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Mortgage Insurance Is Cancelable

Private mortgage insurance, or MI, gives eligible homebuyers the flexibility of a smaller down payment by lowering the risk to the lender making a loan.

Without MI protection, lenders typically require a borrower to make a down payment of at least 20% of a home's purchase price, which can mean years of saving for many purchasers. With MI, down payments can be as low as 3% for those who qualify.

One key advantage of borrower-paid MI is it cancels once a borrower has built enough equity, resulting in lower monthly payments over time. With new FHA loans, borrowers who make a down payment of 10% or less must continue paying the mortgage insurance premium over the life of the loan.

MI may be canceled in two ways

1 MI: Automatic Termination

For borrower-paid MI, the Homeowners Protection Act (HPA) of 1998 requires lenders to cancel MI when the loan amortizes to 78% of the home's original value, subject to certain conditions. One of the conditions for automatic cancellation is that the borrower must be current on the payments required by the mortgage terms.[1]

2 Borrower-Initiated MI Cancellation

When specific requirements are met, a borrower in good standing[2] can request an earlier MI cancellation when:

- The date the loan's principal balance is scheduled to reach 80% of the original value of the property,

  OR

- The date the loan's principal balance reaches 80% of the original value of the property based on actual payments.

Additional borrower-initiated cancellation requirements include:

- The borrower is current with payments on the loan.
- The value of the property has not declined below the original value.
- The borrower's equity in the property is not subject to a subordinate lien.

Loans purchased by Fannie Mae and Freddie Mac may have additional cancellation options.

For more detailed information about MI cancellation and the Homeowners Protection Act, consult your lender's mortgage loan specialist.

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[1] *At the 78% level, automatic termination of mortgage insurance by the lender is not affected by past late payments or possible declines in property value. The rule simply states that the borrower must be current on mortgage payments — or become current — for termination to occur.*

[2] *A borrower is in good standing if there are no 0x60 late payments within the first 12 months of the last 24 months prior to the later of the cancellation date, or the date that the borrower requests cancellation, and no 0x30 late payments within months 13–24.*

MCUS-B1530-0621