Insurance Programs

Private Mortgage Insurance

Private Mortgage Insurance (PMI) enables homebuyers to obtain conventional home loans with relatively small down payments. Prior to the advent of PMI, lenders of conventional mortgages traditionally required a down payment of at least 20 percent of the home's purchase price. Saving enough money to make a down payment of ten or twenty percent is one of the greatest barriers to homeownership today, so that requirement shrank the pool of potential homebuyers. Having insurance helps first-time and moderate-income purchasers surmount this obstacle by reducing the down payment required to obtain a mortgage to as little as three percent of the purchase price. Both private and federal programs offer mortgage insurance. Down payment requirements may vary depending on the insurance issuer.

Lenders typically require mortgage insurance on low down payment mortgages because loss experience and studies have shown that a borrower with less than 20 percent invested in a home is more likely to default on a mortgage should problems arise. In other words, there is a good correlation between the size of the down payment made on a mortgage and the eventual likelihood that the mortgage will be paid-off according to its terms.

Although it is the borrower who normally pays for PMI, the insurance coverage protects the lender, not the borrower. The insurance protects lenders against default-related losses on conventional first mortgages made to mortgage borrowers who make down payments of less than 20 percent of the home's purchase price. PMI typically provides lenders with a default guarantee covering the top 20-to-25 percent of the mortgage balance. The lender assumes the risk for the remaining (uninsured) portion of the loan.

Lenders are required to automatically cancel mortgage insurance on new mortgages once the equity in a home reaches 22 percent. Homeowners may request to cancel at 20 percent equity levels. Lenders are required to provide homeowners with the information needed to cancel their insurance. At this point, the insurer is no longer liable for default of the loan. If the loan was sold to Freddie Mac or Fannie Mae, homeowners should contact their lenders once equity reaches 20 percent because they have more lenient requirements for insurance. Equity levels are determined according to the purchase price of the home. Any increased values do not apply. However, if the homeowner feels that his property has increased significantly in value, dropping the loan to value ratio below 75 percent, than the homeowner may request a new appraisal and cancel the PMI. There are some exceptions to cancellations, such as existing mortgages and high-risk loans.

Fannie Mae and **Freddie Mac** currently require mortgage insurance on all low down payment programs with a Loan to Value (LTV) ratio of 90-95 percent. A down payment of 3 percent requires coverage of at least 18%. Down payments of 5 percent require coverage between 25 and 18 percent. Loans with 10 percent down require 17 to 12 percent insurance coverage. There are several different options available to borrowers to increase initial buying power and reduce monthly payments while maintaining a security and safety level for lenders. At the inception of the loan, lenders can either add a small percentage rate increase or add additional points at the close of the deal. Information on Freddie Mac Mortgage Insurance and Fannie Mae Mortgage Insurance is available online. Fannie has partnered with PMI Mortgage Insurance Co. in order to create more affordable housing opportunities. This insurance company's website has information about how PMI helps homebuyers, how to calculate PMI premium, products, realtor training and PMI cancellations requirements.

CalHFA is home to four divisions: homeownership programs, multifamily programs, mortgage insurance services and small business development. Its mission is to finance below market-rate loans to create safe, decent, and affordable rental housing and to assist first-time homebuyers in achieving the dream of home ownership. The Mortgage Insurance Services division helps prospective homeowners move past current mortgage insurance challenges and restrictions by utilizing the California Housing Loan Insurance Fund. The insurance fund encourages lenders to make loans to hard-to-serve borrowers and buyers with little or no money for a down payment and closing costs. It also assists lenders by insuring loans for borrowers with past payment problems. Insurance is provided to those homebuyers that meet the income and area requirements. For more information: read CAR's paper CalHFA, and visit CalHFA Mortgage Insurance website.

MORTGAGE INSURANCE SERVICES PROGRAMS

This list constitutes an inventory of mortgage insurance programs requiring minimal upfront funds with participating lenders.

- ✓ Cal Rural ACCESS 97/6 (conforming, statewide)
- ✓ CalHFA Conventional
- ✓ CalPERS 97 & 97/3 *CalPERS members have additional benefits such as reduced Title and Escrow Fees through , Stewart Title and Old Republic Title. Other benefits are 30-day rate lock, 100% financing option, Free 60-day rate protection, two free float downs, controlled closing fees, closing cost assistance and reduced mortgage insurance rates. For more information go to CalPERS Advantage program.*
- ✓ CalSTRS 80/17
- ✓ CalSTRS 95 Conventional
- ✓ CalSTRS 95/5
- ✓ Fannie Mae & Freddie Mac 97/3
- ✓ Fannie Mae & Freddie Mac Conventional 95 & 97 LTV

- ✓ Freddie Mac 100 & 100/3
- ✓ Lease Purchase - ABAG Program
- ✓ Lease Purchase 97/3
- ✓ NHF - Access & Gold 97/7 Conventional

FHA-Insured Loans

FHA was established in 1934 under the National Housing Act and was consolidated into HUD in 1965. The FHA's purpose is to improve housing standards and conditions, provide an adequate home financing through mortgage insurance, help stabilize the mortgage market and provide homeownership opportunities. HUD acts as an administrator and insurer of FHA's originated loans. FHA does not insure individuals, it insures the loans that lenders offer to borrowers. Lenders must offer long-term, self-amortizing, market rate, assumable loans in order to participate in the program.

By insuring lenders' loans, lower down payment costs and mortgage insurance premiums are offered to homebuyers. Other advantages of FHA insured loans are: less stringent borrower qualifying criteria; financing up to 100% of up-front loan closing costs and insurance premiums; higher loan-to-value ratios on loan refinances; and higher allowances for seller-paid closing costs. In addition, the presence of FHA insured loans in the mortgage market have other benefits. They help lenders preservation of their fiduciary profile, stabilize the market, and provide a reliable secondary mortgage market participant.

FHA SINGLE FAMILY INSURANCE PROGRAMS

LOAN PROGRAMS:

- ✓ Energy Efficient Mortgages Program
- ✓ Graduated Payment Mortgage Insurance (Section 245(a))
- ✓ Growing Equity Mortgage Insurance (Section 245(a))
- ✓ Home Equity Conversion Mortgage Program
- ✓ Indian reservations and Other Restricted Lands
- ✓ Insurance for Adjustable Rate Mortgages (Section 251)
- ✓ Manufactured Home Loan Insurance (Title I)
- ✓ Manufactured Home Lot and Combination Loan Insurance
- ✓ Mortgage Insurance for Condominium Units (Section 234(c))
- ✓ Mortgage Insurance for Low/Mod Income Buyers (Section 221(d)(2)
- ✓ Mortgage Insurance for Members of the Armed Forces (Section 222)
- ✓ Mortgage Insurance for Older, Declining Areas (Section 223(e))
- ✓ Mortgage Insurance for One- to Four-Family Homes (Section 203(b))
- ✓ Property Improvement Loan Insurance (Title I)
- ✓ Rehabilitation Mortgage Insurance (Section 203(k))
- ✓ Single-Family Cooperative Mortgage Insurance (Section 203(n))
- ✓ Single-Family Mortgage Insurance for Disaster Victims (Section 203 (h))

- ✓ Single-Family Mortgage Insurance for Outlying Areas (Section 203 (i))

Regulatory Programs

- ✓ Insurance premiums
- ✓ Interstate Landsales
- ✓ Manufactured Home Construction and Safety Standards
- ✓ Minimum Property Standards
- ✓ Premium refunds
- ✓ Reduction in mortgage insurance
- ✓ Regulatory Programs Real Estate Settlement Procedures Act
- ✓ Servicing and Loss Mitigation