

Private mortgage insurance can open the doors

MORTGAGE SHOPPING



DAVID C. MULLY

If there's one aspect of the house mortgage process that raises more questions than others, it's usually mortgage insurance. Mortgage insurance is not the same as title insurance. The two have entirely different functions. Some mortgage experts or consumer advocates contend mortgage insurance is not necessary and should be avoided at all

costs. Others consider the existence of mortgage insurance a blessing for people who otherwise would not be able to buy a house.

A few weeks ago, we discussed FHA mortgages. These are loans that are insured by the federal government. Today, we're talking about private mortgage insurance. The major difference is, through private mortgage insurance, conventional loans are insured by private insurance companies. These types of loans also have a monthly premium in addition to your regular mortgage payment.

The advantage here is you can afford to buy a house with less of

a downpayment than you would ordinarily need. For example, if you wanted to buy an \$80,000 house, many lenders would require a 20-percent downpayment — or \$16,000.

Enter private mortgage insurance. These insurance companies write policies to protect lenders from the financial loss that occurs when a borrower defaults and loses a house through foreclosure. Because the insurance company is willing to share the risk, lenders will make loans to borrowers who put as little as 5 percent down.

One of the biggest criticisms of

private mortgage insurance is that it costs too much. However, if we take the example of the couple who just put 5 percent down on an \$80,000 house, the mortgage insurance would cost them about \$50 per month. Many people would rather pay the extra cost every month than have to wait years to save up a sufficient down payment.

Private mortgage insurance also helps the mortgage process go more smoothly. For example, one private mortgage insurer reports that 98 percent of the loans it reviews have a turnaround time of less than 24 hours. In addition,

more than 90 percent are approved. Positive numbers like this can be reassuring to those people entering the house buying market for the first time.

Another worry consumers have about mortgage insurance is the misconception that you need spotless credit to get the insurance. According to the leading private mortgage insurance companies, borrowers only need to show a willingness and ability to repay their mortgages.

In fact, even borrowers with no established credit history can obtain mortgage insurance. Insurers will look for other evidence — such as rental receipts, utility payment stubs, etc. — in order to help open the doors of house ownership to as many people as possible.

One final question many borrowers ask is: "Is it difficult to cancel mortgage insurance?" The answer is no, but homeowners need to fully understand the cancellation requirements of the insurer who holds the loan.

It's not up to the mortgage insurance company to decide when

the homeowner can cancel — it's up to the investor. Generally, homeowners can request that the investor cancel their mortgage insurance when the mortgage balance is below 80 percent of the value of the property.

When you get down to it, private mortgage insurance can be a convenient, economical way to move into that house you've always wanted. If you have any questions about whether private mortgage insurance is right for you, contact your local Realtor, mortgage banker or me at the number listed below.

David Mully is a senior loan officer for Source One Mortgage Services Corp. in Farmington Hills. Source One is Michigan's largest mortgage bank. Mully has specialized in residential mortgages in the Detroit metropolitan area for the last eight years. If you have any comments or questions regarding this column or would like assistance in shopping for a house mortgage, you can call Mully at (810) 488-7654 or fax him at (810) 488-7590.

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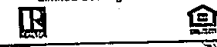


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