

# PMI—What are all of these New Options for Buyers?

As you may know, Private Mortgage Insurance [PMI] is necessary for any Conventional loan where the buyer puts down less than 20 % down. Before the credit crunch of 2007, Pulaski Bank was able to secure new PMI options for their borrowers, which should benefit home buyers.

## **BACKGROUND:**

Since the late 1980's, a monthly PMI rate [**Standard PMI**] was the option of choice. It allowed for a monthly PMI to be included into the House Payment, avoiding any up front expenses [See Figure 1]. Until 2007, PMI was not tax deductible. PMI is tax deductible for 2007, but with some restrictions. (Congress officially ruled for tax year 2007 only, but it is highly expected to be put into permanent legislation).

## **PAST OPTIONS:**

Many times Lenders would find other, creative ways to minimize the monthly PITI and at the same time create a more tax advantaged loan. That creative way was called a Combo / Piggyback loan, where the borrower obtained an 80% Loan to Value first mortgage to avoid PMI, and then obtained a second to 'fulfill' the down payment. This loan [**Combo 80–15–5**] would have a savings of \$828 / year, and both mortgages were tax deductible. [See Figure 2 for the Combo PITI].

## **CURRENT ISSUES:**

As an outfall from the Sub Prime market issues in 2007, many Investors have tightened up their position on 2nd mortgage. Some Investors have dropped 2nd mortgages altogether. Some Investors have raised their rates significantly on 2nd mortgages, and others, while they will allow for 2nd mortgages, have raised the FICO score significantly to qualify. In addition, the Automated Underwriting Systems now find many more loans 'acceptable' with the strength of some type of PMI.

## **NEW OPTIONS:**

Pulaski Bank has solicited a new form of PMI, called "**Lender Paid PMI**" where the PMI premium is built into the interest rate. This premium pays for a one time insurance premium, disclosed on the HUD at closing. Like the Combo loan, there is a savings in monthly outflow. Many other Lenders refer to this program as their "No PMI program." Mortgage Interest is tax deductible, so the higher rate would equal more deduction. [Figure 3].

## **BETTER OPTIONS:**

Another option to the "**Lender Paid PMI**" loan has the PMI premium paid up front as a closing cost. This mortgage results in the lowest payment since the rate remains low, but impacts the total cash to close. However, the "**Lender Paid PMI**" PMI premium could be paid by the seller (reflected in a origination point to maintain a lower rate). These PMI option provides the BEST for your borrowers, getting the lower rate and maximizing Seller Paid Concessions in the transaction. [See Figure 4].

Sample Purchase:  
Assume a purchase price of \$180,000, with 5% down or 95% financing. The rate used was 6.25%

**Figure 1—Monthly PMI**

P and I, 1 <sup>st</sup>	1053
RE Taxes	225
Hx Insurance	68
PMI	111
Total	1457

**Figure 2—Combo Loan**

P and I, 1 <sup>st</sup>	887
RE Taxes	225
Hx Insurance	68
P & I, 2 <sup>nd</sup>	208
Total	1388

**Figure 3\* Lender Paid MI**

P and I, 1 <sup>st</sup>	1095
RE Taxes	225
Hx Insurance	68
Total	1388

**Figure 4# Seller Paid PMI**

P and I, 1 <sup>st</sup>	1053
RE Taxes	225
Hx Insurance	68
Total	1346



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