



Private Mortgage Insurance Fact Sheet

From the Office of Minnesota Attorney General Keith Ellison

If you are a homeowner paying for Private Mortgage Insurance, or “PMI,” you may qualify for PMI cancellation or wish to take steps to qualify for cancellation. Putting more money toward your mortgage principal now may save you from paying for mortgage insurance you do not need in the future.

What is PMI?

Most homeowners pay each month into an escrow for taxes and insurance. These escrow payments, together with an amount for principal and interest, make up the monthly mortgage payment. However, a significant number of homeowners also pay another type of charge each month known as “PMI,” or Private Mortgage Insurance.

PMI typically is required for conventional loans when the homebuyer makes a down payment of less than 20 percent. PMI protects the lender (not the borrower) from losing money when a homeowner defaults on a mortgage loan. PMI is not cheap—it averages over \$35 per month and can cost more than \$100 per month. With substantial monthly payments benefiting only the lender, it is in the homeowner’s interest to stop paying PMI as soon as possible.

Federal Law and Minnesota Law

Some lenders are regulated by the federal government (i.e., federally chartered) and must abide by federal law, while others are regulated by a state (i.e., state chartered) and must comply with state law.

Under both federal and Minnesota law, you can request cancellation of PMI once you owe 80 percent or less on the value of your home, but there is a big difference in how the value of your home is determined under federal and Minnesota law. Because federally chartered lenders do not have to abide by state law, you must first determine whether your lender is Minnesota or federally chartered. Generally, a lender is federally chartered if it includes the word “National” in its name or uses “National

Association,” or “N.A.” as part of its designation. You can usually find out if your lender is state or federally chartered with a quick call to your lender.

If Your Mortgage is From a Federally Chartered Lender

Under federal law, lenders are not required to take market appreciation into account when determining the value of your home. Federal law requires lenders to cancel PMI, upon request, when the homeowner has made payments that reduce the principal amount owed under the mortgage to 80 percent of the home’s value at the time it was purchased. For example, if a home’s purchase price was \$100,000, the lender is not required to cancel the PMI until the principal amount due on the mortgage is reduced to \$80,000. Because the first years of a mortgage payment are mostly interest, a homeowner making only the minimum required payments would have to wait years, sometimes a decade or more, before reaching the required 20 percent threshold as calculated under federal law.

Once a homeowner pays the mortgage principal down enough to qualify for PMI cancellation, federally chartered lenders may require an appraisal to ensure that the home’s value has not declined below its original value when purchased. Although federal law does not require lenders to take market appreciation into account, some lenders may agree to do so. For example, some lenders may agree to cancel PMI based on the home’s current value if you have made substantial improvements to it; others may elect to cancel PMI if an appraisal shows that the value of your home has markedly appreciated. **You must contact the lender directly to begin the appraisal process.**

If Your Mortgage is From a Minnesota-Chartered Lender

Minnesota law, unlike federal law, allows homeowners to benefit from market appreciation. Under Minnesota law, the value of your home is based on what it would

be worth if you sold it today. For instance, if you bought your home for \$100,000 with five percent down and your house is now worth \$130,000, you probably are eligible to cancel PMI under Minnesota law because you owe less than 80 percent of the market-value of your home.

You will need to hire an appraiser to establish the market value of your home to prove that you owe less than 80 percent of its current value. You should feel confident in the market value of your house before you obtain an appraisal. If the appraisal value falls short, you will have paid for the appraisal and must still continue to pay PMI, as well. Minnesota law gives you the right to shop for and pick an appraiser, as long as he or she is “reasonably acceptable” to your lender. A Minnesota-chartered lender cannot reject your appraiser without reason and cannot require you to pick only from a short list approved by the lender. Nonetheless, **before you pay for the appraisal**, contact your lender and make sure that the appraiser is acceptable.

FHA and VA Loans

The law regarding mortgage insurance for Federal Housing Administration (FHA) and Department of Veterans’ Affairs (VA) loans is different from conventional loans. FHA and VA loan mortgage insurance is paid to the FHA and VA and cannot be cancelled by paying down your mortgage principal faster. FHA mortgage insurance premiums are paid both at closing and as part of your monthly payment. With VA loans, the mortgage insurance is paid upfront as a funding fee and there is no monthly mortgage insurance premium. Contact your mortgage lender for further details.

Other Considerations

You usually cannot cancel PMI during the first two years of the loan and lenders may require that you have a history of on-time payments before it will cancel PMI. If you are considering refinancing your loan to eliminate paying PMI, be sure that you will not pay more in closing costs than you would otherwise pay in PMI payments.

Federal and Minnesota law also require that your lender send you a notice each year when you are paying for PMI informing you that you may qualify for cancellation and

how to do so. Don’t wait for the notice! If you qualify for PMI cancellation, start the cancellation process now. Every month you wait is money down the drain.

If you have a complaint or question regarding PMI or you are unsure whether your lending institution is state or federally chartered, you may contact the Minnesota Attorney General’s Office by mail, phone, or electronically as follows:

Office of Minnesota Attorney General

Keith Ellison

445 Minnesota Street, Suite 1400

St. Paul, MN 55101

(651) 296-3353 (Twin Cities Calling Area)

(800) 657-3787 (Outside the Twin Cities)

www.ag.state.mn.us

If your lending institution is federally chartered and you are concerned that it is not following the law, you may contact the Consumer Financial Protection Bureau and Office of the Comptroller of the Currency as follows:

Consumer Financial Protection Bureau

Department of the Treasury

1500 Pennsylvania Avenue, NW

Washington, DC 20220

www.consumerfinance.gov

Office of the Comptroller of the Currency

Customer Assistance Group

1301 McKinney Street, Suite 3450

Houston, TX 77010

(800) 613-6743

www.occ.gov

If your lending institution is Minnesota chartered and you feel that it is not following the law, you may contact the Minnesota Department of Commerce as follows:

Department of Commerce

85 East Seventh Place, Suite 280

St. Paul, MN 55101

(651) 539-1500 or (800) 657-3602

www.mn.gov/commerce