Removing Private Mortgage Insurance (PMI)

Private mortgage insurance (PMI) is a monthly fee added to your house payments and is designed to lessen the risk to the lender should you default on the loan. It's usually required on mortgages if the down payment is less than 20% of the home's value.

As you make monthly payments on your mortgage, you are increasing the equity you have in your home. Once you have 20% equity, PMI is no longer necessary, and you can request to have it removed. This is considered "early cancellation."

Once you have increased your equity a little more to reach 22%, you don't even have to ask - PMI will be removed automatically.

If you have PMI added to your mortgage payments, you should consider cancelling it as soon as you reach 20% equity. Why pay for something you don't need? Even though you pay for PMI, it protects the lender, not you.

So get rid of it.

There are four ways to remove PMI:

Let It Cancel Automatically

Approximately one in five mortgages in the U.S. have PMI, and most of these homeowners will make monthly payments for about five years and then the insurance automatically ends because they will have built up 22% equity in their home. In this situation you do not need to take any action. The monthy PMI costs will automatically be removed from your loan.

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Request Early Cancellation

You can save money by removing the PMI sooner through early cancellation. Once you have 20% equity in your home, you can submit a written request and ask that the PMI be cancelled.

Get A New Appraisal

If property values are rising where you live, you can reqeust early cancellation based on the home's current value. Your home may also have increased in value if you've done any home improvements, such as upgrading the kitchen or adding a bedroom. You'll probably want to get a new appraisal to determine the home's new value.

But before spending money on an appraiser, check the rules for your loan. Some loans require that certain appraisers be used. Other loans accept a broker price opinion, which is quicker and cheaper than getting an appraisal.

Generally, to cancel PMI based on the current value of the home, you must have owned the home for at least two years and have 25% equity in the home, or a 75% loan-to-value ratio (LTV). If you've owned the home for at least five years, you can cancel when you have 20% equity or 80% LTV.

Refinance Your Mortgage

If interest rates have dropped since you took out your mortgage, then you should consider refinanacing to save money. In addition to getting a lower rate, you may be able to get rid of PMI if the new loan balance will be equal to or less than 80% of the home's value.

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