Private Mortgage Insurance

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Issue

Explain how homeowners may cancel private mortgage insurance (PMI) on residential home mortgages under the federal Homeowners Protection Act (HPA).

Summary

PMI is insurance that pays the mortgagee (i.e., lender) if the mortgagor (i.e., borrower) stops making mortgage payments. According to the federal Consumer Financial Protection Bureau (CFPB), it is usually required on conventional loans when the borrower does not make a down payment of at least 20% of the home's purchase price.

The federal Homeowners Protection Act (HPA) allows such a borrower to make a written request to the lender to cancel PMI when certain conditions have been met, including when the mortgage's principal balance falls to 80% of the original home value (i.e., 80% loan-to-value, or "LTV"). The act also requires lenders to end PMI when, among other things, a mortgage reaches 78% LTV (12 U.S.C. § 4901 et seq.).

Within 30 days after cancelling PMI, lenders or loan servicers must notify the borrower that PMI has been cancelled; the borrower no longer has that insurance; and PMI premiums, payments, or fees are no longer due (12 U.S.C. § 4904).

PMI requirements apply to conventional mortgages for single-family principal residences that closed on or after July 29, 1999. They do not apply to (1) mortgages issued by the federal Housing Administration or Department of Veterans Affairs (i.e., FHA or VA loans); (2) mortgages in which the lender pays the PMI, instead of the borrower; or (3) certain high risk loans. More information is available on the CFPB's website: "When can I remove private mortgage insurance (PMI) from my loan?"

Ending PMI Payments

Upon Borrower's Request at 80% LTV

Under HPA, generally a lender or servicer must cancel PMI upon a borrower's written request on the date the mortgage's principal balance (1) falls to 80% of the property's original value or (2) is scheduled to fall to 80% of the original purchase price based on the loan's amortization schedule, regardless of the outstanding balance.

In addition to a written request, the borrower must:

1. be current on payments;
2. provide evidence that the property's value has not declined;
3. provide certification that the property is unencumbered by a subordinate lien; and
4. have a "good payment history," which means not having made a 30 days past-due payment in the 12 months before requesting PMI cancellation, or a 60 days past-due payment in the 12 months before that (12 U.S.C. § 4902(a)).

Automatic at 78% LTV or Halfway Through the Loan's Term

If payments are current, a lender or servicer must cancel PMI when the principal balance is scheduled to reach 78% of the original home value. If payments are not current, a lender or servicer must cancel PMI on the first day of the first month after (1) the loan reaches 78% LTV, as described above, and (2) the borrower becomes current on payments (12 U.S.C. § 4902(b)).

Under HPA, if PMI is not cancelled or terminated under the conditions described above and the borrower is current on payments lenders or servicers must cancel PMI on the first day of the month after a borrower reaches the loan's amortization midpoint (i.e., halfway through the loan's full term, thus for a 30-year loan the midpoint would be reached at year 15) (12 U.S.C. § 4902(c)).

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