YAHOO! FINANCE

How to Reduce Your Mortgage Insurance Payment

credit.com By Scott Sheldon | Credit.com – 10 hours ago

Mortgage insurance is the dreaded premium on a mortgage payment that consumers hate, and for good reason. It makes the cost of homeownership rise over time, benefiting one group: The investor that owns the loan. Mortgage insurance, also known as private mortgage insurance (PMI) is an integral part of many common loan programs found in the market today — FHA mortgages, USDA mortgages and, yes, even standard conventional mortgages. It is paid by the consumer for the benefit of the lender to insure the loan in case the consumer defaults on the payment down the road. Mortgage insurance loans are more profitable to the mortgage markets because of the additional premiums paid to the mortgage servicer, but mortgage insurance isn't always necessary.

How PMI Becomes Attached To A Mortgage Payment

Typically, you're required to have mortgage insurance when you have less than 20% equity on a refinance or less than a 20% down payment when buying a home. Additionally, a loan with 80% loan to value financing (that is, 80% of the purchase price or home value) will also have property taxes and hazard insurance built into the monthly mortgage payment. On top of that, mortgage insurance is added to this figure, further inflating the payment for the consumer.

What Will Your PMI Payment Be?

And can you afford it?

Typically, your PMI payment is based on 75 basis points (x .0075) of the loan amount. Using a $350,000 loan amount, that translates to $218.75 per month. PMI is considered a liability by lenders, who will require double that in your income to offset it.

Example: It takes $437 per month in income to offset the $218.75 per month in financed mortgage insurance.

Ways to Reduce the Cost of Mortgage Insurance

Here are a few solutions:

- Get a lower loan-to-value supported by an appraisal or bring more cash to the table to reduce the amount borrowed
- Conventional loans typically contain lower PMI insurance than government loans like those from the FHA.
- Harp 2 refinances — no matter the loan to value — will not require monthly mortgage insurance so long as the loan being paid off does not contain monthly mortgage insurance.
- Have a FICO credit score of 760 or better and the loan to value is no larger than 85% — and *if refinancing, no cash is being taken out of the transaction*. (If you're not sure what your score is, you can use our free Credit Report Card to get your credit scores, along with a simple, easy to understand overview of your credit. And don't forget to order you full credit reports from all three major credit bureaus once a year, for free, at AnnualCreditReport.com.)

[Related Article: The Hidden Trap in HARP Refinancing]

How Long Mortgage Insurance Is Needed

This depends on the mortgage loan program you have — whether it's a conventional mortgage or a government mortgage. Conventional Mortgages will require monthly mortgage insurance until you've paid enough on your mortgage to have 22% equity in your home.

And while the lender must remove mortgage insurance at 22% equity, it is primarily up to the consumer to be proactive in ridding themselves of PMI.

Types of Housing that Require PMI:

- Primary residences — Maximum loan to value 97% financing, 95% loan to value produces best terms
- Second/Vacation Homes — Maximum loan to value of 90%
- Investment Properties — No PMI financing presently available

Does PMI Make Financial Sense?

For most consumers, the lowest possible monthly payment is the number one priority, of course. But there are a few exceptions that PMI can benefit you. For a buyer with previous credit problems, a mortgage containing monthly mortgage insurance allows one to purchase with less than perfect qualifying standards. Or, maybe you want the option of paying a smaller down payment because you need the cash safety net. In either scenario, financing containing PMI may be beneficial to you.

More from Credit.com

- Can You Really Get Your Credit Score for Free?
- The First Thing To Do Before Buying A Home
- The Quick Formula to Determine Your House Payment