USMI
U.S. MORTGAGE INSURERS

# Private Mortgage Insurance Expands Homeownership Options

One of the biggest hurdles to homeownership is securing 20% for a down payment. While some borrowers wait until they have saved 20%, the added years of saving can translate to higher interest rates, more expensive home prices and lost home equity. But there are low down payment options through the conventional mortgage market and the government-backed market that can get people into homes sooner. Conventional loans with private mortgage insurance (MI) offer borrowers a highly-competitive and affordable low down payment option that is cancelable once a borrower reaches 20% equity either through payments or home price appreciation, providing substantial savings over the long term. 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 |
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| How It Works | Private MI satisfies GSE requirements for borrowers to purchase a home with a down payment as low as 3%. MI insures lenders against losses if a borrower defaults. | FHA is a government-administered mortgage insurance program. The FHA requires a 3.5% down payment. |
| Consumer Impact | Private MI coverage and premiums paid by a borrower can be canceled when equity in the mortgage reaches 20% or there is automatic termination at 22% equity (mortgage loan-to-value reaches 78%).<br><br>If a borrower experiences financial hardships, MI companies have strong financial incentives to help borrowers avoid foreclosure, often through loan modifications. | Unlike private MI, most FHA insurance premiums never cancel, and borrowers must pay insurance premiums for the entire life of the loan.<br><br>In addition to the annual insurance premiums, borrowers pay an Upfront Mortgage Insurance Premium equal to 1.75% of the loan that is typically financed into the mortgage loan amount. |
| Tax Treatment | Private MI premiums are treated as “mortgage interest” and are tax deductible for many borrowers. According to the IRS, approximately 1.4 million taxpayers benefited from the tax deduction for MI in 2019, for an average deduction of $2,100. | FHA insurance premiums are treated as “mortgage interest” and are tax deductible for many borrowers. |