MGIC

get ready

KEYS TO SUCCESSFUL HOMEOWNERSHIP

Understanding Mortgage Insurance

Get Ready to learn...
How mortgage insurance can work for you

You've been pinching pennies for years in anticipation of buying your first home. Now that you're almost there, do you know all the options available to you?

Financing with private mortgage insurance could get you into the home of your dreams sooner and leave you with more money in your bank account.

What is mortgage insurance?

It is an insurance policy that covers a lender in the event that borrowers do not repay their mortgage. Mortgage insurance is generally required on mortgages when down payments are less than 20% of the property value.

Historically, making a 20% down payment has been a difficult hurdle to clear for many homebuyers. Mortgage insurance was created to reduce that barrier and help more people afford homeownership.

There are two types of mortgage insurance: Government (through programs like FHA or VA) and private mortgage insurance (also known as MI, private MI or PMI), offered by companies like MGIC. MGIC is the founder of the modern-day private MI industry.

By financing with MGIC monthly MI rather than FHA, you typically benefit from:

- Not having to pay an upfront premium — most FHA borrowers finance it into their loan amount, increasing their debt
- A lower loan amount (no financed upfront premium)
- A lower or comparable monthly mortgage payment
- Greater home equity
- The ability to cancel MI (the FHA does not allow cancellation on loans with down payments of less than 10%)

A no-premium-due-at-closing option reduces closing costs. You pay the monthly premium as part of your monthly mortgage payment. Ask your mortgage origination professional to compare the cost of MGIC monthly MI with FHA.

READ ON TO LEARN MORE ABOUT YOUR OPTIONS

Meet Justin and Katie

Justin and Katie are newlyweds who met in college. They both have good jobs, and for the past few years they've been diligently saving to buy their first home. Since they've been married nearly 3 years, they're getting anxious to take the plunge.

All signs point to the fact that right now is the perfect time for Justin and Katie to invest in a house. Mortgage rates and home prices are low, and they both have good credit. But they're just not sure if they're ready to part with all their hard-earned cash in order to make a down payment.

After all, they wouldn't just be buying a house. They'd also need to spend a significant amount of money on everything that goes along with homeownership: maintenance and renovations, new furniture, lawn care, property taxes, insurance.

Justin and Katie realize these expenses can really add up. They like having money in the bank, and they're hesitant to give up all their cash or overextend themselves on credit. Instead, they're considering staying in their cramped apartment a few years longer so they can save up even more.

To buy or not to buy

But after months of casually searching, Justin and Katie stumble upon the perfect home for their soon-to-be-growing family: a 3-bedroom, 2-bathroom ranch on a cul-de-sac with a big yard.

At an asking price of $200,000, they would need to put down $40,000 for a full 20% down payment — but that would leave them only a few grand in their savings account.

This thought terrifies them. What if one of them gets sick or laid off? What if unforeseen, costly home repairs need to be made? Could they afford to have a baby in the near future? Would they ever be able to go out to dinner again? Justin and Katie aren't sure if they should just wait, or maybe look for a place that costs significantly less (even if it's not exactly what they want).

After talking to their loan officer and learning about the benefits of private mortgage insurance, Justin and Katie instead decide to take out a fixed-rate, conventional mortgage loan backed by monthly MI.

Taking the plunge

Since they decided to finance with private mortgage insurance, Justin and Katie put just 10% down, or $20,000, and took out a loan for $180,000. That left them plenty of cash in their bank account for savings as well as homeownership expenses.

Their monthly MI costs are only $50 a month, and they can request to have the mortgage insurance cancelled when their loan reaches 80% loan-to-value.

By financing with private mortgage insurance, Justin and Katie were able to purchase the home they wanted without waiting to save up more money. They have plenty of funds left over for renovations, new furniture, landscaping and repairs. Plus, they have enough savings set aside for 6 months' living expenses, should they ever need it.

Big benefits
when you finance with Private MI

- **Increased buying power** — Instead of saving up for a few more years, or buying a home that's less expensive but not exactly what you're looking for, you could make a smaller down payment today and purchase the home you really want.

- **Increased cash on hand** — With a smaller down payment, you can put more of your funds toward home-related purchases and repairs or investments, or keep extra cash in your savings account.

- **Lower monthly payments** — Many borrowers receive a lower monthly private MI rate than FHA's monthly premium without an upfront payment. That means your total monthly mortgage typically costs less than what you would pay with FHA financing.

- **Secure, predictable monthly payments** — Getting a fixed-rate, conventional mortgage with MI will provide you a locked-in monthly payment that won't increase, and will decrease when your MI coverage is cancelled.

- **The ability to cancel MI** — The Homeowners Protection Act of 1998 (HPA) provides conditions for you to request MI cancellation when your mortgage balance reaches 80% of the original property value – because you've made all scheduled payments or extra payments ahead of schedule. (Original value means the lesser of the sales price and the original appraised value. If you've refinanced your mortgage, original value means the most recent appraised value.) If you don't request cancellation, your lender must automatically cancel your MI policy when your mortgage balance reaches 78% of original value based on the original amortization schedule, and your mortgage payments are current. Outside of HPA, you can ask your lender to cancel MI based on an increase in your property's appraised value. In all scenarios, other requirements may apply. Ask your lender for details.

The cost of mortgage insurance

Too often borrowers focus on the additional monthly fee rather than the buying power and other financial benefits you can reap from private MI.

Let's say you buy a $150,000 home using MI. You make a 5% down payment of $7,500 and finance the remaining balance, $142,500.

Assuming 3% annual appreciation, you may be able to cancel your MI in 5 years, and you will have built up almost $45,000 in equity.

Without MI, your 20% down payment would amount to $30,000, meaning you'd need to come up with another $22,500 — and hope that the house of your dreams is still on the market when your bank account is finally ready. And during the time you spent saving up additional funds for a 20% down payment, your rent payments would not have been building equity.

MGIC resources can help you prepare for the responsibility of homeownership

Online homebuyer and landlord education and certification is provided by MGIC at Readynest at no charge. Start your study experience at readynest.com/test or readynest.com/landlord-test. Ask your lender about participating in the program.

- Learn about the home-buying process through easy-to-digest chapters that cover credit, budgeting, getting a mortgage and being a responsible, successful homeowner
- Study at your own pace
- Learn more about your options for buying a home using MI
- Pick up some tips on home maintenance and maintaining homeownership

Visit readynest.com/resources to access the rest of the *Get Ready* series:

- Budgeting
- The importance of credit
- Protecting your identity
- Understanding your credit report
- Managing student loans

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This publication is proudly sponsored by MGIC, the nation's premier provider of mortgage insurance. Since its inception, MGIC has helped millions of American families achieve the dream of homeownership. We remain committed to helping potential homebuyers to better understand the mortgage process and to overcome the single greatest hurdle in homeownership, the down payment. When you are ready to buy a home, be sure to ask your lender how you can reduce the required down payment by financing with mortgage insurance from MGIC.

71-43327 8/3/18