JAYCO CAPITAL

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Cancellation of Mortgage Insurance and the Law; The Homeowners Protection Act

Private Mortgage Insurance has always meant homeowners can buy a home sooner, for less money down. Federal law assures consumers that they can enjoy the benefits of Private Mortgage Insurance knowing that lenders will cancel it when it is no longer needed. The law includes two basic consumer protections:_ It requires lenders to inform home buyers—both at closing and annually—about their right to request mortgage insurance cancellation and how to do it. _ It requires lenders to automatically cancel insurance for those who do not request cancellation. Even without the law, Private Mortgage Insurance generally is cancelable once the homeowner builds up enough equity in the home. While investors set their own cancellation requirements, 90 percent of borrowers cancel their Private Mortgage Insurance within 60 months. The mortgage insurance company does not make the decision to cancel insurance. Your lender can provide you with the requirements for canceling insurance. Just contact the company you send your mortgage payments to for details.

How the Law Works

The law is designed to demystify the PrivateMI cancellation process.
Here's what the law calls for:
_Initial disclosure—For loans originated on or after July 29, 1999, lenders must give borrowers a written notice at closing that explains they have PrivateMI on their mortgage and that they have the right to have it canceled at a certain point.
_ Annual disclosure—Lenders must send borrowers an annual reminder that they have PrivateMI and have the right to request cancellation once they've met cancellation requirements. This requirement applies to all loans with cancelable Private Mortgage Insurance, not just those obtained after July 29, 1999.
_ Borrower-initiated cancellation—For most loans originated on or after July 29, 1999, a lender must cancel PrivateMI at the request of a borrower whose mortgage balance is 80 percent of the original value of the house. The borrower must be up to date on mortgage payments and have no other loans on the house. The lender must be satisfied that the property value has not declined.
_ Automatic termination—For most insured loans originated on or after July 29, 1999, PrivateMI will be canceled automatically when the mortgage balance is at 78 percent of the original value of the house. The borrower must be up to date on mortgage payments. Otherwise, insurance will be canceled automatically once the borrower becomes current. Exception: For mortgages defined as high risk, the lender will automatically cancel the PrivateMI at the mid-point of the loan. On a 30-year mortgage, for example, insurance will be canceled after 15 years. Check with your lender about whether your mortgage falls into the high-risk category. This is just an outline of the PrivateMI cancellation law, not legal advice or a legal opinion. Contact your lender for specific information about how the law applies to your mortgage.

FHA and Piggyback Loans Excluded

The law does not apply to the government mortgage insurance program run by the Federal Housing administration. (note: HUD has issued its own cancellation policy for FHA-insured loans. See Mortgagee Letter 00-46 dated December 20,2000). The law also does not cover piggyback loans, which include a second mortgage to cover part of the down payment instead of mortgage insurance. Payments on the second loan cannot be canceled and must be paid in full.

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