FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer and Business Education

Cancellation of Private Mortgage Insurance:

Federal Law May Save You Hundreds of Dollars Each Year

If you put less than 20 percent down on a home mortgage, lenders often require you to have Private Mortgage Insurance (PMI). PMI protects the lender if you default on the loan. The Homeowners Protection Act of 1998 — which became effective in 1999 — establishes rules for automatic termination and borrower cancellation of PMI on home mortgages. These protections apply to certain home mortgages signed on or after July 29, 1999 for the purchase, initial construction, or refinance of a single-family home. These protections ***do not*** apply to government-insured FHA or VA loans or to loans with lender-paid PMI.

For home mortgages signed *on or after* July 29, 1999, your PMI must — with certain exceptions — be terminated automatically when you reach 22 percent equity in your home based on the original property value, if your mortgage payments are current. Your PMI also can be canceled, when you request — with certain exceptions — when you reach 20 percent equity in your home based on the original property value, if your mortgage payments are current.

One exception is if your loan is "high-risk." Another is if you have not been current on your payments within the year prior to the time for termination or cancellation. A third is if you have other liens on your property. For these loans, your PMI may continue. Ask your lender or mortgage servicer (a company that collects your payments) for more information about these requirements.

If you signed your mortgage *before* July 29, 1999, you can ask to have the PMI canceled once you exceed 20 percent equity in your home. But federal law does not require your lender or mortgage servicer to cancel the insurance.

On a $100,000 loan with 10 percent down ($10,000), PMI might cost you $40 a month. If you can cancel the PMI, you can save $480 a year and many thousands of dollars over the loan. Check your annual escrow account statement or call your lender to find out exactly how much PMI is costing you each year.

Additional provisions in the law

- New borrowers covered by the law must be told — at closing and once a year — about PMI termination and cancellation.
- Mortgage servicers must provide a telephone number for all their mortgage borrowers to call for information about termination and cancellation of PMI.
- Even though the law's termination and cancellation rights do not cover loans that were signed before July 29, 1999, or loans with lender-paid PMI signed on any date, lenders or mortgage servicers must tell borrowers about the termination or cancellation rights they may otherwise have under those loans (such as rights established by the contract or state law).

Next Steps

Some states may have laws that apply to early termination or cancellation of PMI — even if you signed your mortgage before July 29, 1999. Call your state consumer protection agency for more information about your state's rules. Fannie Mae and Freddie Mac, which buy home mortgages from lenders, also may have guidelines affecting termination or cancellation of PMI on home mortgages signed before July 29, 1999. Check with your lender or mortgage servicer, or call Fannie Mae or Freddie Mac, for more information.

Contact your lender or mortgage servicer to learn whether you're paying PMI. If you are, ask how and when it can be terminated or canceled.

For More Information

The Federal Trade Commission publishes a series of free credit-related publications. For a complete list of publications, call toll-free: 1-877-FTC-HELP (382-4357), TDD: 202-326-2502; visit: www.ftc.gov; or write: Best Sellers, Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Avenue, NW, Washington, DC 20580.

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