Private Mortgage Insurance Expands Homeownership Options

In order to qualify for a conventional loan, which typically has the best terms, borrowers must come up with a 20% down payment, which can be one of the biggest hurdles to homeownership. As outlined below, there are alternatives to putting 20% down. Loans with private mortgage insurance (MI) offer borrowers a highly-competitive and affordable low down payment option that is also cancelable, providing substantial savings to borrowers. Consumers should be fully informed of all the options, including the benefits of MI, before making one of the most significant purchases in their lives.

	Private Mortgage Insurance	FHA
How It Works	When a borrower makes less than a 20% down payment, private MI protects the lender by covering the first losses in case of default. Private MI can be used on loans with a down payment as low as 3%.	FHA is a government-administered mortgage insurance program backed by taxpayers and requires a minimum 3.5% down payment.
Consumer Impact	Borrowers can cancel private MI coverage and premiums when the mortgage loan-to-value reaches approximately 78%. If a borrower experiences financial hardships, MI companies have strong financial incentives to help borrowers avoid foreclosure, often through loan modifications. A borrower with above average credit scores can save as much as $8,000 over five years with private MI, according to WalletHub's 2016 Mortgage Insurance Report.	Unlike private MI, most FHA insurance premiums never cancel. Borrowers must pay insurance premiums for the entire life of the loan. In addition to the annual insurance premiums, borrowers pay an upfront premium amount equal to 1.75% of the loan that is typically financed into the mortgage loan amount.
Tax Treatment	MI premiums are treated as “mortgage interest” and are tax deductible for many borrowers. According to the IRS, 4.7 million taxpayers benefited from deductions for MI in 2013.	FHA insurance premiums are also tax deductible for many borrowers.