MARYLAND
INSURANCE
ADMINISTRATION

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Private Mortgage Insurance

Private mortgage insurance (PMI), sometimes called “default insurance” or “mortgage guaranty insurance,” protects lenders against losses when a homeowner defaults on a loan. It is used to transfer risk from lenders to insurers until the homeowner has more than 20% equity in the property. If your down payment is less than 20% of the value of your home, your lender will require you to obtain PMI so the lender will be able to recoup the entire loan balance if the house is sold for an amount less than the outstanding loan balance. You pay the premium and the proceeds of the policy go toward paying off the loan. If you have a poor credit score, the lender may require PMI even if you have a down payment of 20% or more.

PMI premiums for a fixed-rate mortgage are often less than the rate for an adjustable loan. However, if your loan is a VA or FHA loan, you will be required to pay for mortgage insurance for the term of the loan. When your “Loan to Value” (percentage of money borrowed compared to the value or sale price of your house) becomes less than 80% you should contact your lender and ask whether the PMI may be dropped. For more information on when PMI is required go to www.ftc.gov; contact the Federal Trade Commission at 1-877-FTC-HELP or 1-877-382-4357; or you can visit http://www.consumerfinance.gov/askcfpb/202/when-can-i-cancel-my-private-mortgage-insurance-pmi.html.

For additional questions or information, please contact the Maryland Insurance Administration at 410-468-2000 or 800-492-6116 or visit our website, www.mdinsurance.state.md.us.