Reducing Monthly Payments by Eliminating Mortgage Insurance

April 1, 2014 - If you own a home and you put less than 20% down on it at the time of purchase, unless you have refinanced your mortgage, a portion of your monthly payment is probably going towards mortgage insurance. With rising home prices, you may be able to reduce or even eliminate this expense but you may have to jump through some hoops to do so.

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Within the real estate industry, mortgage insurance is commonly referred to as PMI. It is essentially an insurance payment that guarantees the value of your loan to the lender.

PMI rates can vary widely but typically PMI is only required on loans covering more than 80% of the purchase price. With rising home prices, a lot of homeowners who put less than 20% down on their homes now have more than 20% equity in their properties. So, does this mean that these homeowners can get their lenders to eliminate PMI from their monthly payment? It all depends on the borrower's circumstances and the lender's policies.

If you've had your mortgage for five years or more, have been making your payments on time, and now have more than 20% equity in your home, there is a good chance that your lender will be willing to let you out of the PMI requirement on your loan. You will likely have to pay for a new appraisal unless you have actually paid down your loan significantly and can claim that you have 20% equity based on the lender's original appraisal.

But if your mortgage is only a year or two old, even if you have make your payments on time and you now have more than 20% equity in your home, there is a very good chance that your lender will decline any request to waive PMI. Under these circumstances, refinancing may be the only immediate option.

Unfortunately, refinancing may do little to reduce your monthly payments. That's because loans issued within the past two years may have a significantly lower interest rate associated with them. Moving into a new loan may allow you to eliminate the PMI requirement but if your interest rate increases dramatically, it will do you little good. If you continue to make your payments in a timely manner, and your home equity doesn't drop, there is a good chance that you will eventually be able to get your lender to remove the PMI requirement.

There are also other downsides to refinancing. For instance, some states will not allow lenders to seek a default judgment against borrowers who default on a purchase money loan (the original loan used to purchase a home), but they

will allow such judgments for refinanced loans. Anyone living in a state with this type of law will lose some important protections against lender initiated lawsuits by refinancing. This is something that borrowers should discuss with an attorney prior to refinancing.

Eventually, most lenders will automatically cancel the PMI on home mortgages, but only after the borrower has paid down the loan to the point that there is 22% equity in the house. That figure is based on the original appraisal for the home.

byJim Malmberg
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