rent.

Your lender will obtain the mortgage insurance for you and add the premium to your regular loan payment. Or, your lender may suggest a different type of payment plan better suited to your situation.

Did you know that you may not have to pay mortgage insurance for the entire time you have your mortgage? Ask your lender for information about their cancellation guidelines.

## Cancellation

Private mortgage insurance can often be canceled when it is no longer needed. The Homeowners Protection Act (HPA) of 1998 requires lenders to cancel the MI automatically for homeowners when a certain percentage of the loan is paid off. Even without the law, lenders will frequently allow private mortgage insurance to be canceled once homeowners build up sufficient equity. Your lender can provide you with the requirements for canceling your mortgage insurance. The mortgage insurance company only cancels MI at the request of your lender.

Cost of Home = \$100,000	
% Down	Down Payment Sum
20% down	\$20,000
10% down	\$10,000
5% down	\$5,000

If you have any other questions about mortgage insurance, please ask your lender, or visit our website at [www.triadguaranty.com](http://www.triadguaranty.com) and click on "Homebuyers/Homeowner."

## MI Payment Plans Available

### 1. Monthly & Deferred Monthly Premium Plans

- Monthly & Deferred Monthly Premium Plans are the most frequently used mortgage insurance payment options. Typically, under a monthly premium plan, two monthly premium payments are collected at closing, one to cover the period until the first loan payment and a second to place in escrow. Thereafter, premiums are prepaid on a monthly basis as a part of your mortgage payment. The Deferred Monthly premium plan allows you to defer the first premium payment until the first loan payment is made, reducing the cash needed at closing.

### 2. Annual Premium Plans

- Annual Premium Plans require the lender to collect the entire first year premium from you at closing, along with, typically, two months of renewal premiums to be escrowed for the second year payment. The remainder of the renewal premium is collected during the year along with your monthly mortgage payment and is placed in escrow. At the end of each year the mortgage insurance company bills the lender for the entire annual renewal premium.

### 3. Single Premium Plans

- Single Premium Plans give the borrower the option of paying a one-time payment at closing. Often, the mortgage insurance premium may be financed into the loan amount. Financing the Single Premium in the mortgage enables the borrower to put less money down at closing and often results in the lowest monthly payment option, which makes buying a new home even more affordable.

#### Sample Premium Calculations

Loan Amount = \$120,000

Down Payment = 10%

Loan Term and Type = 30-Year Fixed

#### Monthly Premium Calculation:

Monthly MI premium rate	.52%
Multiply by the loan amount	\$120,000
	\$624
Divide by 12	÷ 12
Monthly MI premium payment	\$52

#### Standard Annual Premium Calculation:

1 <sup>st</sup> year MI premium rate	.65%
Multiply by the loan amount	\$120,000
1 <sup>st</sup> year premium due at closing	\$780
Renewal MI premium rate (2-10 yrs)	.34%
Multiply by the loan amount	120,000
Annual MI renewal premium	\$408
Divide by 12 months	÷ 12
Amt. included in monthly mortgage payment	\$34
Multiply monthly MI payment by 2	2
Renewal MI premium due at closing	\$68
Add the 1 <sup>st</sup> year MI premium	\$780
MI premium amount due at closing	\$848

#### Level Annual Premium Calculation:

1 <sup>st</sup> year MI premium rate	.48%
Multiply by the loan amount	\$120,000
1 <sup>st</sup> year premium due at closing	\$576
Renewal MI premium rate (2-10 yrs)	.48%
Multiply by the loan amount	120,000
Annual MI renewal premium	\$576
Divide by 12 months	÷ 12
Amt. included in monthly mortgage payment	\$48
Multiply monthly MI payment by 2	2
Renewal MI premium due at closing	\$96
Add the 1 <sup>st</sup> year MI premium	\$576
MI premium amount due at closing	\$672

#### Fully-Refundable Single Premium Calculation:

Single MI premium rate (refundable)	2.30%
Multiply by the loan amount	\$120,000
MI Premium to be paid at closing	\$2,760
You can also finance the MI premium into your mortgage...	
Add MI premium	\$2,760
To base loan amount	+ \$120,000
New loan amount*	\$122,760

\*No MI premium is required at closing

#### Limited Refund Single Premium Calculation:

Single MI premium rate (limited refund)	1.65%
Multiply by the loan amount	\$120,000
MI Premium to be paid at closing	\$1,980
You can also finance the MI premium into your mortgage...	
Add MI premium	\$1,980
To base loan amount	+ \$120,000
New loan amount*	\$121,980

\*No MI premium is required at closing



Triad Guaranty Insurance Corporation  
 101 South Stratford Road  
 Winston-Salem, NC 27104  
 800-451-4872  
 fax: 336-331-1100  
 email: triad@tgic.com  
 www.triadguaranty.com