

# Mortgage Insurance (MI) Basics



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*A Comprehensive Guide by The Housing Assistant*



## Introduction

Mortgage Insurance (MI) protects lenders against losses if a borrower defaults on a mortgage. Mortgage operations staff must understand when MI is required, how it's calculated, the different payment structures, and how it appears on the Loan Estimate (LE) and Closing Disclosure (CD).

## What is Mortgage Insurance?

Mortgage Insurance (MI) is a policy required when borrowers have less than a 20% down payment on Conventional loans, or by default on FHA, VA, and USDA loans under government-insured programs. It helps mitigate lender risk and expands homeownership opportunities.

## Types of Mortgage Insurance by Loan Type

Loan Type	Insurance Type
Conventional Loans	Private Mortgage Insurance (PMI) required for LTVs over 80%.
FHA Loans	Mortgage Insurance Premium (MIP) required on all loans.
VA Loans	VA Funding Fee acts as a form of insurance — no monthly MI.
USDA Loans	Guarantee Fee paid upfront and annually — no private MI.

## Mortgage Insurance Payment Structure Options

Payment Type	Description
Borrower-Paid Mortgage Insurance (BPMI)	Most common. Paid monthly until LTV drops to 78–80%.
Single Premium MI (Borrower Paid)	One-time upfront premium paid at closing by borrower. No monthly MI.
Single Premium MI (Financed)	Upfront MI premium is financed into the loan balance, avoiding monthly MI payments.

Lender-Paid Mortgage Insurance (LPMI)	Lender pays MI and charges borrower a slightly higher interest rate — no monthly MI shown.
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### Special Rules for FHA Mortgage Insurance (MIP)

The duration of Mortgage Insurance Premium (MIP) for FHA loans depends on the down payment amount and resulting Loan-to-Value (LTV) ratio:

Down Payment / LTV	How Long MIP Lasts
Less than 10% down (LTV ≥ 90%)	MIP is required for the life of the loan.
10% or more down (LTV < 90%)	MIP automatically cancels after 11 years.

✅ FHA borrowers cannot request MIP cancellation like Conventional loans. The MIP structure is built into the loan terms and depends on the original down payment.

### When is Mortgage Insurance Required?

- Conventional loans with LTV greater than 80% require PMI.
- FHA, VA, and USDA loans always include mortgage insurance or guarantee fees regardless of down payment.

### How is Mortgage Insurance Calculated?

- Based on Loan-to-Value (LTV), loan amount, credit score, and coverage percentage.
- PMI rates vary between monthly BPMI, single premium options, and lender-paid structures.
- Government loans (FHA, VA, USDA) have published upfront and annual rates.

### How is MI Disclosed on the LE and CD?

- Monthly MI is shown under “Projected Payments” on the LE and CD.
- Upfront MI premiums are disclosed under Closing Costs or included in the Loan Amount if financed.
- Lender-Paid MI typically shows no separate MI payment but reflects a higher interest rate.

### Best Practices for Mortgage Insurance

- ✅ Confirm the correct MI structure (monthly, single premium, lender-paid) is selected.
- ✅ Verify MI rate factors match MI company guidelines.
- ✅ Ensure MI disclosures align across LE, CD, and AUS findings.
- ✅ Document borrower election for upfront or lender-paid options.

### THA Tip:

- ◆ Offering different MI payment structures can help borrowers save money long term — always explain the differences clearly!