

# How do I get rid of PMI on my mortgage?

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Private mortgage insurance (PMI) payments can be removed if you follow one of these steps below. **(iStock)**

Private mortgage insurance (PMI) is the mandatory insurance borrowers must pay on conventional home loans in case they stop making payments. The PMI is added to your monthly mortgage bill. Ultimately, the PMI protects the lender from potential losses. Borrowers who pay less than the traditional 20 percent down payment on a home are considered riskier because they have less "skin in the game," so to speak.

About 60 percent of first-time home buyers have PMI and the average loan amount with PMI is approximately \$260,000, according to data from U.S. Mortgage Insurers. You can also use a PMI calculator to estimate how much it'll cost you.

It's hard to avoid PMI. PMI is often viewed as a necessary cost because it's the premium homeowners pay, (depending on credit score and loan details, anywhere between .20 to 1.5 percent), to not have to come up with a huge chunk of money to purchase a home. The

mortgage lender chooses the PMI and it's not always easy to cancel PMI when the time comes.

## **MORTGAGE RATES NEAR RECORD LOW - HERE'S WHY IT'S A GOOD TIME TO REFINANCE**

But the good news is PMI can be a lifesaver to help get more first-time home buyers in the house of their dreams with as little as a 3 percent down payment. Whether you're looking to put down roots in a home or refinance your mortgage, Credible can help you compare offers from several mortgage lenders at once to find a loan estimate with the best rates.

While it may seem like it, you don't have to pay private mortgage insurance forever.

## **4 ways to cancel PMI**

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Cancellation of this added fee may be music to your ears if you're currently paying for PMI or are a potential homebuyer trying to get pre-approved and figuring out what type of loan is right for you. Yes, with the right conditions, you can remove those pesky PMI payments from your mortgage as they don't have to last the entire life of the loan.

### **HOW TO GET PRE-APPROVED FOR A MORTGAGE**

Ditching the PMI payment is ideal if you have more than 20 percent equity in your home. Don't wait for the lender to reach out to you to initiate this cancellation. Contact your lender and let them know how your equity has grown. Your account must be in good standing with on-time payments and you can't have any liens such as a home equity loan.

### **1. Refinance**

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Refinancing your home is one way to avoid PMI payments (and it's a particularly smart time to refinance given today's mortgage rates). Use Credible's free refinancing tool to research different mortgage lenders to find the best rates today.

Mortgage refinancing works especially great if you're in an area where home values have risen enough to give you a lot of equity in a reasonably short amount of time. If the remaining balance on your loan is less than 80 percent of the home's value, then you've in essence "free'd" yourself from the PMI.

### **THE BASICS OF NO-CLOSING COST MORTGAGE REFINANCING**

However, make sure your savings is more than the refinancing costs.

### **2. Updated appraisal**

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Maybe you've gained enough equity in your home to put you over that 80 percent threshold and don't even know it yet. Say you've made extensive home improvements by remodeling or the home's value went up thanks to neighborhood improvements, your lender will consider a new appraisal for removing the PMI.

Check online real estate sites to see what comparable homes are selling for in your area then get an appraisal if you think it can help cancel PMI. An appraisal will be proof to your mortgage lender that your home has more equity and no longer requires the PMI. Get quotes from several different appraisers and make sure they are licensed and certified.

### **3. Pay down your mortgage faster**

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Since the PMI is based on the amount you have left to pay on your loan, if you're able, it makes sense to pay down your mortgage faster than the scheduled amount. You can do this by making extra payments each month (every little bit helps, even \$40-\$50 extra), or as your finances allow. Earmark some payments to go directly to prepaying toward the principal balance. All of this helps to build equity faster and eliminate the PMI payments.

### **4. Wait for scheduled cancellation**

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Once your loan is scheduled to reach 78 percent of the original value of the home, or when you've reached the halfway mark in your payment plan, by law, the lender is required to automatically cancel PMI monthly payments. Some lenders may do this at 80 percent, but ultimately it's the lender's choice.

Check your loan documents or contact your lender to find out your PMI cancellation date so you can keep track.

## **What is the Homeowners Protection Act?**

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Also known as the PMI Cancellation Act, the Homeowners Protection Act of 1999 was put in place to protect borrowers from excessive PMI coverage. Sometimes borrowers faced situations where the lender refused to cancel PMI, despite meeting the minimum requirements. The FDIC notes that prior to the act homeowners had limited recourse for this scenario.

### **WHAT IS PRIVATE MORTGAGE INSURANCE AND HOW DOES IT WORK?**

Today, the act "protects homeowners by prohibiting life of loan PMI coverage for borrower-paid PMI products and establishing uniform procedures for the cancellation and termination of PMI policies," according to the FDIC.

## **Problems paying PMI?**