PRIVATE MORTGAGE INSURANCE: Promoting Homeownership for Vermont Families

Private mortgage insurance (private MI) is typically required by mortgage lenders to approve homebuyers who have down payments less than 20% of the purchase price. For nearly 65 years, private MI has been an important component in the U.S. housing finance system, helping creditworthy borrowers in Vermont and across the country to access home financing while protecting lenders and taxpayers.

By design private MI is a proven, reliable method in shielding the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, as well as American taxpayers, from losses on mortgage credit risk. Private MI companies paid nearly $60 billion\(^1\) in claims since the 2008 financial crisis and housing market downturn, claims the government and taxpayers did not have to provide.

**Down Payment is the #1 Impediment to Homeownership**

That typical 20% threshold is out of reach for many families. For example, it could take 21 years for a household earning the national median income of $68,703\(^2\) to save 20%, plus closing costs, for a $299,900\(^3\) home (national median sales price).

In Vermont, the median income is $74,305\(^4\) and the median sales prices for a single-family home is $274,200\(^5\). Using this same analysis, it would take 18 years for a state resident to save 20%, plus closing costs (3% of the total sales price on average).\(^6\)

**PRIVATE MI HELPS BORROWERS AFFORD A HOME SOONER**

Private MI not only helps borrowers overcome the biggest hurdle to homeownership but acts as a second set of eyes with independent credit underwriting standards. It aligns the interests of borrowers, lenders and investors.

\[
\begin{align*}
$63,066 & \quad \text{(18 years to save)} \\
\text{20% Down Payment without private MI, plus closing costs} & \quad \text{(U.S. $68,977)}
\end{align*}
\]

\[
\begin{align*}
$21,936 & \quad \text{(6 years to save)} \\
\text{5% Down Payment with private MI, plus closing costs} & \quad \text{(U.S. $23,992)}
\end{align*}
\]

**LONGER WAITS TO BUILD LARGE DOWN PAYMENTS**

\[
\begin{align*}
28 \text{ YEARS} & \quad \text{Firefighter} & \quad $52,500 \\
24 \text{ YEARS} & \quad \text{Middle School Teacher} & \quad $60,810 \\
19 \text{ YEARS} & \quad \text{Registered Nurse} & \quad $75,330 \\
15 \text{ YEARS} & \quad \text{Veterinarian} & \quad $99,250
\end{align*}
\]

\[
\begin{align*}
32 \text{ YEARS} & \quad \text{Black} & \quad ($46,073) \\
26 \text{ YEARS} & \quad \text{Hispanic} & \quad ($56,113) \\
20 \text{ YEARS} & \quad \text{White} & \quad ($72,204) \\
15 \text{ YEARS} & \quad \text{Asian} & \quad ($97,150)
\end{align*}
\]

Dollar amounts by race\(^7\) and occupation\(^8\) represent median income.

\(\text{www.usmi.org}\)
Private MI Helps Borrowers Bridge the Down Payment Gap

By helping borrowers qualify for a mortgage with a down payment as low as 3%, private MI has given more than 35 million families nationally the opportunity to purchase a home sooner for nearly 65 years.  

Private MI Protects Taxpayers

Private MI is a first level of credit protection against the risk of loss on a mortgage in the event a borrower is not able to repay the loan and there is not sufficient equity in the home to cover the amount owed. With the GSEs in conservatorship and the government effectively guaranteeing the GSEs, taxpayers face direct exposure to mortgage credit losses experienced by the GSEs. Traditionally, for loans with down payments under 20% of the home value, private MI – not taxpayers – covers the first losses if there is a default, up to certain coverage limits.

Nearly $60 Billion

Amount private MI industry covered in claims for losses

44%

Portion of new insured mortgages that private MI protected in 2020

$1.3 Trillion

Amount in mortgages outstanding with private MI protection at the end of 2020

Private MI is Temporary

Unlike FHA and other government mortgage insurance, which typically cannot be cancelled, private MI paid for by the borrower can be cancelled, leading to potential savings over the life of their loan. Private MI can be cancelled in two ways:

A borrower may request cancellation of private MI when he/she has established 20% equity in the home. In other words, the borrower has paid down the mortgage balance to 80% of the home’s original or newly appraised price.

When the principal balance of the mortgage is scheduled to reach 78% of the home’s original value and the borrower is current on payments, the servicer terminates private MI.

References:
1. GSE Statutory Filings and MI Company Annual Reports
3. National Association of REALTORS®
5. Redfin Analysis of MLS Data for Single-Family Residences
6. Zillow
7. U.S. Census Bureau, Historical Income Tables (Table H-6)
11. Redfin Analysis of MLS Data for Single-Family Residences
12. National Association of REALTORS®
13. USMI Member Companies
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19. GSE Statutory Filings and MI Company Annual Reports
20. Inside Mortgage Insurance, Primary Mortgage Insurance Activity
21. MI Company Annual Reports and Inside Mortgage Finance, Total Private MI New Insurance Written
22. Consumer Financial Protection Bureau, When can I remove private mortgage insurance (PMI) from my loan? (September 13, 2017)