



Rules for Dropping Mortgage Insurance *What you and your clients should know!*

Yep, there's a disclosure for that!
But what do the PMI termination rules really mean to the average person?

Dropping Conventional Mortgage Insurance Rules

- **Automatic Termination**
 - Fixed Rate & Adjustable – Removed when reduced to 78% LTV
 - LTV based upon ORIGINAL VALUE
 - Based SOLELY on regular amortization (not prepayment of principal)

Additional Requirement:

- **Mortgage payment must be current**
- **Borrower Requests Termination**
 - Fixed & Adjustable – Removed when reduced to 78% LTV

Additional Requirements:

- Submit cancellation request in writing
- Good payment history
- Current on mortgage payments
- Appraisal or Certification that property value has not decreased BELOW the original value
- No 2nd liens or subordinated loans on property



Dropping FHA Mortgage Insurance Premium Rules

Loans closed PRIOR to January 1, 2001 are NOT eligible for termination of MIP (monthly insurance premium) if closed on January 1, 2001 and after, MIP will be automatically terminated under the following conditions.

- More than 15-year term
 - Must pay for 5 years AND
 - 78% LTV based on original LTV
- 15-Year Term or less
 - If original loan amount is 90.01% or more, of the original appraisal value, MIP will be terminated at 78%
 - 5-year minimum payment waived
 - If original loan amount is 90% or less, of the original appraisal value, NO monthly MIP will be charged.

NOTE: Loan-to-Value for **purchases** based on the sales price or appraisal value, whichever is lower
Loan-to-Value for **refinances** based on appraisal value
Loan-to-value figured on base loan amount WITHOUT UFMIP

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Estimated Number of Years To Drop Mortgage Insurance Chart

At application, do the math and let your clients know the estimated number of years that the PMI or MIP will be eliminated.

The interest rate makes a difference, but here's an example of a sales price/appraisal value of \$250,000 at 6% interest rate, and based on making regular monthly payments (no principal prepayment).



<u>Down Payment</u>	<u>Loan Amount</u>	<u>Term</u>	<u>Years PMI/MIP Eliminated</u>
5%	237,500	30 yr	11 yrs
10%	225,000	30 yr	9 yrs
15%	212,500	30 yr	6 yrs
5%	237,500	20 yr	6 yrs
10%	225,000	20 yr	4.5 yrs
15%	212,500	20 yr	3 yrs
5%	237,500	15 yr	4 yrs
10%	225,000	15 yr	3 yrs
15%	212,500	15 yr	2 yrs

If the interest rate is 1% lower than 6%, subtract one year

If the interest is 1% higher than 6%, add one year

Provided to you courtesy of:

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